

**SECRETARY'S CERTIFICATE**  
(2015-003)

I, **IGNATIUS A. RODRIGUEZ**, Filipino, of legal age, with office address at 2224 A. Bonifacio St. Corner South Superhighway, Bangkal, Makati City, after having been duly sworn according to law, hereby depose and state that:

1. I am the duly elected and incumbent Corporate Secretary of **HARBOR STAR SHIPPING SERVICES, INC.** (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Philippines, with office address at 2224 A. Bonifacio St. corner South Superhighway, Bangkal, Makati City.

2. Pursuant to Securities and Exchange Commission ("SEC") Memorandum Circular No. 12, Series of 2014, the changes to the Corporation's Annual Corporate Governance Report ("ACGR") for the year 2014 are summarized below:

**Summary of Consolidated Changes in the ACGR for 2014**

Description of Changes	Event	Basis and Date of Filing with SEC
Composition of the Board	11 June 2014 Annual Stockholders' Meeting	SEC Form 17-C filed with the SEC on 16 June 2014  Minutes of the 11 June 2014 Annual Stockholders' Meeting posted in the Corporation's website on 12 June 2014
Shareholding in the Company	Change in Shareholdings of Atty. Ignatius A. Loyola	SEC Form 23-B of Atty. Ignatius A. Loyola filed with the SEC on 30 July 2014
Voting Result of the last Annual General Meeting	11 June 2014 Annual Stockholders' Meeting	Minutes of the 11 June 2014 Annual Stockholders' Meeting posted in the Corporation's website on 12 June 2014
Orientation and Education Program	Completion of Corporate Governance Seminar of Directors and Executive Officers	Advisement letter to SEC dated 1 December 2014 & 18 December 2014 filed with the SEC on the same date
Attendance of Directors	Attendance of Directors in Board Meetings from 1 January 2014 to 31 December 2014	Advisement letter to SEC dated 6 January 2015 filed with the SEC on 7 January 2015
Committee Members	11 June 2014 Organizational Meeting of the Board of Directors	SEC Form 17-C filed with the SEC on 16 June 2014
External Auditor	11 June 2014 Annual Stockholders' Meeting	SEC Form 17-C filed with the SEC on 16 June 2014  Minutes of the 11 June 2014 Annual Stockholders' Meeting posted in the Corporation's website on 12 June 2014

Dividends	Declaration of dividends during the 2 June 2014 Meeting of the Board of Directors	SEC Form 17-C filed with the SEC on 3 June 2014
Result of Annual/Special Stockholders' Meetings	11 June 2014 Annual Stockholders' Meeting	SEC Form 17-C filed with the SEC on 16 June 2014  Minutes of the 11 June 2014 Annual Stockholders' Meeting posted in the Corporation's website on 12 June 2014
	28 November 2014 Special Stockholders' Meeting	SEC Form 17-C filed with the SEC on 1 December 2014  Minutes of the 28 November 2014 Special Stockholders' Meeting posted in the Corporation's website on 01 December 2014
Stockholders' Attendance	11 June 2014 Annual Stockholders' Meeting	Minutes of the 11 June 2014 Annual Stockholders' Meeting posted in the Corporation's website on 12 June 2014
	28 November 2014 Special Stockholders' Meeting	Minutes of the 28 November 2014 Special Stockholders' Meeting posted in the Corporation's website on 01 December 2014
Definitive Information Statements and Management Report	Definitive Information Statement (SEC Form 20-IS) and Management Report for the 11 June 2014 Annual Stockholders' Meeting	Definitive Information Statement (SEC Form 20-IS) and Management Report for the 11 June 2014 Annual Stockholders' Meeting filed with the SEC on 19 May 2014
	Definitive Information Statement (SEC Form 20-IS) and Management Report for the 28 November 2014 Special Stockholders' Meeting	Definitive Information Statement (SEC Form 20-IS) and Management Report for the 28 November 2014 Special Stockholders' Meeting filed with the SEC on 4 November 2014

3. A copy of the Minutes of the 11 June 2014 Annual Stockholders' Meeting of the Corporation, which is the basis for the changes in the composition of the Board, attendance, voting results and other results of the last annual general meeting, and external auditor, is attached hereto as Annex "A".

4. A copy of the Minutes of the 28 November 2014 Special Stockholders' Meeting of the Corporation, which is the basis for the attendance and results of the special stockholders' meeting, is attached hereto as Annex "B".

5. As regards the declaration of dividends of the Corporation, the Board of Directors of the Corporation, in its meeting held on 2 June 2014, unanimously approved the following resolutions:

*"RESOLVED, That the Board of Directors of Harbor Star Shipping Services, Inc. (the "Corporation") hereby approves the declaration of cash dividends in the amount of Php0.035 per share of the outstanding capital stock of the Corporation of Six Hundred Five Million Two Hundred Thirty-Eight Thousand Five Hundred Eighty (605,238,580) common shares, or in the total amount of Twenty-One Million One Hundred Eighty-Three Thousand Three Hundred Fifty and 30/100 Pesos (Php21,183,350.30), out of the Corporation's unrestricted retained earnings of Three Hundred Nine Million Two Hundred Forty-One Thousand Eight Hundred Fifty-Eight Pesos (Php309,241,858.00) for the year ending 31 December 2013;*

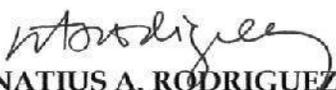
*"RESOLVED FURTHER, That the record date for entitlement to said cash dividends shall be 17 June 2014, and the payment date shall be 11 July 2014;*

*"RESOLVED FURTHER, That for purposes of payment of the cash dividends, Rizal Commercial Banking Corporation ("RCBC"), the transfer agent of the Corporation, be authorized to prepare, sign, issue and mail the checks for the cash dividends to stockholders entitled to receive the same in the amounts due them based on the above-mentioned declaration, less any applicable tax, which checks shall be drawn from the bank account of the Corporation opened and maintained with RCBC for the said purpose;*

*"RESOLVED FINALLY, That any one of the Chairman, President, Treasurer or Corporate Secretary of the Corporation is hereby authorized to sign and execute any all documents, and do all acts, required or reasonably necessary to give effect to the foregoing resolutions."*

6. The foregoing is in accordance with the records of the Corporation in my possession.

IN WITNESS WHEREOF, I have hereunto affixed my signature this 12<sup>th</sup> day of January 2015 at Makati City.

  
IGNATIUS A. RODRIGUEZ  
Corporate Secretary

REPUBLIC OF THE PHILIPPINES)  
MAKATI CITY )S.S.

SUBSCRIBED AND SWORN, to before me this 12<sup>th</sup> day of January 2015 at Makati City, affiant exhibiting to me his Tax Identification No. 123-199-139 and SSS No. 33-1422359-6.

Doc. No. 73 ;  
Page No. 15 ;  
Book No. 70 ;  
Series of 2015.

  
ATTY. DWIGHT M. GALARRITA  
NOTARY PUBLIC  
APPOINTMENT No. M-264 / MAKATI CITY  
UNTIL DECEMBER 31, 2015  
PTR No. 4754217/01-07-2015 / MAKATI CITY  
IBP No. 0383807 /01-06-2015 / QUEZON CITY

**MINUTES OF THE ANNUAL MEETING  
OF THE STOCKHOLDERS  
OF  
HARBOR STAR SHIPPING SERVICES, INC.**

Held on 11 June 2014

Turf Room, Manila Polo Club, McKinley Road, Forbes Park, Makati City

<b><u>PRESENT:</u></b>	<b><u>NO. OF SHARES</u></b>
<b>Total No. of Shares Represented In Person and By Proxy</b>	<b>424,761,323</b>
<b>Total Outstanding Shares</b>	<b>605,238,580</b>
<b>Attendance Percentage to Total Outstanding Shares</b>	<b>74.61%</b>

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**I. CALL TO ORDER**

The Chairman, Mr. Geronimo P. Bella, Jr., called the meeting to order and presided over the same. The Corporate Secretary, Atty. Ignatius A. Rodriguez, recorded the minutes of the proceedings.

**II. CERTIFICATION OF NOTICE AND QUORUM**

The Corporate Secretary certified that notices for the meeting were duly sent to all stockholders of record as of 12 May 2014 and that a quorum consisting of Four Hundred Twenty-Four Million Seven Hundred Sixty-One Thousand Three Hundred Twenty-Three (424,761,323) or 74.61% of the Corporation's issued and outstanding capital stock existed for the valid transaction of business.

The Certification issued by Mr. Walter R. Briones of Rizal Commercial Banking Corporation, the stock and transfer agent of the Corporation, certifying to the sending of notices to the stockholders of record as of 12 May 2014 is attached hereto as Annex "A".

### **III. APPROVAL OF PREVIOUS MINUTES**

Upon motion duly made and seconded, the Minutes of the Meeting of the stockholders held on 23 September 2013 were unanimously approved.

### **IV. REPORT OF OFFICERS**

The Chairman rendered to the stockholders the report of Management for the year ending 31 December 2013. A copy of the report of the Chairman is attached hereto as Annex "B".

After discussion and upon motion duly made and seconded, the Management Report was approved by the stockholders.

### **V. APPROVAL OF AUDITED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2013**

Upon motion made and duly seconded, the Corporation's Audited Financial Statements for the period ending 31 December 2013 were noted and approved.

### **VI. RATIFICATION OF ALL LEGAL ACTS, PROCEEDINGS AND RESOLUTIONS OF THE BOARD OF DIRECTORS AND OF MANAGEMENT**

After discussion and upon motion duly made and seconded, the following resolution was unanimously approved:

*"RESOLVED, that all the legal acts, proceedings and resolutions of the Board of Directors and of Management since the 23 September 2013 Annual Stockholders' Meeting up to 11 June 2014, be as they are hereby approved, confirmed and ratified."*

### **VII. ELECTION OF DIRECTORS**

Atty. Rodriguez stated that the Articles of Incorporation of the Corporation provides for seven (7) directors, two (2) of which are required to be independent directors.

Under the Corporation's By-Laws and Manual on Corporate Governance, the nomination of the Corporation's directors shall be

conducted by the Nomination Committee prior to the annual stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity of the would-be nominees and shall be submitted to the Nomination Committee and the Corporate Secretary at least forty-five (45) days before the date of the actual meeting.

The Nomination Committee shall pre-screen the qualifications and prepare a Final List of all Candidates for directors. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as directors.

The Final List of Candidates for directors as determined by the Corporation's Nomination Committee, and as disclosed in the Corporation's Information Statement, are:

1. Geronimo P. Bella, Jr.
2. Ricardo Rodrigo P. Bella
3. Ignatius A. Rodriguez
4. Damian L. Carlos
5. Ryota Nagata

For Independent Directors:

6. Jose S. Navarro; and
7. Manuel H. Puey

Upon nomination duly made and seconded, the following were elected Directors to serve as such for the ensuing year and until the election and qualification of their successors:

Geronimo P. Bella, Jr.  
Ricardo Rodrigo P. Bella  
Ignatius A. Rodriguez  
Damian L. Carlos  
Ryota Nagata  
Jose S. Navarro (Independent Director)  
Manuel H. Puey (Independent Director)

## **VIII. APPOINTMENT OF EXTERNAL AUDITOR**

Upon motion made and duly seconded, the stockholders approved the appointment of Isla Lipana & Co. as the external auditor of the Corporation.

*“RESOLVED, That the auditing firm of Isla Lipana & Co. be, as it is hereby appointed to be the Corporation’s external auditor for 2014.”*

**IX. ADJOURNMENT**

There being no further business to transact, and upon motion duly made and seconded, the meeting was adjourned.

(original signed)  
**IGNATIUS A. RODRIGUEZ**  
Corporate Secretary

**Confirmed and Approved:**

(original signed)  
**GERONIMO P. BELLA, JR.**  
Chairman of the Board



May 21, 2014

**Harbor Star Shipping Services Inc.**  
2224 gen a. Bonifacio st.  
corner South Superhighway  
Bangkal, Makati city 1233

Attention: **Ignatius A. Rodriguez**  
COS/CIO

Re: 2014 Annual Stockholders' Meeting

Gentlemen:

This is to certify that all notices of stockholders meeting of record date May 12, 2014 of Harbor Star Shipping Services Inc. were dispatched last May 20, 2014 within the specified deadline.

Thank you,

Very truly yours,

**JOEL S. CRUZ**  
Operations Officer  
Stock Transfer Section

**WALTER R. BRIONES**  
Operations Manager  
Stock Transfer Section

### **Message To Our Stockholders**

2013 was a milestone year for Harbor Star Shipping Services, Inc. As we celebrated our 15<sup>th</sup> year of operations, our company grew from a one tug company in 1998 operating in one port, to a fleet of 34 tugs, barges and vessels operating in 66 ports and terminals throughout the Philippines. And in October 2013, we fortified our place as the country’s leading and most progressive tug and marine services provider with the listing of our common shares in the Philippine Stock Exchange.

The road leading to our achievements did not come easy. It was a result of knowledge of the business inherited from my father, determination, hard work, planning, and prayers. Faced with tough challenges, we remained strong and committed – maintaining strong business fundamentals while constantly looking ahead for greater possibilities and new opportunities.

#### **We Are Here For the Long Term**

As the country experienced major economic strides in 2013, we too modestly shared the same amount of success.

We were able to generate a total service income amounting to P898.7 million at yearend, an 11.3% increase from the previous year. This was a result of our previous investments in assets, which serviced the mining sector, hitting full stride. We also successfully negotiated the increase of our tariff in several ports, relying on our intimate relationship with our customers and our reputation as providing safe and reliable service.

Our asset base increased to P2.02 Billion from the previous year’s P1.67 Billion. We acquired three (3) additional tugboats and an Anchor Handling Tug and Supply (AHTS) vessel. For these new acquisitions, we incurred upfront costs for initial fuel inventory and securing vessel classifications. We likewise increased our crew who included international licensed master mariners and engineers.

In anticipation of the Philippine’s economic growth in the coming years, we also spent heavily in the repair and maintenance of our fleet. This was to ensure that we continue the quality of service we provide our customers. Thus, we can confidently say that the increase in total expenses by 25.5% from P598.5 million in 2012 to P750.7 million in 2013 was an investment in the future. The 26.8% decrease in the company’s net income of P108.5 million from P148.3 million in 2012, was a sacrifice of today’s profits for tomorrows’ opportunities.

Despite such sacrifices, our EBITDA still improved from P348.8 Million to P365.6 Million.

And as proof that our sacrifices in 2013 were not in vain, our first quarter revenue for 2014 was 31% higher than the first quarter of 2013. And the second quarter of 2014 is looking as promising.

#### **The IPO Effect**

As a result of our IPO listing in October 2013, the company’s capitalization grew by P181.6 million from P423.6 million to P605.2 million. Our retained earnings likewise increased by 60.2% from P193.0 million to P309.2 million due to our generated income within the year.

Cash at year-end amounted to P69.5 million which was a 35.1% increase.

But most important, the Company’s debt-to-equity ratio was improved from an already healthy 0.87:1 in 2012 to an astounding 0.57:1 by yearend 2013.

**Pass It Forward**

We acknowledge that we are blessed with the business that we have and the modest successes we have achieved. As our way of giving thanks, we find it incumbent on ourselves to do our share in improving the world that we live in.

In 2013, we continued our CSR program we started in 2010 of planting 20,000 mangrove trees or *bakawan* along the Philippine shorelines. Mangroves act as breeding and nursery grounds for several marine species and prevent coastal soil erosion. As of December 2013, I am pleased to report that we had already planted 17,153 mangroves in Banuya, San Luis, Batangas. The mangroves cover an area of 2 hectares and some are almost 6 feet high.

And like so many individuals and companies, Harbor Star also did its part in helping our devastated countrymen in Yolanda-stricken Tacloban. The day after the typhoon, we immediately offered free-of-charge our barges to DOTC to transport emergency equipment and relief goods to Tacloban. I am proud to report that our barge Lynx was the vessel which transported the equipment of ICTSI to make the Tacloban Port operational after the typhoon. This allowed Tacloban and its neighboring areas to receive much needed relief goods and emergency equipment.

**Brighter Future Ahead**

As our IPO proceeds of P303.2 million was received only in the last quarter of 2013, the effect of the tugboats and barges purchases we will make using the IPO funds, will be felt in 2014 and onwards.

In 2014, we plan to seal our place as the tug and marine services company with the widest coverage of serviced ports by starting operations in Cebu City, Iloilo, and General Santos. Combined, roughly 1,350 foreign vessels call ports in these provinces annually. In 2013, we serviced approximately 5,113 foreign vessels.

We intend to aggressively market the IPO-proceeds-purchased M/V Rho Cas for towing jobs here and in South East Asia, Japan and Korea. M/V Rho Cas is the most powerful Philippine-flagged vessel of its kind. It can also do jobs for salvage and the offshore industry.

We are looking at further expanding our lighterage business. Our income from lighterage increased from P48.6 million in 2012 to P120.6 million in 2013. We continue to eye the mining sector for the tug and barge tandems we will acquire.

Finally, we are exploring several business opportunities in our neighboring countries such as Indonesia, Malaysia, and Vietnam. We have identified a number of developing ports in these countries that have no adequate harbor tugboats to service their needs.

Fifteen years is indeed a great accomplishment for us and we could not have reached this far without the support of everyone. To our partners and associates, we are grateful for your confidence in us. To our management team and Board of Directors, we thank you for your continuous guidance and advice. To our officers, employees and crew, thank you for your commitment to excellence. And to you our shareholders, we look forward to knowing you better and for you to know us better. Trust that we shall care for and foster the trust and belief you have given us in investing in the Harbor Star. We have a bright future ahead.

**MINUTES OF THE SPECIAL MEETING  
OF THE STOCKHOLDERS  
OF  
HARBOR STAR SHIPPING SERVICES, INC.**

Held on 28 November 2014

Geneva Room, Old Swiss Inn, Makati City

<u>PRESENT:</u>	<u>NO. OF SHARES</u>
<b>Total No. of Shares Represented In Person and By Proxy</b>	<b>428,225,580</b>
<b>Total Outstanding Shares</b>	<b>605,238,580</b>
<b>Attendance Percentage to Total Outstanding Shares</b>	<b>70.75%</b>

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**I. CALL TO ORDER**

The Chairman, Mr. Geronimo P. Bella, Jr., called the meeting to order and presided over the same. The Corporate Secretary, Mr. Ignatius A. Rodriguez, recorded the minutes of the proceedings.

**II. CERTIFICATION OF NOTICE AND QUORUM**

Based on the Certifications provided by Mr. Walter R. Briones of Rizal Commercial Banking Corporation ("RCBC"), the stock and transfer agent of the Corporation, the Corporate Secretary certified that:

- (a) Notices for the meeting were sent to all stockholders of record as of 28 October 2014 at least fifteen (15) business days prior to the meeting in compliance with Section 2, Article 1 of the By-Laws of the Corporation; and
- (b) Present in person and by proxy are Four Hundred Twenty-Eight Million Two Hundred Twenty-Five Thousand Five Hundred Eighty (428,225,580) shares of the total Six Hundred Five Million Two Hundred Thirty-Eight Thousand Five Hundred Eighty (605,238,580) shares, or 70.75%, of the Corporation's total issued and outstanding capital stock, and that a quorum existed for the valid transaction of business.

The Certifications of Mr. Briones of RCBC regarding the sending of notices to stockholders of record as of 28 October 2014 and on quorum are attached hereto as Annexes "A" and "B", respectively.

### III. APPROVAL OF PREVIOUS MINUTES

The Chairman stated that copies of the Minutes of the Annual Meeting of the Stockholders held on 11 June 2014 were made available for inspection at the registration desk.

Upon motion duly made and seconded, the Minutes of the Annual Meeting of the Stockholders held on 11 June 2014 were unanimously approved.

### IV. AMENDMENT OF THE ARTICLES OF INCORPORATION

The Corporate Secretary explained that there is a proposal from Management to amend the Second Article of the Articles of Incorporation of the Corporation to include new lines of business in order for the Corporation to take advantage of business opportunities.

He stated that on 17 July 2014, the Board of Directors of the Corporation approved to amend the Second Article of the Articles of Incorporation of the Corporation by including new lines of business in the Primary and Secondary Purposes as follows:

- (a) For the Primary Purpose, to include international towage, commerce and navigation in the carriage of goods and passengers, and international manning, recruitment, contracting and ship and crew management for all types of vessels.
- (b) For the Secondary Purpose, to include: (i) operate liner and feeder vessels and barges, and logistics operations; (ii) invest in, develop, manage and/or operate in domestic and international shipyards, ports and terminals; (iii) import, export, trade, buy and sell coal, oil, bunker, construction material, rice, corn and other commodities; (iv) engage in offshore marine and engineering works; (v) construction and rehabilitation of marine facilities; (vi) acquire by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop, operate and hold for investments or otherwise, real estate of all kinds, and to perform all acts which are incidental and necessary to the real estate business.

He further stated that the Corporation requires the affirmative vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock of the Corporation in order to amend the Second Article of the Articles of Incorporation.

Upon motion duly made and seconded, the stockholders unanimously approved the following resolution:

*“RESOLVED, That the stockholders of the Corporation approve, as it hereby approves, the amendment of the Second Article of the Articles of Incorporation of the Corporation by including new lines of business in the Primary and Secondary Purposes as follows:*

- (a) *For the Primary Purpose, to include international towage, commerce and navigation in the carriage of goods and passengers, and international manning, recruitment, contracting and ship and crew management for all types of vessels.*
- (b) *For the Secondary Purpose, to include: (i) operate liner and feeder vessels and barges, and logistics operations; (ii) invest in, develop, manage and/or operate in domestic and international shipyards, ports and terminals; (iii) import, export, trade, buy and sell coal, oil, bunker, construction material, rice, corn and other commodities; (iv) engage in offshore marine and engineering works; (v) construction and rehabilitation of marine facilities; (vi) acquire by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop, operate and hold for investments or otherwise, real estate of all kinds, and to perform all acts which are incidental and necessary to the real estate business."*

## V. OTHER MATTERS

### *Updates*

The Corporation's Treasurer and Investor Relations Officer, Mr. Dany Cleo B. Uson, updated the stockholders on the revenue and net income of the Corporation for the quarter ended 30 September 2014. Said update is based on the Corporation's SEC Form 17-Q for the quarter ended 30 September 2014, which were distributed to the stockholders prior to the meeting.

Ms. Rachel Cruz, a stockholder, inquired whether the Corporation has any plans of acquiring new vessels. The Chairman answered in the affirmative. He added that he could not, however, as of present time disclose the details of said plans.

A stockholder inquired on the status of the order of seizure issued by the Bureau of Customs ("BOC") against a tugboat of the Corporation, which was previously disclosed to the Philippine Stock Exchange ("PSE") last 20 August 2014.

By way of background, the Corporate Secretary informed the stockholders that the Acting District Collector of Limay, Bataan issued an order of seizure against the Corporation's tugboat, MT Propus. Mr. Rodriguez stated that the Corporation contested the legality of the seizure on the basis that the district collector no longer had any jurisdiction over the tugboat at the time he issued the seizure order. By that time, MT Propus was previously cleared by the BOC. Further, the Maritime Industry Authority (MARINA) already approved the registration of the tugboat under the name of the Corporation. Mr. Rodriguez informed the stockholders that the

Corporation was currently exhausting all legal remedies to nullify said order, and engaged the services of SyCip Salazar Hernandez and Gatmaitan as counsel. He also stated that the seizure will not in any way materially affect the operations of the Corporation.

Mr. Marasigan, a stockholder, inquired as to the identity of the competitors of the Corporation. The Chairman replied that the Corporation's main competitor remained the same, Malayan Towage and Salvage Corporation.

**VI. ADJOURNMENT**

There being no further business to transact, and upon motion duly made and seconded, the meeting was adjourned.

**IGNATIUS A. RODRIGUEZ**  
Corporate Secretary

**Confirmed and Approved:**

**GERONIMO P. BELLA, JR.**  
Chairman of the Board

DRAFT

November 25, 2014

**HARBOR STAR SHIPPING SERVICES, INC.**  
2224 Gen. A. Bonifacio St.  
Corner South Superhighway  
Bangkal, Makati City 1233

Attention: **Mr. Ignatius A. Rodriguez**  
**COS / CIO**

Re: **2014 Special Stockholders' Meeting**

Gentlemen:

This is to certify that all notices of stockholders meeting as of record date October 28, 2014 of **HARBOR STAR SHIPPING SERVICES, INC.** were dispatched within the specified deadline.

Thank you.

Very truly yours,



**ANTONIO B. MADRID JR.**  
Assistant Manager  
Stock Transfer Section



**WALTER R. BRIONES**  
Operations Manager  
Stock Transfer Section

## CERTIFICATION

As Stock Transfer Agent of **HARBOR STAR SHIPPING SERVICES INC.**, we hereby certify that the total number of shares represented by shareholders who attended in person and by proxy during the Annual Stockholder's Meeting last November 28, 2014 is 428,225,500 shares equivalent to 70.75% of the total outstanding shares of the company.

Issued this 28th day of November 2014, upon the request of Harbor Star Shipping Services Inc.

**RIZAL COMMERCIAL BANKING CORP.**  
Stock Transfer Department

  
**WALTER R. BRIONES**  
Operations Manager

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM – ACGR**

**ANNUAL CORPORATE GOVERNANCE REPORT**

**GENERAL INSTRUCTIONS**

**(A) Use of Form ACGR**

This SEC Form shall be used to meet the requirements of the Revised Code of Corporate Governance.

**(B) Preparation of Report**

These general instructions are not to be filed with the report. The instructions to the various captions of the form shall not be omitted from the report as filed. The report shall contain the numbers and captions of all items. If any item is inapplicable or the answer thereto is in the *negative*, an appropriate statement to that effect shall be made. Provide an explanation on why the item does not apply to the company or on how the company's practice differs from the Code.

**(C) Signature and Filing of the Report**

- A. Three (3) complete sets of the report shall be filed with the Main Office of the Commission.
- B. At least one complete copy of the report filed with the Commission shall be **manually** signed.
- C. All reports shall comply with the full disclosure requirements of the Securities Regulation Code.
- D. This report is required to be filed annually together with the company's annual report.

**(D) Filing an Amendment**

Any material change in the facts set forth in the report occurring within the year shall be reported through SEC Form 17-C. The cover page for the SEC Form 17-C shall indicate "Amendment to the ACGR".

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

**CONSOLIDATED CHANGES TO THE**  
**ANNUAL CORPORATE GOVERNANCE REPORT**  
**FOR FY2014**

1. Report is Filed for the Year **2014**
2. **HARBOR STAR SHIPPING SERVICES, INC.**  
Exact Name of Registrant as Specified in its Charter
3. **2224 A. BONIFACIO ST., CORNER SOUTH SUPER HIGHWAY, BRGY. BANGKAL, MAKATI CITY**  
Address of Principal Office Postal Code **1233**
4. SEC Identification Number **152897** 5.  (SEC Use Only)  
Industry Classification Code
6. BIR Tax Identification Number **201-128-653-000**
7. **(+632) 886-37-03**  
Issuer's Telephone number, including area code
8. **N/A**  
Former name or former address, if changed from the last report

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## A. BOARD MATTERS

### 1) Board of Directors

Number of Directors per Articles of Incorporation	7
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Actual number of Directors for the year	7
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#### (a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID) <sup>1</sup>	Elected when (Annual /Special Meeting)	No. of years served as director
Geronimo P. Bella, Jr.	ED	N/A	Stockholder	June 2006	<a href="#">11 June 2014</a>	ASM	<u>9</u>
Ricardo Rodrigo P. Bella	ED	N/A	Stockholder	June 2006	<a href="#">11 June 2014</a>	ASM	<u>9</u>
Ignatius A. Rodriguez	ED	N/A	Stockholder	1998	<a href="#">11 June 2014</a>	ASM	<u>17</u>
Ryota Nagata	NED	N/A	Stockholder	July 2011	<a href="#">11 June 2014</a>	ASM	<u>4</u>
Damian L. Carlos	NED	N/A	Stockholder	June 2009	<a href="#">11 June 2014</a>	ASM	<u>6</u>
Jose S. Navarro	ID	N/A	Stockholder; No relation	18 October 2012	<a href="#">11 June 2014</a>	ASM	<u>3</u>
Manuel H. Puey	ID	N/A	Stockholder; No relation	18 October 2012	<a href="#">11 June 2014</a>	ASM	<u>3</u>

- (b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

The Board of Directors and Management of HARBOR STAR SHIPPING SERVICES, INC. ("Company"; "Corporation"; "Harbor Star") commit themselves to the principles and best practices contained in its Amended Manual on Corporate Governance ("CG Manual"), for the attainment of the Company's goals and objectives.

The Board of Directors, Management, Employees and Shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization.

Compliance with the principles of good corporate governance shall start with the Board of Directors. The Board shall act in a manner characterized by transparency, accountability and fairness. It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its shareholders.

The Board shall take care of the interests of the shareholders and protect their investment through the implementation of sound corporate policies and plans while maintaining its independent assessment on Management's performance.

<sup>1</sup> Reckoned from the election immediately following January 2, 2012.

(c) How often does the Board review and approve the vision and mission?

The Board reviews its Corporate Vision and Mission every three (3) years. Last 14 March 2014, the Board approved its revised Corporate Vision and maintained its Corporation Mission. Today the Company's vision and mission are:

VISION

In 2020, Harbor Star Shipping Services, Inc., the leading tug and marine services provider in the Philippines, will be a major player in South East Asia.

MISSION

Harbor Star's mission is to provide total marine services:

- Safely, promptly, and efficiently
- Taking care of the environment
- Assuring equitable returns to shareholders
- Responsive to employees and stakeholder's welfare
- Strictly observing good corporate governance

(d) Directorship in Other Companies

(i) Directorship in the Company's Group<sup>2</sup>

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Geronimo P. Bella, Jr.	Peak Flag SDN BHD	Executive
Ricardo Rodrigo P. Bella	Great Eastern Tug Corporation	Executive

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
None	N/A	N/A

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Geronimo P. Bella, Jr.	Ricardo Rodrigo P. Bella	Siblings
Ricardo Rodrigo P. Bella	Geronimo P. Bella, Jr.	Siblings

<sup>2</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

- (iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

	Guidelines	Maximum Number of Directorships in other companies
<b>Executive Director</b>	N/A	N/A
<b>Non-Executive Director</b>	N/A	N/A
<b>CEO</b>	N/A	N/A

The Company has not set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously.

- (e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Geronimo P. Bella, Jr.	249,008,665	150,000	41.16%
Ricardo Rodrigo P. Bella	166,035,658	1,470,000	27.67%
Ignatius A. Rodriguez	5,772,731	0	0.95%
Ryota Nagata	4,059,763	0	0.67%
Damian L. Carlos	59,763	0	0.00%
Jose S. Navarro	1,000	0	0.00%
Manuel H. Puey	1,000	0	0.00%
<b>TOTAL</b>	<b>426,588,580</b>	<b>1,620,000</b>	<b>70.45%</b>

2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes

No

Identify the Chair and CEO:

Chairman of the Board	Geronimo P. Bella, Jr.
CEO/President	Geronimo P. Bella, Jr.

The Corporation's By-Laws and CG Manual distinguishes the role of the Chairman (as the presiding officer during Board meetings) and President (having the general charge and supervision of the business of the Corporation).

Checks and balances are exercised through the different duties and responsibilities vested on the various Board Committees (Governance, Audit, Executive, Risk, and Compensation) as well as the presence of the two (2) Independent directors.

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	<b>Chairman</b>	<b>Chief Executive Officer</b>
<b>Role</b>	<p>In addition to presiding over meeting of the Board, the Chairman also perform the following duties and responsibilities in relation to the Board:</p> <ol style="list-style-type: none"> <li>i. Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chairman may deem necessary;</li> <li>ii. Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors; and</li> <li>iii. Maintain qualitative and timely lines of communication and information between the Board and Management.</li> <li>iv. Ensure that the members of the Board are timely, properly and accurately informed of developments in the Corporation;</li> <li>v. Promote independence in the decision-making of the members of the Board;</li> <li>vi. Ensure that productive output and time management are recognized in board meetings;</li> <li>vii. Maintain a balance among the varying views of the members of the Board;</li> <li>viii. Defer matters that should properly be taken up and decided by Management or the various committees;</li> <li>ix. Maintain appropriate meeting decorum;</li> <li>x. Ensure effective communication with shareholders;</li> <li>xi. Ensure constructive relations between the Board and Management; and</li> <li>xii. Promote high standards of corporate governance.</li> </ol>	<p>The President shall be the Chief Executive Officer (the "CEO") of the Corporation and is the strategic and operational leader directly accountable to the Board for all corporate activities. The responsibilities of the President are spread throughout almost all aspects of the business of the Corporation from planning, organizing, development and implementation.</p>
<b>Accountabilities</b>	<p>The Board is responsible for identifying and electing a President as well as for approving and implementing a process of evaluation of his or her performance both on an on-going and annual basis.</p>	<p>The President shall have general charge and supervision of the business of the Corporation; he may sign certificate of stock of the Corporation; he may sign and execute, in the name of the Corporation, all authorized deeds, mortgages, bonds, contracts, or other instruments, except in cases in</p>

		which the signing and execution thereof shall have been expressly delegated to some other officer or agent of the Corporation; and in general, the President shall perform all duties incident to the office of the President of a Corporation and such other duties as from time to time may be assigned to him by the Board of Directors.
Deliverables	The Board shall establish annual performance expectations and goals for the President which should be benchmark for success of projects undertaken and implemented by the President for each annual review.	Accomplish the annual goals and objectives set forth by the Board.

3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

According to the CG Manual, the Nomination Committee shall periodically review the Corporation’s succession plans for the President and, as needed, make recommendations to the Board regarding the selection of individuals to fill this position. There shall be an annual report to the Board by the Nomination Committee on the Corporation’s plans regarding its President and other senior management succession planning.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

The company has formed a Nominations Committee for this purpose. The members of the Board shall be elected from a list of nominees who have been identified, screened and recommended for election by the Nominations Committee. The basic criteria for selection are based on the CG Manual, which state that:

The directors shall possess such qualifications for membership in the Board as prescribed by the Corporation Code, Securities Regulation Code and other relevant laws, rules and regulations. The non-executive directors shall possess such qualifications and stature that would enable them to effectively participate in the deliberations of the Board.

Among others, the following qualifications shall be considered in a director’s nomination and election to the Board:

- i. He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;
- ii. Practical understanding of the business of the Corporation;
- iii. Membership in good standing in relevant industry, business or professional organizations; and
- iv. Vast and successful business experience.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Part of the criteria for the selection of the Director is that he/she should have a working knowledge of the statutory and regulatory requirements that affect the Corporation, including its Articles of Incorporation and By-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies; and be abreast with industry developments and business trends in order to promote the Corporation’s competitiveness.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	<b>Executive</b>	<b>Non-Executive</b>	<b>Independent Director</b>
<b>Role</b>	General supervision, administration and management of the business of the Corporation. Foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders.	Adhere and support the Corporation's short, medium, and long term plan. Provide suggestions and professional inputs as needed.	Independent of Management and free from any business or other relationship which could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.
<b>Accountabilities</b>	Act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the corporation towards sustained progress. To observe confidentiality on all proprietary, confidential and non-public information that comes to his possession as director.	Act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the corporation towards sustained progress. To observe confidentiality on all proprietary, confidential and non-public information that comes to his possession as director.	Act in the best interest of the corporation in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the corporation towards sustained progress. To observe confidentiality on all proprietary, confidential and non-public information that comes to his possession as director.
<b>Deliverables</b>	Maintain qualitative and timely lines of communication and information between the Board and Management; establish general administrative and operating policies and guidelines.	Conduct fair business transactions with the Corporation and ensure that personal interest does not bias Board decisions or does not conflict with the interest of the Corporation; attend Board meetings regularly and devote time and attention necessary to properly discharge his duties and responsibilities as a director; act judiciously on matters referred to the Board; to exercise independent judgment in deciding Board matters; to observe confidentiality on all proprietary, confidential and non-public information that comes to his possession as director.	Conduct fair business transactions with the Corporation and ensure that personal interest does not bias Board decisions or does not conflict with the interest of the Corporation; attend Board meetings regularly and devote time and attention necessary to properly discharge his duties and responsibilities as a director; act judiciously on matters referred to the Board; to exercise independent judgment in deciding Board matters; to observe confidentiality on all proprietary, confidential and non-public information that comes to his possession as director.

Provide the company's definition of "independence" and describe the company's compliance to the definition.

An "independent director" means a person who, apart from his/her fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his/her exercise of independent judgment in carrying out his/her responsibilities as a director of the corporation and includes, among others, any person who:

- i. Is not a director or officer of the Corporation or of its related companies or any of its substantial shareholders except when an independent director of any of the foregoing;
- ii. Does not own more than two percent (2%) of the shares of the Corporation and/or its related companies or any of its substantial shareholders;
- iii. Is not related to any director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;
- iv. Is not acting as a nominee or representative of any director or substantial shareholder of the Corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;
- v. Has not been employed in any executive capacity by the Corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;
- vi. Is not retained, either personally or through his/her firm or any similar entity, as professional adviser, by the Corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years; or
- vii. Has not engaged and does not engage in any transaction with the Corporation and/or with any of its related companies and/or with any of its substantial shareholders, whether by himself and/or with other persons and/or through a firm of which he/she is a partner and/or a company of which he/she is a director or substantial shareholder, other than transactions which are conducted at arm's length and are immaterial.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

Harbor Star's By-Laws does not limit the term of an independent directors to five (5) consecutive years. Nonetheless, the Company complies with the SEC's rules and regulations qualification an independent director. Following SEC Memo Circular No. 9, Series of 2009, a regular director who resigns or whose term ends on the day of the election shall only qualify for nomination and election as an Independent Director after the mandatory two (2) year cooling-off period.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
None	N/A	N/A	N/A

There were no changes in the composition of the Board of Directors during the period covered.

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
<b>a. Selection/Appointment</b>		
(i) Executive Directors	<p>Article 2, Section 16 of the Company's By-Laws: The following rules shall apply with respect to the nomination and election of all members of the Corporation's Board of Directors:</p> <ul style="list-style-type: none"> <li>- Nomination of Directors shall be conducted by the Nomination Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.</li> <li>- The Nomination Committee shall pre-screen the</li> </ul>	<p>The following qualifications for Directorship shall be considered:</p> <ul style="list-style-type: none"> <li>- He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;</li> <li>- Practical understanding of the business of the Corporation;</li> <li>- Membership in good standing in relevant industry, business or professional organizations; and</li> <li>- Vast and successful business experience</li> </ul>
(ii) Non-Executive Directors	<p>the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for Directors.</p> <ul style="list-style-type: none"> <li>- After the nomination, the Nomination Committee shall prepare a Final List of Candidates which shall contain all the information about the nominees required to be ascertained and made known under the Securities Regulation Code and relevant rules and regulations of the Securities and Exchange Commission. Said Final List of Candidates shall be disclosed in the reports required by law, rules and regulations to be submitted to the Securities and Exchange Commission and to all stockholders. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.</li> <li>- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Directors. No other nomination shall be entertained after the Final List</li> </ul>	<p>The following qualifications for Directorship shall be considered:</p> <ul style="list-style-type: none"> <li>- He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;</li> <li>- Practical understanding of the business of the Corporation;</li> <li>- Membership in good standing in relevant industry, business or professional organizations; and</li> <li>- Vast and successful business experience</li> </ul>
(iii) Independent Directors	<p>Commission. Said Final List of Candidates shall be disclosed in the reports required by law, rules and regulations to be submitted to the Securities and Exchange Commission and to all stockholders. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.</p> <ul style="list-style-type: none"> <li>- Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Directors. No other nomination shall be entertained after the Final List</li> </ul>	<p>An Independent Director shall have the following qualifications:</p> <ul style="list-style-type: none"> <li>- He shall have at least one (1) share of stock of the Corporation;</li> <li>- He shall be at least a college graduate or he shall have been engaged or exposed to the business of the Corporation for at least five (5) years;</li> <li>- He shall possess integrity/probity;</li> <li>- He shall be assiduous;</li> <li>- Is not a director or officer of the Corporation or of its related companies or any of its substantial shareholders except when an independent</li> </ul>

	<p>of Candidates shall have been prepared. No further nomination shall be entertained or allowed on the floor during the actual annual stockholders' meeting.</p> <ul style="list-style-type: none"> <li>- It shall be responsibility of the Chairman of the stockholders' meeting to inform all stockholders in attendance of the mandatory qualifications and procedures for nominating and electing directors.</li> <li>- In case of failure of election, resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy shall be filled only by candidates approved by the Nomination Committee. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.</li> </ul>	<p>director of any of the foregoing;</p> <ul style="list-style-type: none"> <li>- Does not own more than two percent (2%) of the shares of the Corporation and/or its related companies or any of its substantial shareholders;</li> <li>- Is not related to any director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister, and the spouse of such child, brother or sister;</li> <li>- Is not acting as a nominee or representative of any director or substantial shareholder of the Corporation, and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement;</li> <li>- Has not been employed in any executive capacity by the Corporation, any of its related companies and/or by any of its substantial shareholders within the last two (2) years;</li> <li>- Is not retained, either personally or through his/her firm or any similar entity, as professional adviser, by the Corporation, any of its related companies and/or any of its substantial shareholders, within the last two (2) years</li> <li>- Has not engaged and does not engage in any transaction with the Corporation and/or with any of its related companies and/or with any of its substantial shareholders</li> </ul>
<b>b. Re-appointment</b>		
(i) Executive Directors	Following the same process as in selection / appointment stated in the By – laws and Revised Manual on Corporate Governance but subject to SEC restrictions regarding no. of directorships handled and number of years serving as Director for the company.	Following the same process as in selection / appointment stated in the By – laws and Revised Manual on Corporate Governance but subject to SEC restrictions regarding no. of directorships handled and number of years serving as Director for the company.
(ii) Non-Executive Directors		
(iii) Independent Directors		

c. Permanent Disqualification (based on the By – Laws and Revised Manual on Corporate Governance)		
<p>(i) Executive Directors</p>	<p>According to Article 2, Section 7 of the By-Laws:</p> <p>Vacancies occurring in the Board of Directors through death, resignation, or any cause except by removal or expiration of term, the remaining Directors constituting a quorum by affirmative vote of the majority thereof, may elect a successor to hold office for the unexpired portion of the term of the Director whose place shall be vacant, and until the election of his successor.</p> <p>According to Article 2, Section 16(f) of the By-Laws:</p> <p>In case of failure of election, resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy shall be filled only by candidates approved by the Nomination Committee. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.</p>	<p>The following shall be grounds for the permanent disqualification of a director:</p> <ul style="list-style-type: none"> <li>- Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that <ul style="list-style-type: none"> <li>(a) involves the purchase or sale of securities as defined in the Securities Regulation Code;</li> <li>(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</li> <li>(c) arises out of his/her fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person or any of them;</li> </ul> </li> <li>- Any person who, by reason of misconduct, after hearing, is permanently enjoined by final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: <ul style="list-style-type: none"> <li>(a) acting as underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker;</li> <li>(b) acting as director or officer of a bank, quasi-bank, trust company, investment house or investment company;</li> <li>(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;</li> </ul> </li> </ul>

<p>(ii) Non-Executive Directors</p>	<p>According to Article 2, Section 7 of the By-Laws:</p> <p>Vacancies occurring in the Board of Directors through death, resignation, or any cause except by removal or expiration of term, the remaining Directors constituting a quorum by affirmative vote of the majority thereof, may elect a successor to hold office for the unexpired portion of the term of the Director whose place shall be vacant, and until the election of his successor.</p> <p>According to Article 2, Section 16(f) of the By-Laws:</p> <p>In case of failure of election, resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy shall be filled only by candidates approved by the Nomination Committee. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.</p>	<ul style="list-style-type: none"> <li>- The disqualification shall also apply if such person is currently the subject of an order of the SEC 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 Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the SEC or BSP, or has otherwise restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;</li> <li>- Any person judicially convicted by final judgment of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</li> <li>- Any person finally found by the SEC or a court or other 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 SEC or BSP, or any rule, regulation or order of the SEC or BSP;</li> <li>- Any person judicially declared to be insolvent;</li> <li>- Any person earlier elected as independent director who</li> </ul>
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		<p>becomes an officer, employee, or consultant of the same Corporation;</p> <ul style="list-style-type: none"> <li>- Any person finally 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; and</li> <li>- Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his/her election or appointment.</li> </ul>
(iii) Independent Directors	<p>According to Article 2, Section 7 of the By-Laws: Vacancies occurring in the Board of Directors through death, resignation, or any cause except by removal or expiration of term, the remaining Directors constituting a quorum by affirmative vote of the majority thereof, may elect a successor to hold office for the unexpired portion of the term of the Director whose place shall be vacant, and until the election of his successor.</p> <p>According to Article 2, Section 16(f) of the By-Laws: In case of failure of election, resignation, disqualification or cessation of independent directorship, the vacancy shall be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, said vacancy shall be filled only by candidates approved by the Nomination Committee. An independent director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor in office.</p>	<p>In addition to the grounds for temporary or permanent disqualification of a director, an Independent Director shall likewise be disqualified during his tenure under the following instances or causes:</p> <ul style="list-style-type: none"> <li>- He becomes an officer or employee of the Corporation;</li> <li>- His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the Corporation;</li> <li>- Fails, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his incumbency.</li> </ul>

<b>d. Temporary Disqualification (based on the Revised Manual on Corporate Governance)</b>		
(i) Executive Directors	<p>A temporarily disqualified director shall, within sixty (60) business days from such, take appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<p>Any of the following shall be a ground for the temporary disqualification of a director:</p> <ul style="list-style-type: none"> <li>- Refusal to fully disclose the extent of his/her business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his/her refusal persists;</li> <li>- Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of Directors during his/her incumbency, or any twelve (12) month period during said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election;</li> <li>- Dismissal/ termination from directorship in another listed corporation for cause. This disqualification shall be in effect until he/she has cleared himself of any involvement in the alleged irregularity;</li> </ul>
(ii) Non-Executive Directors	<p>A temporarily disqualified director shall, within sixty (60) business days from such, take appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>	<ul style="list-style-type: none"> <li>- Being under preventive suspension by the Corporation;</li> <li>- Conviction that has not yet become final referred to in the grounds for the disqualification of directors; and</li> <li>- If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries or affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.</li> </ul>

(iii) Independent Directors	A temporarily disqualified director shall, within sixty (60) business days from such, take appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.	In addition to the grounds for temporary or permanent disqualification of a director, an Independent Director shall likewise be disqualified during his tenure under the following instances or causes: - He becomes an officer or employee of the Corporation; - His beneficial security ownership exceeds two percent (2%) of the outstanding capital stock of the Corporation; - Fails, without any justifiable cause, to attend at least fifty percent (50%) of the total number of Board meetings during his incumbency.
<b>e. Removal</b>		
(i) Executive Directors	Any officer of the Corporation may at any time be removed, with or without cause, by a majority vote of the Board of Directors at any regular or special meeting called for the purpose, subject to any existing contract between such officer and the Corporation. If there shall be a vacancy created in the office of the President, Vice President, Treasurer, or Secretary by death, resignation, absence or otherwise the rule of succession for President, Vice President, Treasurer, and Secretary shall be followed. The Board may, however, if it decides, elect to such vacant position any person whom it deems capable and appropriate. The person who succeeds shall serve only for the unexpired term.	The commission of a third violation of the CG Manual by any member of the Board of the Corporation shall be sufficient cause for removal from directorship; and in accordance with the applicable laws, rules and regulations.
(ii) Non-Executive Directors		
(iii) Independent Directors		
<b>f. Re-instatement (based on the Revised Manual on Corporate Governance)</b>		
(i) Executive Directors	A temporarily disqualified director shall, within sixty (60) business days from such, take appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.	If the reason for temporary disqualification has been corrected/addressed.
(ii) Non-Executive Directors		
(iii) Independent Directors		

<b>g. Suspension (based on the Revised Manual on Corporate Governance)</b>		
(i) Executive Directors	A temporarily disqualified director shall, within sixty (60) business days from such, take appropriate action to remedy or correct the disqualification. If he/she fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.	Same criteria as temporary disqualification.
(ii) Non-Executive Directors		
(iii) Independent Directors		

Voting Result of the last Annual General Meeting

Name of Director	Votes Received
Geronimo P. Bella, Jr.	<a href="#">424,761,323</a>
Ricardo Rodrigo P. Bella	<a href="#">424,761,323</a>
Ignatius A. Rodriguez	<a href="#">424,761,323</a>
Ryota Nagata	<a href="#">424,761,323</a>
Damian L. Carlos	<a href="#">424,761,323</a>
Jose S. Navarro	<a href="#">424,761,323</a>
Manuel H. Puey	<a href="#">424,761,323</a>

6) Orientation and Education Program

(a) Disclose details of the company's orientation program for new directors, if any.

The orientation and onboarding program familiarizes each new director with, among other things, the Corporation's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct, corporate governance and principal officers. Such new director shall, as appropriate, attend outside director education courses sponsored by recognized organizations. It shall also include meetings with and presentations by key management and visits to Corporation facilities.

(b) State any in-house training and external courses attended by Directors and Senior Management<sup>3</sup> for the past three (3) years:

External Courses

Name of Director/Officer	Date of Training	Program
Roberto P. Aris	2012	Quality Management Systems Audit/Lead Auditor Training Course
Geronimo P. Bella, Jr.	2012	22nd International Tug, Salvage & OSV Convention
Geronimo P. Bella, Jr.	4 January 2012	Best Practices in Business Protocol
Virginia May P. Bella	9 January 2012	IMO Model Course 6.09 training for Safety
Geronimo P. Bella, Jr. Virginia May P. Bella	16 January 2012	Best Practices in Handling Customs Tax Audits & Remedies
Annalie N. Ventura	26-20 January 2012	Integrated Management System Awareness

<sup>3</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Ricardo Rodrigo P. Bella	30 January 2012	Pico Events PTE
Ricardo Rodrigo P. Bella Roberto P. Aris	February 2012	Hazardous Waste Operations & Emergency Response Annual Refresher Course
Annalie N. Ventura	16-17 February 2012	All About Fringe Benefits & Tax Deductible
Annalie N. Ventura	11-12 April 2012	Maritime HR and Crew Development
Roberto P. Aris	16-20 April 2012	Lead Auditor ISO 9001
Elionarda L. Refil	30 April 2012	Improving Efficiency & Minimizing Costs
Ricardo Rodrigo P. Bella	May 2012	OSV Chartering and Contract Management
Geronimo P. Bella, Jr.	28 May to 1 June 2012	The 22nd International Tug, Salvage & OSV Convention and Exhibition
Annalie N. Ventura	12 July 2012	Corporate Social Responsibility and HR Implications
Annalie N. Ventura	12-14 October 2012	The HR Mandate in the New World
Senior Management and Directors	27 November 2012	Corporate Governance
Ricardo Rodrigo P. Bella	2013	ISU Annual Conference 2013
Ricardo Rodrigo P. Bella	February 2013	Hazardous Waste Operations & Emergency Response Annual Refresher Course
Elionarda L. Refil	17 May 2013	Facilities Management
Ignatius A. Rodriguez Adelia D. Vasquez Dany Cleo B. Uson	17 July 2013	SEC Compliance and Rules of Disclosures
Lorenzo C. Caranzo	29 July 2013 to 2 August 2013	World Safety Organization Seminar
Geronimo P. Bella, Jr. Dany Cleo B. Uson	25 July 2013	Economic Seminar
Lorenzo C. Caranzo Virginia May P. Bella	31 July 2013	Salvage & Wreck Asia
Adelia D. Vasquez	30 August 2013	Philippine Chamber of Commerce Tax Forum Training
Annalie N. Ventura	25 October 2013	HR Solution HRMBSi Talent Crossing Borders
<u>Senior Management and Directors</u>	<u>28 November 2014 &amp; 16 December 2014</u>	<u>Corporate Governance</u>

- (c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Ricardo Rodrigo P. Bella	2013	ISU Annual Conference 2013	International Salvage Union
Ricardo Rodrigo P. Bella	February 2013	Hazardous Waste Operations & Emergency Response Annual Refresher Course	February 2013
Geronimo P. Bella, Jr. Dany Cleo B. Uson	25 July 2013	Economic Seminar	PFC Finance
Ignatius A. Rodriguez Adelia D. Vasquez Dany Cleo B. Uson	17 July 2013	SEC Compliance and Rules of Disclosures	Center for Best Global Practices Foundation
Adelia D. Vasquez	30 August 2013	Tax Forum Training	Philippine Chamber of Commerce

## B. CODE OF BUSINESS CONDUCT & ETHICS

- 1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	Directors, Senior Management, and Employees (collectively called "Employees") have a duty of loyalty to the Corporation and are therefore expected to always act in the Corporation's best interests. Employees may not act as directors, officers, employees, consultants or agents of entities that are competitors of the Corporation.		
(b) Conduct of Business and Fair Dealings	The Corporation believes in dealing fairly with its competitors and other stakeholders. The employees must not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any unfair dealing practice.		
(c) Receipt of gifts from third parties	Employees are not permitted to give or accept, directly or indirectly in the following situations: (a) Gifts and business courtesies that might create the appearance of impropriety. This ruling extends to immediate family members including spouses; and (b) With exception of gifts acceptable by customary practice, cash payments, discounts or vouchers, regardless of value, must not be accepted from current or potential customers, suppliers, vendors or other contractors.		
(d) Compliance with Laws & Regulations	Employees are expected to comply with the letter and spirit of laws applicable in the performance of their duties. This Code does not purport to address all areas of law that employees might encounter in the day-to-day business of the Corporation, but nevertheless gives emphasis to the areas of law which are of primary importance in the conduct of the Corporation's business, to enumerate: Human Rights Law, Privacy Law, Health and Safety Law, Environmental Laws, Securites Law, Competition Laws, and Employment and Labor law.		
(e) Respect for Trade Secrets/Use of Non-public Information	Employees may have access to non-public information regarding the Corporation's customers, suppliers, operations, strategic plans, financial affairs, employees and trade secrets, among other things. Such information are key corporate assets and every employee has an obligation to protect them and keep them in the strictest confidence, until disclosure is authorized or actually effected.		
(f) Use of Company Funds, Assets and Information	All employees of the Corporation should endeavor to protect its assets and resources and ensure legitimate use thereof. These assets and resources include information, equipment, office supplies, hardware, software, intellectual property and time. Such assets may not be used for personal benefit, nor may such be sold, borrowed or given away without proper authorization.		
(g) Employment & Labor Laws & Policies	It is the Corporation's policy to comply with all applicable laws and regulations, including those concerning hours of work, compensation, opportunity, human rights and working conditions.		
(h) Disciplinary action	If the Governance Committee determines that this Code has been violated, the offending employee may be disciplined for non-compliance with penalties up to and including removal from office or dismissal. Such penalties may include written notices to the individual involved, censure, demotion or re-assignment, suspension, with or without pay or benefits, or all or combination of the foregoing.		
(i) Whistle Blower	The Board and its directors, the CEO, senior financial officers and chief legal officer shall promptly report any known or suspected violations of this Code to the Chairman of the Governance Committee.		
(j) Conflict Resolution	Resort to alternative modes of dispute resolution i.e. grievance machinery procedure.		

- 2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

The Company policies and procedures are discussed and disseminated during the Orientation Program.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Company’s Human Resources Department which implements and monitors compliance with its policies and procedures. Further, the Internal Audit Department verifies and checks compliance as well. Company supervisors are also being trained to handle administrative cases, specifically the observance of due process, through modules provided by the Human Resource Department.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company’s policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company	Monitored by the Finance Division in collaboration with the Internal Audit Department, Legal Department, in consultation with Management and, whenever warranted, the Corporation’s External Auditor. It is the role of the Audit Committee to ensure to review and approve the Related-Party Transaction. In determining whether to approve a Related-Party Transaction, considerations should be placed on whether the terms of the Related-Party Transaction are fair to the Corporation or on terms at least equally favorable as would apply if the other party was not or did not have an affiliation with a director, executive officer or employee of the Corporation.
(2) Joint Ventures	
(3) Subsidiaries	
(4) Entities Under Common Control	
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings/parents	
(7) Directors including spouse/children/siblings/parents	
(8) Interlocking director relationship of Board of Directors	

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s Geronimo P. Bella, Jr. Ricardo Rodrigo P. Bella Ignatius A. Rodriguez Ryota Nagata Damian L. Carlos Jose S. Navarro Manuel H. Puey	None
Name of Officer/s Adelia D. Vasquez Dany Cleo B. Uson	None
Name of Significant Shareholders Geronimo P. Bella, Jr. Ricardo Rodrigo P. Bella PCD Nominee Corporation*	None

\*Various Shareholders

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	<b>Directors/Officers/Significant Shareholders</b>
Company	The Company complies with the Corporation Code.
Group	N/A

5) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,<sup>4</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

<b>Names of Related Significant Shareholders</b>	<b>Type of Relationship</b>	<b>Brief Description of the Relationship</b>
NONE	N/A	N/A

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

<b>Names of Related Significant Shareholders</b>	<b>Type of Relationship</b>	<b>Brief Description</b>
NONE	N/A	N/A

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

<b>Name of Shareholders</b>	<b>% of Capital Stock affected (Parties)</b>	<b>Brief Description of the Transaction</b>
NONE	N/A	N/A

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

	<b>Alternative Dispute Resolution System</b>
<b>Corporation &amp; Stockholders</b>	The alternative dispute resolution system adopted by the Corporation is the Philippine Arbitration Law.
<b>Corporation &amp; Third Parties</b>	
<b>Corporation &amp; Regulatory Authorities</b>	

<sup>4</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

## C. BOARD MEETINGS & ATTENDANCE

- 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Board Meetings are scheduled at the beginning of the year.

- 2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Geronimo P. Bella, Jr.	<u>11 June 2014</u>	<u>7</u>	<u>7</u>	<u>100%</u>
Member	Ricardo Rodrigo P. Bella	<u>11 June 2014</u>	<u>7</u>	<u>4</u>	<u>57%</u>
Member	Ignatius A. Rodriguez	<u>11 June 2014</u>	<u>7</u>	<u>7</u>	<u>100%</u>
Member	Ryota Nagata	<u>11 June 2014</u>	<u>7</u>	<u>4</u>	<u>57%</u>
Member	Damian L. Carlos	<u>11 June 2014</u>	<u>7</u>	<u>7</u>	<u>100%</u>
Independent	Jose S. Navarro	<u>11 June 2014</u>	<u>7</u>	<u>7</u>	<u>57%</u>
Independent	Manuel H. Puey	<u>11 June 2014</u>	<u>7</u>	<u>4</u>	<u>50%</u>

*\*Latest election of Directors was held on 11 June 2014.*

- 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

The Company's By-Laws has no provisions for a separate meeting for non-executive directors however the Corporation does it constrain such directors from holding one.

- 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

Yes, a majority of the directors shall constitute a quorum for the transaction of corporate business.

- 5) Access to Information

- (a) How many days in advance are board papers<sup>5</sup> for board of directors meetings provided to the board?

At least one (1) day prior to the scheduled meeting.

- (b) Do board members have independent access to Management and the Corporate Secretary?

Yes, Members of the Board are given independent access to Management and the Corporate Secretary. (CG Manual Section 2.2.8)

- (c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

Yes, the Secretary's duties and responsibilities include:

- i. Being responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as all other documents, records and information essential to the conduct of his/her duties and responsibilities to the Corporation as set out in the By-Laws;
- ii. Informing the members of the Board, in accordance with the By-Laws, of the agenda of their meetings, and ensure that the members of the Board have accurate information that will enable

<sup>5</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

- iii. Attending all Board meetings and maintain record of the same, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
- iv. Ensuring that all Board procedures, rules and regulations are strictly followed by the members;
- v. Submitting a certification to the SEC every 30th of January of the year regarding the attendance of the directors during Board meetings, countersigned by the Chairman of the Board.

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes, the Corporate Secretary possesses administrative and interpersonal skills, is aware of the laws, rules and regulations necessary in the performance of his/her duties and responsibilities, and has a working knowledge of the operations of the Corporation.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes  No

Committee	Details of the procedures
Executive	Notice and Agenda of the meeting is provided within a reasonable time prior to the Committee meeting.
Audit	Notice and Agenda of the meeting is provided within a reasonable time prior to the Committee meeting.
Nomination	Notice and Agenda of the meeting is provided within a reasonable time prior to the Committee meeting.
Remuneration	Notice and Agenda of the meeting is provided within a reasonable time prior to the Committee meeting.
Others (specify) – Governance	Notice and Agenda of the meeting is provided within a reasonable time prior to the Committee meeting.
Others (specify) – Risk Management	Notice and Agenda of the meeting is provided within a reasonable time prior to the Committee meeting.

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
Access to independent professional advise	The members, either individually or as a Board, and in furtherance of their duties and responsibilities, shall have access to independent professional advice at the Corporation's expense.

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
N/A	NONE	N/A

## D. REMUNERATION MATTERS

### 1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	<p>A Compensation and Remuneration Committee was organized by the Board to establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.</p> <p>The Compensation and Remuneration Committee determines the amount which shall be in a level sufficient to attract and retain the services of qualified and competent directors, executives and other key senior personnel needed to run the Company successfully. No director shall participate in deciding on his/her remuneration.</p> <p>The Corporation's annual reports and information and proxy statements shall include a clear, concise and understandable disclosure of all fixed and variable compensation that may be paid, directly or indirectly, to its directors and top four (4) management officers during the preceding fiscal year.</p>	
(2) Variable remuneration		
(3) Per diem allowance		
(4) Bonus		
(5) Stock Options and other financial instruments	N/A	
(6) Others (specify)	None	

### 2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	<p>Under the By-Laws of the Company, by resolution of the Board, each director shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10.0%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.</p> <p>The exact amount of reasonable per diem and compensation provided hereunder shall be determined by the Compensation and Remuneration Committee together with the Board in a meeting duly called for the purpose.</p>		
Non-Executive Directors			

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Remuneration Scheme	Date of Stockholders' Approval
<p>According to the By-Laws, a Director as such shall not receive any stated compensation for their services, except those specifically mentioned in these By-Laws or as may be authorized by the vote of the stockholders.</p> <p>The Compensation Committee shall establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates.</p>	<p>23 September 2013</p> <p>The acts of the Board of Directors are ratified and the Annual Report (indicating the directors' fees) is approved during the Annual Stockholders Meeting (ASM).</p>

### 3) Aggregate Remuneration

The following is the breakdown of the aggregate amount of compensation paid in 2012 and 2013, and estimated to be paid in 2014 to all directors and executive officers, as a group.

Name and Position	Year	Total
<p>Geronimo P. Bella, Jr.-Chairman &amp; President</p> <p>Ricardo Rodrigo P. Bella-Director and VP for Operations</p> <p>Ignatius A. Rodriguez-Director, Corporate Secretary, Chief of Staff, and Corporate Information Officer</p> <p>Adelia D. Vasquez-Chief Finance Officer</p> <p>Roberto P. Aris-AVP – Operations</p>	2012	PHP 26,537,038
<p>Geronimo P. Bella, Jr.-Chairman &amp; President</p> <p>Ricardo Rodrigo P. Bella-Director and VP for Operations</p> <p>Ignatius A. Rodriguez-Director, Corporate Secretary, Chief of Staff, and Corporate Information Officer</p> <p>Adelia D. Vasquez-Chief Finance Officer</p> <p>Annalie N. Ventura-AVP – Administrative Services</p>	2013	PHP 26,537,038
<p>Geronimo P. Bella, Jr.-Chairman &amp; President</p> <p>Ricardo Rodrigo P. Bella-Director and VP for Operations</p> <p>Ignatius A. Rodriguez-Director, Corporate Secretary, Chief of Staff, and Corporate Information Officer</p> <p>Adelia D. Vasquez-Chief Finance Officer</p>	2014 (est)	PHP 28,000,000
Aggregate compensation paid to all officers and directors as a group unnamed	2012	PHP 53,240,000
	2013	PHP 53,898,295
	2014 (est)	PHP 58,000,000

#### Director's Per Diem Allowance

Year	Amount
2011	PHP 200,000
2012	PHP 220,000
2013	PHP 340,000
2014 (est)	PHP 340,000

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
N/A	N/A	N/A	N/A	N/A

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
N/A	N/A	N/A

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Name of Officer/Position		Total Remuneration
Geronimo P. Bella, Jr.	President	PHP 53,898,295 aggregate compensation
Ricardo Rodrigo P. Bella	Vice President for Operations	
Ignatius A. Rodriguez	Corporate Secretary, Chief of Staff, and CIO	
Adelia D. Vasquez	Chief Finance Officer and Compliance Officer	
Annalie N. Ventura	AVP Administrative Services	
Lorenzo C. Caranzo	Safety Manager	
Edwin G. Amejana	Commercial Manager	
Dany Cleo B. Uson	Corporate Planning Manager and IRO	
Virginia P. Bella	Legal Officer	
Maricel V. Blanco	Internal Audit Manager	
Elionarda L. Refil	General Services Manager	

**E. BOARD COMMITTEES**

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	2		1	Kindly see discussion below on the respective committees.			
Audit	1	1	1				
Nomination	2	1					
Remuneration	2		1				
Risk	1		2				
Governance		2	1				

i. EXECUTIVE COMMITTEE

According to the Company's By-Laws Article II, Section 11, an Executive Committee shall be composed of not less than three (3) but not more than five (5) members, three (3) of whom must be directors and which shall include the President. The Board of Directors shall have the power at any time to remove and replace the members of, and fill vacancies in, the Executive Committee.

The Executive Committee, when the Board of Directors is not in session, may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to: (a) approval of any action for which stockholders' approval is also required; (b) the filling of vacancies in the Board of Directors; (c) the amendment or repeal of these By-Laws or the adoption of new By-Laws; (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable; (e) a distribution of cash dividends to the stockholders; and (f) such other matters as may be specifically excluded or limited by the Board of Directors.

Actions taken by the Executive Committee for the Corporation shall be submitted to the Board of Directors at its next meeting for ratification.

ii. AUDIT COMMITTEE

The Audit Committee shall consist of at least three (3) directors, who shall preferably have accounting and finance backgrounds, one (1) of whom shall be an independent director and another with audit experience. The Chair of the Audit Committee should be an independent director. Each member shall have at least an adequate understanding or competence of most of the Corporation's financial management systems and environment.

The Audit Committee shall have the powers granted to it under the Code of Corporate Governance, and decide on such matters as the Board may from time to time delegate to it. The duties and responsibilities of the Audit Committee is to check all financial reports against its compliance with pertinent accounting standards, including laws and regulatory requirements; perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management; review the annual internal audit plan to ensure its conformity with the objectives of the Corporation; ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions; develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Corporation; o Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations; monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security; review the quarterly, half-year and annual financial statements and before their submission to the Board; evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the annual income of the external auditor and to the Corporation's overall consultancy expenses; and to establish and identify the reporting line of the Internal Auditor to enable him/her to properly fulfill his/her duties and responsibilities. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he/she shall be free from interference by outside parties.

iii. NOMINATION COMMITTEE

The Corporation shall have a Nomination Committee which shall be composed of at least three (3) members of the Board of Directors, one of whom shall be an independent director, and such other persons as the Board of Directors may designate, to review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors. The Nomination Committee shall have the powers granted to it under the Code of Corporate Governance.

iv. COMPENSATION AND REMUNERATION COMMITTEE

The Compensation or Remuneration Committee shall be composed of at least three (3) members of the Board of Directors, one of whom shall be an independent director, and such other persons as the Board of Directors may designate.

The Committees' function is to establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates; Provide oversight on remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Corporation's culture, strategy and control environment; Creation of a formal and transparent procedure for developing policies on executive remuneration packages for directors and executive officers; and Design a performance-based remuneration to complement or reward good performance while at the same time keeping in mind the interests of shareholders.

v. RISK MANAGEMENT

The Risk Management Committee shall be composed of three (3) members of the Board and such other persons as the Board may designate. The Committees' duties and responsibilities are to ensure that the Board and Management are aware of all actual and potential risks, both internal and external, facing the business; Implement an effective system to identify, monitor and assess risks; Review, on a quarterly basis, the Corporation's business for risk identification, mitigation and monitoring; Establish consistency and best practices rules in the managing, monitoring and reporting of risks; Identify risks which may be beneficial to the Corporation if properly managed and controlled; Ensure that risk-taking is an informed process within a pre-determined range; When deemed necessary, appoint a Risk Management Officer; and Operationalize a Risk Management Program.

vi. GOVERNANCE COMMITTEE

The Governance Committee shall be consists of at least three (3) members of the Board, one (1) of whom shall be an Independent Director and such other persons as the Board may designate. The Governance Committee shall assist the Board with respect to governance matters most especially in the implementation of practices and standards to be observed in an effective stewardship environment.

The Governance Committee should be a cohesive and independent team of planners and program implementers that can play a critical role in fostering a healthier and better culture among the Board members and Management. Part of the Committees function includes undertaking and approving an annual performance assessment of the Board, its committees and the individual directors; preparation and approval of an annual program of governance including the planning of an annual continuing education program for the Board and Management; approval of policies, programs and processes to be contained in a manual and directors' handbook insofar as the same will supplement this Manual; assessing the competency requirements and compliance levels of the members of the Board insofar as continuing board education is concerned; reviewing policies of the Board and its committees insofar as they relate to governance matters; and reviewing governance standards published by other Philippine listed companies with a view of assessing their relevance and developing a more current set of standards for the Corporation.

2) Committee Members

(a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Geronimo P. Bella, Jr.	6 February 2013	<u>10</u>	<u>10</u>	<u>100</u>	<u>2</u>
Member (ED)	Ricardo Rodrigo P. Bella	6 February 2013	<u>10</u>	<u>10</u>	<u>100</u>	<u>2</u>
Member (ID)	Manuel H. Puey	6 February 2013	<u>10</u>	<u>10</u>	<u>100</u>	<u>2</u>

(b) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Jose S. Navarro	18 October 2012	<u>6</u>	<u>6</u>	<u>100</u>	<u>2</u>
Member (ED)	Ignatius A. Rodriguez	18 October 2012	<u>6</u>	<u>6</u>	<u>100</u>	<u>2</u>
Member (NED)	Damian L. Carlos	18 October 2012	<u>6</u>	<u>6</u>	<u>100</u>	<u>2</u>

Disclose the profile or qualifications of the Audit Committee members.

**Jose S. Navarro, 62, Filipino, Independent Director.** Mr. Navarro serves as an Independent Director of the Company since 2012. Currently, he is Executive Director of the Continuing Management Education Program of the same university. He is also a director for Strategos, Inc. and serves as a consultant for Raquel Pawnshops Inc. Mr. Navarro is also an advisor to the National Advisory Group for Police Transformation and Development. Before joining the university, he was a Senior Vice-President at the Philippine Fuji Xerox Corporation, and retired in 1998 as Chief Operating Officer. He was a director for Hibix Corporation and became a lecturer in Entrepreneurship and Innovation at the University of Western Australia, Graduate School of Business from 2003-2005. He acquired his degree in Accounting from the Philippine School of Business Administration in 1980. He then completed post graduate studies at the University of Asia and the Pacific in 1997, where he attended the Strategic Business Economics Program.

**Ignatius A. Rodriguez, 44, Filipino, Director, Corporate Secretary, Chief of Staff to the President and Corporate Information Officer.** Mr. Rodriguez is a Director of the Company since 1998 and appointed as Corporate Secretary of the Company since 2000 and is the Chief of Staff to the Office of the President of the Company. He is also appointed as the CIO of the Company. Mr. Rodriguez earned his Juris Doctor from the Ateneo Law School in 1996 and subsequently his Masters in Business Administration, with honors, from the Ateneo Graduate School of Business in 2008. He served as legal and business consultant to several businesses engaged in telecommunications, shipping, realty, foods, aviation, transport, and health and wellness, among others. While passively involved with Harbor Star as the Corporate Secretary and a Director since 2000, Mr. Rodriguez joined the Company in 2011 as the Chief of Staff of the President.

**Damian L. Carlos, 62, Filipino, Director.** Mr. Carlos serves as a Director of the Company since 2009. He is currently the General Manager for Harbor Tugowners Association of the Philippines, Inc. As a member of the Philippine Military, Mr. Carlos was appointed as the first four Star Admiral of the Philippine Coast Guard and was designated as Deputy Commandant for Administration. He also served as the Senior Management Emigrant Service officer detailed with the Commission on Filipino Overseas under the Office of the President, Philippine Liaison officer Republic of the Philippines-Republic of Indonesia Border Committee, and Platoon Leader of the Philippines Marines. He obtained his Bachelor of Science degree from the Philippine Military Academy in 1974.

Describe the Audit Committee's responsibility relative to the external auditor.

External Audit (from Section 4.5 of the Audit Committee Charter)

1. Perform oversight functions over the corporation's external auditors. It should ensure that the external auditors act independently, and that said auditors are given unrestricted access to all records, properties and personnel to enable them to perform their audit functions;
2. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
3. Pre-approve all audit plans, scope and frequency one (1) month before the conduct of external audit;
4. Review the reports submitted by the external auditors; and
5. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the corporation's overall consultancy expenses. The committee shall 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, should be disclosed in the corporation's annual report.

## (c) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Geronimo P. Bella, Jr.	18 October 2012	1	1	100	<u>2</u>
Member (ED)	Ricardo Rodrigo P. Bella	18 October 2012	1	1	100	<u>2</u>
Member (NED)	Ryota Nagata	18 October 2012	1	1	100	<u>2</u>

## (d) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Manuel H. Puey	18 October 2012				<u>2</u>
Member (ED)	Geronimo P. Bella, Jr.	18 October 2012				<u>2</u>
Member (NED)	Ignatius A. Rodriguez	18 October 2012				<u>2</u>

## (e) Others (Specify) – Risk Management

Provide the same information on all other committees constituted by the Board of Directors:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Ricardo Rodrigo P. Bella	14 March 2014				<u>1</u>
Member (ID)	Jose S. Navarro	14 March 2014				<u>1</u>
Member (ID)	Manuel H. Puey	14 March 2014				<u>1</u>

## (f) Others (Specify) – Governance Committee

Provide the same information on all other committees constituted by the Board of Directors:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED)	Damian L. Carlos	14 March 2014				<u>1</u>
Member (NED)	Ryota Nagata	14 March 2014				<u>1</u>
Member (ID)	Jose S. Navarro	14 March 2014				<u>1</u>

## 3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	N/A	N/A
Audit	N/A	N/A
Nomination	N/A	N/A
Remuneration	N/A	N/A
Risk	N/A	N/A
Governance	N/A	N/A

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	Overseen day to day activity of the Corporation.	Review, evaluates and approves operational and financial decisions on behalf of the Board.
Audit	Ensured the internal and external audit plans and protocols are in place and implemented. Monitored compliance with contracts, laws and regulations and the code of conduct.	Evaluate, review, and resolved issues related to company's financial statements and financial reporting process, taxation and compliance with concerned regulatory agency.
Nomination	Reviewed and evaluated qualifications of candidates nominated for the upcoming election of the Board.	Ascertain the qualifications of nominees to the Board.
Remuneration	Reviewed latest compensation of Directors, Officers, and Senior Management.	Provide a more transparent procedure for developing a policy on remuneration of Directors, Officers, and Senior Management.
Risk	Worked hand in hand with the Audited Committee to ensure that the Company's risks are minimized.	Identify and review risks exposure of the Corporation.
Governance	Review of CG Manual	

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Audit	Annual performance evaluation of Audit Committee	To ensure compliance with the SEC Corporation Code and Governance.
Nomination	Formulate screening policies for Directors and Key positions.	To effectively review and evaluate the qualification of the nominees nominated to the Board and other appointments which require approval of the Board.
Remuneration	Design a Performance-based Remuneration Package	To establish the appropriate procedure for developing a policy on executive remuneration and for fixing the remuneration packages of senior management, officers and directors.
Risk	Develop Risk Management Policy	To better manage risks of the Corporation, with the formation of a control framework to assist in identifying, assessing, monitoring and managing risks, so as to safeguard the assets and interests of the Corporation while ensuring the integrity of reporting.
Governance	Constant review and update of the CG Manual	To ensure compliance and best practices on Good Corporate Governance.

## F. RISK MANAGEMENT SYSTEM

### 1) Disclose the following:

#### 1. Overall risk management philosophy of the company;

Risks can be minimized. The Company recognizes the importance of identifying and controlling various risks to prevent undue or uncalculated negative impact on the Corporation. The Board also recognizes that risk oversight, implementation of comprehensive controls and assurance processes are part of its core functions.

#### 2. A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

Part of the Duties and Responsibilities of the Audit Committee is to provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities.

The Company has recently established a Risk Management Committee which shall operationalize a Risk Management Program which shall be guided by the following:

- a. Establish Risk Profile and determine external and internal factors which can influence the Corporation's Risk Profile;
- b. Identify and characterize specific threats/ risks;
- c. Assess the vulnerability of critical assets to specific threats/ risks;
- d. Determine the risks (i.e. expected likelihood and consequences of specific threats/ risks on specific assets);
- e. Identify ways on how to minimize said threats/ risks;
- f. Prioritize risk reduction measures based on strategy;
- g. Implement and monitor
- h. Assess effectiveness, conduct reviews and evaluation and make necessary adjustments.

#### 3. Period covered by the review;

Q1 to Q4

#### 4. How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

Upon the creation, the Risk Management Program shall be reviewed annually and all material changes to the Corporation's risk profile shall be noted. To assist the Risk Management Committee in conducting the annual review, Management and key executives are required to report to the Risk Management Committee on:

- i. Any material risks identified;
- ii. How the risks are being managed;
- iii. The implementation of any risk management or internal control system; and
- iv. Breaches of the risk management Policy which occurred during the period.

#### 5. Where no review was conducted during the year, an explanation why not.

N/A

### 2) Risk Policy

#### (a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Business Interruption	Business Continuity Program	Ensure that the skeletal force of the Company functions at any given time.
High Financial Exposure	Management and constant monitoring of the financial health of the Corporation.	Maintain financial ratios at a level acceptable to management.
Operational Risk	Safety First Policy	Putting safety at the outmost importance.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
N/A	N/A	N/A

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
None

3) Control System Set Up

1. Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)
High Financial Exposure	Review and adjustment of financial forecast.	Annual Budget Planning to ensure extraordinary CAPEX are captured. Monthly review and assessment of financial report and key financial ratios.
Operational Risk	Daily vessel movement and condition report. Regular reports from the Preventive Maintenance System.	Vessel safety inspections, sustained classification for vessels (quality control), group insurance for employees and fleet, implementation of Preventive Maintenance System.
Business Interruption	Identify skeletal force and alternative office venue in the event of a business disruption from the Company's head office.	Development of a Business Continuity Plan.

2. Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

<b>Risk Exposure</b>	<b>Risk Assessment (Monitoring and Measurement Process)</b>	<b>Risk Management and Control (Structures, Procedures, Actions Taken)</b>
N/A	N/A	N/A

3. Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

<b>Committee/Unit</b>	<b>Control Mechanism</b>	<b>Details of its Functions</b>
Audit Committee		<ul style="list-style-type: none"> <li>- Perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management. This function shall include regular receipt from Management of information on risk exposures and risk management activities;</li> <li>- Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;</li> </ul>
Risk Management Committee		<ul style="list-style-type: none"> <li>- Ensures that the Board and Management are aware of all actual and potential risks, both internal and external, facing the business;</li> <li>- Implement an effective system to identify, monitor and assess risks;</li> <li>- Quarterly review of the Corporation's business for risk identification, mitigation and monitoring;</li> <li>- Establish consistency and best practices rules in the managing, monitoring and reporting of risks;</li> <li>- Identify risks which may be beneficial to the Corporation if properly managed and controlled;</li> <li>- Ensure that risk-taking is an informed process within a pre-determined range;</li> <li>- When deemed necessary, appoint a Risk Management Officer;</li> <li>- Operationalize a Risk Management Program</li> </ul>

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Internal control aims to ensure that the Corporation's business activities are efficient and proficient, financial reporting is reliable and that applicable laws, regulations and internal policies are followed.

- i. The control environment of the Corporation consists of the following:
- ii. The Board who ensures that the Corporation is properly and effectively managed and supervised;
- iii. A Management who actively manages and operates the Corporation in a sound and prudent manner;
- iv. Organizational and procedural controls supported by effective management information and Risk Management reporting systems; and
- v. An independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, rules, regulations and contracts;
- vi. An effective internal control system, which shall include control objectives and common control points for financial reporting as well as roles and responsibilities in executing and monitoring internal control in the Corporation, based on following guidelines:
  - (a) Standardization of methodologies and processes shall be done by structuring rules and principles to be applicable to the Corporation and its subsidiaries;
  - (b) Internal control standards shall be defined and explained with clarity in simple language as to be understood by both Management and personnel;
  - (c) A list of mandatory key controls, designed to cover the main risks pertaining to processes which impact financial information, protection of assets, detection and prevention of fraud, shall be made available.

Implementation of the Internal Controls shall be a joint effort by and among the Board, various committees, particularly the Audit Committee, CEO and Chief Finance Officer. It must be implemented to provide reasonable, and not absolute, assurance on the integrity and reliability of the financial statements. Measures must also be in place to safeguard, verify and maintain accountability of its assets and to detect fraud, potential liability, and loss and material misstatement.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The Audit Committee shall review the annual internal audit plan to ensure its conformity with the objectives of the Corporation. The plan shall include the audit scope, resources and budget necessary to implement it. The Audit Committee shall monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security.

(c) Period covered by the review;

Full year 2013

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

The Board shall review the effectiveness of controls on an annual basis through a process of Management self-assessment. Consideration must be given to information and report from the Audit Committee and External Auditor.

(e) Where no review was conducted during the year, an explanation why not.

N/A

4) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
<p>Provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.</p>	<p>Determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:</p> <ul style="list-style-type: none"> <li>-Risks are appropriately identified and managed.</li> <li>-Interaction with the various governance groups occurs as needed.</li> <li>-Significant financial, managerial, and operating information is accurate, reliable, and timely.</li> <li>-Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.</li> <li>-Resources are acquired economically, used efficiently, and adequately protected.</li> <li>-Programs, plans, and objectives are achieved.</li> </ul>	<p>In-house</p>	<p>Maricel V. Blanco</p>	<p>Functionally reports to Audit Committee; Administratively reports to President.</p>

- (b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

The Audit Committee concurs with the Management’s decision with regards to the selection and appointment of the Internal Auditor.

- (c) Discuss the internal auditor’s reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Internal Audit Manager (IAM) reports functionally to the Audit Committee, as defined in the Internal Audit Charter and as provided in the Audit Committee charter.

The Internal Auditor shall submit to the Audit Committee and Management an annual report on the internal audit department’s activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report shall include significant risk exposures; control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor shall certify that he/she conducts his/her activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he/she does not, he/she shall disclose to the Board and Management the reasons why he/she has not fully complied with the said standards.

- (d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
None	N/A

- (e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit’s progress against plans, significant issues, significant findings and examination trends.

<b>Progress Against Plans</b>	For 2013, audit activities/progress was within the approved business plan. The audit activities/progress was reported to the Chairman of the Board during the quarterly meeting.
<b>Issues<sup>6</sup></b>	All issues are clarified during audit wrap up/exit which Internal Audit team conducts after every assignment.
<b>Findings<sup>7</sup></b>	Findings are covered in the audit report submitted to the Management and discussed during the quarterly meeting for appropriate actions.
<b>Examination Trends</b>	Regular audits on the approved audit plan: <ul style="list-style-type: none"> <li>• Spot audits</li> <li>• Case investigations</li> <li>• Project audits</li> <li>• Follow up outstanding findings</li> </ul>

<sup>6</sup> “Issues” are compliance matters that arise from adopting different interpretations.

<sup>7</sup> “Findings” are those with concrete basis under the company’s policies and rules.

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;  
Yes, done annually
- 2) Conduct of examination based on the plan;  
Yes, on site visit based on approved plan
- 3) Evaluation of the progress in the implementation of the plan;  
Yes, being monitored by the IAM
- 4) Documentation of issues and findings as a result of the examination;  
Yes copy of audit reports are given to concerned Departments. Working papers and documentations are maintained.
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;  
Yes discussed with the auditees during audit wrap up/exit
- 6) Conduct of the foregoing procedures on a regular basis.  
Yes, being done per schedule

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

Policies & Procedures	Implementation
Develop, document, implement, test, and maintain a comprehensive internal audit plan and system of internal controls to help provide assurance that applicable laws, regulations, and policies and procedures are complied with judiciously	Implemented
Examine financial transactions for accuracy and compliance with institutional policies and applicable laws and regulations	Implemented
Evaluate financial and operational procedures to assure adequate internal controls are present	Implemented
Identify, assess, and evaluate risk areas; make appropriate recommendations for improved internal controls and accounting procedures; and research and adopt industry best practices where appropriate	Implemented

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company’s shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Internal Auditors – reports functionally to the Audit Committee;  External Auditors – report functionally to the Audit Committee.	Unless publicly disclosed, employees should not provide any information to financial analysts regarding projected income. All official Company announcements should have the approval of the Corporate Information Officer.		

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The following officers attest to the compliance with SEC Code of Corporate Governance: Chairman/CEO, Independent Directors and Compliance Officer.

## H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	As an ISO 9001:2008 (Quality) and OSHAS 18001:2007 (Occupational Health Safety) accredited company, Harbor Star focuses on quality of service and safety of operations.	Regularly conducts courtesy call to its customer; quarterly report of results of its customer satisfaction survey; well established maintenance and dry docking program to ensure that all vessels shall at all times be in seaworthy condition; investment in quality vessels to meet customer demand/ requirements.
Supplier/contractor selection practice	Service/Material Requisition Policy	Sourcing of competent supplier is guaranteed through the process of accreditation/selection. This is done with due consideration but not limited to the following: cost, quality, timeliness of delivery, location.
Environmentally friendly value-chain	The Company is ISO 14001:2004 (Environment) accredited, and adheres to the procedures and policy stated on its IMS Manual.	The Company complies with environmental laws by MARINA and PCG. It has a Health, Safety, Environment and Security group which monitors the Company's adherence to safety and environmental awareness policies, which are aligned with those of the international accreditations Harbor Star has attained. The group ensures that each employee is given sufficient training to perform tasks pursuant to the Company protocol. This group is also responsible for equipping tugboats with the necessary safety gear.
Community interaction	Company has been implementing its CSR Program: Adopt-A-Mangrove where Harbor Star employees and residents of Brgy. Banoyo interacts to conserve, restore, and enhance the marine ecosystem of the barangay.	Information Drive to community of Brgy. Banyo, San Luis, Batangas including the LGU & educational institutes; Regular clean-up of the 2-hectare planting area; Regular planting of mangroves until 20,000 seedlings survive.
Anti-corruption programmes and procedures?	As stated in the Company's Code of Business Conduct and Ethics, employees are not permitted to	The company has a fully functional Internal Audit Department that ensures employees compliance with

	give or accept, directly or indirectly in the following situations: (a) Gifts and business courtesies that might create the appearance of impropriety. This ruling extends to immediate family members including spouses; and (b) With exception of gifts acceptable by customary practice, cash payments, discounts or vouchers, regardless of value, must not be accepted from current or potential customers, suppliers, vendors or other contractors.	Company procurement policies.
Safeguarding creditors' rights	Harbor Star maintains a certain level of key financial ratio such as profit margin, leverage and liquidity ratio to ensure equitable returns to its stakeholders. The Head of Finance is tasked to sustain the Company's good credit standing with its creditors and no default since it commenced operations.	Loan application and availment that is not done in the ordinary course of business, involves a material amount (i.e. more than 5% of total asset), or one time big ticket capex should have the approval of the Board. Only the President and the Vice-President are the authorized personnel to execute such action. Further, majority of the Company's loan is secured with a chattel mortgage and are fully insured.

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?

Yes the Company has an annual corporate responsibility (CR) report. Every year the Coastal Conservation and Education Foundation, Inc. (CCEF), one of the partners of Harbor Star in the corporate social responsibility program, submits a report which includes activities done for the year such as, but not limited to, the information drive to the LGU(s) and educational institutes, total mangrove planted and the survival rate.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Safety Policy of Harbor Star is designed to comply with the Standards of the Occupational Safety and Health Administration, and endeavor to maintain a safe and injury/illness free workplace.

The Company has imposed safety-related policies on the following:

- Use of the Company issued Personal Protective Equipment (PPE)
- No smoking policy
- Drug and Alcohol Policy
- Lock out Tag out Policy
- Garbage Disposal Policy
- Ship Security Policy (ISPS)

(b) Show data relating to health, safety and welfare of its employees.

- Breached the 5 million safe man hours and is now targeting 6 million safe man hours (Harbor Star has a total of 5,873,460 safe man hours as of writing)
- Has two (2) accredited safety practitioners of the Philippines acting the position as Safety Manager and Safety Officer
- Supported training on Hazardous Waste Operations & Emergency Response (HAZWOPER), and Basic Occupational Safety and Health (BOSH)
- The company had complied with DOLE requirements e.g. annual medical examination of all employees, monitoring of all safety meetings

- Annual Medical Report (AMR)
- Annual Exposure Data Report (AEDR)
- Fire and Earthquake Drill

(c) State the company's training and development programmes for its employees. Show the data.

To name a few, the following are the trainings, orientations, and seminars attended by employees:

#### ORGANIZATIONAL DEVELOPMENT PROGRAMS

- Team Buildings
- Mini MBA Program
- Leadership Management and Development Program

#### COMPANY ORIENTATION AND REFRESHER PROGRAMS

- New Employee Orientation
- Integrated Management System Employee Orientation and Refresher
- Disaster Awareness Seminar
- Fire and Building Evacuation Training
- Emergency Response Training
- Unsafe Acts and Unsafe Condition Awareness
- Heat Stroke Prevention and First Aid
- Injury Free Work Environment
- Earthquake Awareness Seminar
- Mangrove Rehabilitation Orientation

#### TECHNICAL AND SKILLS ENHANCEMENT PROGRAMS

##### Office -based

- Accounting for Non-Accountants
- Finance for Non-Finance
- Effective Business Writing

##### Sea-based (crew)

- Long Voyage Operation
- Docking and Undocking Operation
- Towing Operations
- Basics in Search and Rescue and use of SCBA
- Overhead Work Safety Training

Apart from the above mentioned trainings, orientations, and seminars attended by employees, each department has their respective learning and development program.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures

RPB (Revenue Performance Bonus) – With the approval of the Board, the Company shall give its employees one (1) month salary equivalent for surpassing a certain percentage of its revenue target for the year.

JPB (Job Performance Bonus) – Upon careful deliberation, the Company provides additional incentive to select employees who achieves a certain rating in the annual Performance Appraisal.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

The Company's Grievance Machinery states that employees shall write a grievance report and address it to his/her department head. Then the department head, upon receipt of the grievance report, shall, in writing, render the decision within three (3) working days. If either the decision is not rendered within the mentioned period in writing or the decision is unsatisfactory, the aggrieved employee may present the grievance to the President who shall convene the grievance committee. The grievance committee is composed of the following:

- (1) Administrative Services / HRD Head
- (2) Two (2) Managers, one chosen by management and the other by the aggrieved employee
- (3) Two (2) Employee representatives, one chosen by management and the other chosen by the aggrieved employee

The Grievance committee shall submit its recommendation in writing to the President within ten (10) working days, after which the President shall provide his/her decision in writing within ten (10) working days. If the President fails to submit his/her decision within the period mentioned and the mode specified, the grievance shall be submitted to arbitration mutually chosen by employee and management.

## I. DISCLOSURE AND TRANSPARENCY

### 1) Ownership Structure

#### (a) Holding 5% shareholdings or more

Shareholder	Number of Shares	Percent	Beneficial Owner
Geronimo P. Bella, Jr.	249,008,665	41.14%	Geronimo P. Bella, Jr.
PCD Nominee Corporation	172,000,494	28.42%	Various Clients
Ricardo Rodrigo P. Bella	166,035,658	27.43%	Ricardo Rodrigo P. Bella

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Geronimo P. Bella, Jr.	249,008,665	150,000	41.16%
Ricardo Rodrigo P. Bella	166,035,658	1,470,000	27.67%
Ignatius A. Rodriguez	5,772,731	0	0.95%
Ryota Nagata	4,059,763	0	0.67%
Damian L. Carlos	59,763	0	0.00%
Manuel H. Puey	1,000	0	0.00%
Jose S. Navarro	1,000	0	0.00%
<b>TOTAL</b>	<b>426,588,580</b>	<b>1,620,000</b>	<b>70.45%</b>

### 2) Does the Annual Report disclose the following:

Key risks	YES
Corporate objectives	YES
Financial performance indicators	YES
Non-financial performance indicators	YES
Dividend policy	YES
Details of whistle-blowing policy	NO
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	YES
Training and/or continuing education programme attended by each director/commissioner	YES
Number of board of directors/commissioners meetings held during the year	NO
Attendance details of each director/commissioner in respect of meetings held	NO
Details of remuneration of the CEO and each member of the board of directors/commissioners	YES

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

The Company has no formal whistle-blowing policy nevertheless, the Company's Code of Business Conduct and Ethics clearly states and encourages employees to report suspicious actions observed.

Attendance of the members of the Board are disclosed as required by the PSE.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
SyCip Gorres Velayo & Co. ("SGV")	PHP 2,291,393.00	PHP 350,000.00

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.

- ❖ Corporate Disclosures
- ❖ Financial Reports filed with the SEC
- ❖ Press Release (Media)/News Paper
- ❖ Email
- ❖ Company Website
- ❖ Meetings
- ❖ Teleconference
- ❖ Seminars/Conference

5) Date of release of audited financial report: 15 April 2014

6) Company Website <http://www.harborstar.com.ph/>

Does the company have a website disclosing up-to-date information about the following?

Business operations	YES
Financial statements/reports (current and prior years)	YES
Materials provided in briefings to analysts and media	YES
Shareholding structure	YES
Group corporate structure	YES
Downloadable annual report	YES
Notice of AGM and/or EGM	YES
Company's constitution (company's by-laws, memorandum and articles of association)	NO

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

The Company's constitution is a public document readily available at the Securities and Exchange Commission.

## 7) Disclosure of RPT

RPT	Relationship	Nature	Value
Great Eastern Tug Corporation	Associate	Charter Hire Expense	PHP 4,285,714
Peak Flag	Associate	Unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand.	PHP 67,883
PT Bintang (Indonesia)	Common Stockholders	Unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand.	PHP 10,365,460
Harbor Star PNG	Common Stockholder	Unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand.	PHP 1,019,886
Harbor Star Marine	Common Stockholder	Unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand.	PHP 8,418,450
South Star Towage, Inc.	Common Stockholder	Unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand.	PHP 275,000
Various Stockholders	Stockholder	Unsecured, noninterest-bearing advances to related parties for operational activities which are payable on demand.	PHP 23,571,249

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

The CG Manual has set provisions for the Review and Approval of RPTs:

- a. At each of its meetings, the Audit Committee will be provided with the details of each existing or proposed Related-Party Transaction that it has not previously approved or disapproved with the following information:
  - i. The terms of the transaction;
  - ii. The business purpose of the transaction;
  - iii. Benefits to the Corporation and to the relevant director, executive officer or employee.
- b. In the event the Legal Department determines that it is impractical or undesirable to wait until the next committee meeting to review a Related-Party Transaction, the Chairman of the Audit Committee may act on its behalf to review and approve the Related-Party Transaction. In determining whether to approve a Related-

Party Transaction, considerations should be placed on whether the terms of the Related-Party Transaction are fair to the Corporation or on terms at least equally favorable as would apply if the other party was not or did not have an affiliation with a director, executive officer or employee of the Corporation.

- c. The following parameters must be applied in the approval of Related Party Transactions:
  - i. There should be good demonstrable business reasons for the Corporation to enter into the Related Party Transaction;
  - ii. The Related-Party Transaction should not impair the independence of a director; and
  - iii. The Related-Party Transaction should not present an improper conflict of interests for any director, executive officer or employee of the Corporation, taking into account the size of the transaction, the overall financial position of the director, executive officer or employee, the direct or indirect nature of the interest of the director, executive officer or employee in the transaction, the ongoing nature of any proposed relationship, and any other relevant factors.

## J. RIGHTS OF STOCKHOLDERS

### 1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

#### (a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

<b>Quorum Required</b>	Article I, Section 3: At all meeting of stockholders, the stockholders representing a majority of the subscribed and outstanding capital stock, whether present in person or by proxy, shall constitute a quorum for all purposes except in those cases in which the law require the affirmative vote of a greater proportion, but in the absence of a quorum, the stockholders present in person or by proxy, for an annual meeting, or designated in the notice of a special meeting, or at the time and place of any adjournment thereof, by majority vote may adjourn the meeting from time to time without notice other than by announcement at the meeting, until holders of the amount of stock required to constitute a quorum shall attend. At any such adjourned meeting in which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting.
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#### (b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

<b>System Used</b>	Corporate acts are approved by the Board
<b>Description</b>	<p>Article II Section 1 and Section 11 of the By-Laws: The business and property of the Corporation shall be controlled and managed by the Board of Directors, which may exercise all the powers of the Corporation except such as are by statute or by these By-Laws, conferred upon or reserved to the stockholders. Every Director must own in his own right at least one share of the capital stock of the Corporation.</p> <p>The Executive Committee, when the Board of Directors is not in session, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, except with respect to: (a) approval of any action for which stockholders' approval is also required; (b) the filling of vacancies in the Board of Directors; (c) the amendment or repeal of these By-Laws or the adoption of new By-Laws; (d) the amendment or repeal of any resolution of the Board of Directors which by its express terms is not so amendable or repealable; (e) a distribution of cash dividends to the stockholders; and (f) such other matters as may be specifically excluded or limited by the Board of Directors.</p> <p>Actions taken by the Executive Committee for the Corporation shall be submitted to the Board of Directors at its next meeting for ratification.</p>

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	Stockholders' Rights <u>not</u> in The Corporation Code
None	None

The Company has no Stockholders' Right that differs from those laid down by the Corporation Code.

Dividends

Declaration Date	Record Date	Payment Date
<a href="#">2 June 2014</a>	<a href="#">17 June 2014</a>	<a href="#">11 July 2014</a>
06 February 2013	31 December 2012	31 March 2013

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<a href="#">During the ASM, the Stockholders are encouraged to address or ask questions to the Chairman and the rest of the Board Members and its Management.</a>	<a href="#">Stockholders may directly address/communicate with the Board and Executive Officers for any concern.</a>

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:

[The Company abides by the Corporation Code as well as applicable laws and regulations.](#)

- a. Amendments to the company's constitution

[CORPORATION CODE TITLE V, SECTION 48 states that:](#)

[The board of directors or trustees, by a majority vote thereof, and the owners of at least a majority of the outstanding capital stock, or at least a majority of the members of a non-stock corporation, at a regular or special meeting duly called for the purpose, may amend or repeal any by-laws or adopt new by-laws. The owners of two-thirds \(2/3\) of the outstanding capital stock or two-thirds \(2/3\) of the members in a non-stock corporation may delegate to the board of directors or trustees the power to amend or repeal any by-laws or adopt new by-laws: Provided, That any power delegated to the board of directors or trustees to amend or repeal any by-laws or adopt new by-laws shall be considered as revoked whenever stockholders owning or representing a majority of the outstanding capital stock or a majority of the members in non-stock corporations, shall so vote at a regular or special meeting.](#)

[Whenever any amendment or new by-laws are adopted, such amendment or new by-laws shall be attached to the original by-laws in the office of the corporation, and a copy thereof, duly certified under oath by the corporate secretary and a majority of the directors or trustees, shall be filed with the Securities and Exchange Commission the same to be attached to the original articles of incorporation and original by-laws.](#)

The amended or new by-laws shall only be effective upon the issuance by the Securities and Exchange Commission of a certification that the same are not inconsistent with this Code.

b. Authorization of additional shares

CORPORATION CODE TITLE IV, SECTION 38 states that:

No corporation shall increase or decrease its capital stock or incur, create or increase any bonded indebtedness unless approved by a majority vote of the board of directors and, at a stockholder's meeting duly called for the purpose, two-thirds (2/3) of the outstanding capital stock shall favor the increase or diminution of the capital stock, or the incurring, creating or increasing of any bonded indebtedness. Written notice of the proposed increase or diminution of the capital stock or of the incurring, creating, or increasing of any bonded indebtedness and of the time and place of the stockholder's meeting at which the proposed increase or diminution of the capital stock or the incurring or increasing of any bonded indebtedness is to be considered, must be addressed to each stockholder at his place of residence as shown on the books of the corporation and deposited to the addressee in the post office with postage prepaid, or served personally.

A certificate in duplicate must be signed by a majority of the directors of the corporation and countersigned by the chairman and the secretary of the stockholders' meeting, setting forth:

- (1) That the requirements of this section have been complied with;
- (2) The amount of the increase or diminution of the capital stock;
- (3) If an increase of the capital stock, the amount of capital stock or number of shares of no-par stock thereof actually subscribed, the names, nationalities and residences of the persons subscribing, the amount of capital stock or number of no-par stock subscribed by each, and the amount paid by each on his subscription in cash or property, or the amount of capital stock or number of shares of no-par stock allotted to each stock-holder if such increase is for the purpose of making effective stock dividend therefor authorized;
- (4) Any bonded indebtedness to be incurred, created or increased;
- (5) The actual indebtedness of the corporation on the day of the meeting;
- (6) The amount of stock represented at the meeting; and
- (7) The vote authorizing the increase or diminution of the capital stock, or the incurring, creating or increasing of any bonded indebtedness.

Any increase or decrease in the capital stock or the incurring, creating or increasing of any bonded indebtedness shall require prior approval of the Securities and Exchange Commission.

One of the duplicate certificates shall be kept on file in the office of the corporation and the other shall be filed with the Securities and Exchange Commission and attached to the original articles of incorporation. From and after approval by the Securities and Exchange Commission and the issuance by the Commission of its certificate of filing, the capital stock shall stand increased or decreased and the incurring, creating or increasing of any bonded indebtedness authorized, as the certificate of filing may declare: Provided, That the Securities and Exchange Commission shall not accept for filing any certificate of increase of capital stock unless accompanied by the sworn statement of the treasurer of the corporation lawfully holding office at the time of the filing of the certificate, showing that at least twenty-five (25%) percent of such increased capital stock has been subscribed and that at least twenty-five (25%) percent of the amount subscribed has been paid either in actual cash to the corporation or that there has been transferred to the corporation property the valuation of which is equal to twenty-five (25%) percent of the subscription: Provided, further, That no decrease of the capital stock shall be approved by the Commission if its effect shall prejudice the rights of corporate creditors.

Bonds issued by a corporation shall be registered with the Securities and Exchange Commission, which shall have the authority to determine the sufficiency of the terms thereof.

- c. Transfer of all or substantially all assets, which in effect results in the sale of the company

CORPORATION CODE TITLE IV, SECTION 40 states that:

Subject to the provisions of existing laws on illegal combinations and monopolies, a corporation may, by a majority vote of its board of directors or trustees, sell, lease, exchange, mortgage, pledge or otherwise dispose of all or substantially all of its property and assets, including its goodwill, upon such terms and conditions and for such consideration, which may be money, stocks, bonds or other instruments for the payment of money or other property or consideration, as its board of directors or trustees may deem expedient, when authorized by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, or in case of non-stock corporation, by the vote of at least two-thirds (2/3) of the members, in a stockholder's or member's meeting duly called for the purpose. Written notice of the proposed action and of the time and place of the meeting shall be addressed to each stockholder or member at his place of residence as shown on the books of the corporation and deposited to the addressee in the post office with postage prepaid, or served personally: Provided, That any dissenting stockholder may exercise his appraisal right under the conditions provided in this Code.

A sale or other disposition shall be deemed to cover substantially all the corporate property and assets if thereby the corporation would be rendered incapable of continuing the business or accomplishing the purpose for which it was incorporated.

After such authorization or approval by the stockholders or members, the board of directors or trustees may, nevertheless, in its discretion, abandon such sale, lease, exchange, mortgage, pledge or other disposition of property and assets, subject to the rights of third parties under any contract relating thereto, without further action or approval by the stockholders or members.

Nothing in this section is intended to restrict the power of any corporation, without the authorization by the stockholders or members, to sell, lease, exchange, mortgage, pledge or otherwise dispose of any of its property and assets if the same is necessary in the usual and regular course of business of said corporation or if the proceeds of the sale or other disposition of such property and assets be appropriated for the conduct of its remaining business.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

Article 1, Section 1 of the By-Laws states that a written notice of the annual meeting of the Corporation shall be distributed to each stockholder of record at least fifteen (15) business days prior to the date of such meeting. Waiver of such notice may only be made in writing.

- a. Date of sending out notices: [16 April 2014 \(ASM\) & 15 October 2014 \(SSM\)](#)  
 b. Date of the Annual/Special Stockholders' Meeting: [11 June 2014 \(ASM\) & 28 November 2014 \(SSM\)](#)

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

There were no questions raised during the most recent ASM that would materially affect the operations and financial performance of the Corporation.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
<a href="#">Approval of previous Minutes held 23 September 2013 &amp; 11 June 2014</a>	<a href="#">Unanimous</a>	<a href="#">None</a>	<a href="#">None</a>
<a href="#">Election of Directors</a>	<a href="#">Unanimous</a>	<a href="#">None</a>	<a href="#">None</a>
<a href="#">Approval of Audited Financial Statement</a>	<a href="#">Unanimous</a>	<a href="#">None</a>	<a href="#">None</a>
<a href="#">Ratification of Corporate Acts</a>	<a href="#">Unanimous</a>	<a href="#">None</a>	<a href="#">None</a>
<a href="#">Appointment of External Auditor</a>	<a href="#">Unanimous</a>	<a href="#">None</a>	<a href="#">None</a>

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

N/A

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None	N/A

There are no modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year.

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	<a href="#">Geronimo P. Bella, Jr.</a> <a href="#">Ricardo Rodrigo P. Bella</a> <a href="#">Ignatius A. Rodriguez</a> <a href="#">Damian L. Carlos</a> <a href="#">Ryota Nagata</a> <a href="#">Jose S. Navarro</a>	<a href="#">11 June 2014</a>	<a href="#">A motion was made and seconded without objections.</a>	<a href="#">74.61%</a>	<a href="#">0.00%</a>	<a href="#">74.61%%</a>
Special	<a href="#">Geronimo P. Bella, Jr.</a> <a href="#">Ricardo Rodrigo P. Bella</a> <a href="#">Ignatius A. Rodriguez</a> <a href="#">Damian L. Carlos</a> <a href="#">Ryota Nagata</a> <a href="#">Jose S. Navarro</a>	<a href="#">28 November 2014</a>	<a href="#">A motion was made and seconded without objections.</a>	<a href="#">74.75%</a>	<a href="#">0.00%</a>	<a href="#">74.75%</a>

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

[No.](#)

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

[Yes, the Company's common shares carry one share one vote.](#)

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	<b>Company's Policies</b>
Execution and acceptance of proxies	<p>Any stockholder entitled to vote at any meeting of stockholders may vote either in person or by proxy which is dated not more than one year before the meeting at which it is offered shall be accepted. Every proxy shall be in writing, subscribed by the stockholder or his duly authorized attorney and dated, but need not be sealed, witnessed or acknowledged.</p> <p>All proxies must be in the hands of the Corporate Secretary not later than ten (10) days before the time set for the meeting. Such proxies filed with the Corporate Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the corporate secretary at least three (3) days prior to a scheduled meeting or by their personal presence at the meeting. The decision of the Corporate Secretary on the validity of proxies shall be final and binding until set aside by a court of competent jurisdiction.</p>
Notary	
Submission of Proxy	
Several Proxies	
Validity of Proxy	
Proxies executed abroad	
Invalidated Proxy	
Validation of Proxy	
Violation of Proxy	

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

<b>Policies</b>	<b>Procedure</b>
Written notice of the annual meeting of the Corporation shall be distributed to each stockholder of record at least fifteen (15) business days prior to the date of such meeting.	Written notice of each special meeting, stating the day, hour, and place thereof, and in general terms, the business to be transacted thereat, shall be distributed to each stockholder of record at least fifteen (15) business days prior to the date of such meeting via courier or delivery.

(i) Definitive Information Statements and Management Report

<b>Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials</b>	<a href="#">4 (as of 12 May 2014, ASM) &amp; 3 (as of 28 October 2014, SSM)</a>
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners</b>	<a href="#">21 May 2014 (ASM) &amp; 5 November 2014 (SSM)</a>
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders</b>	<a href="#">21 May 2014 (ASM) &amp; 5 November 2014 (SSM)</a>
<b>State whether CD format or hard copies were distributed</b>	<a href="#">CD Format and Hard Copies</a>
<b>If yes, indicate whether requesting stockholders were provided hard copies</b>	<a href="#">As of writing, no stockholder have requested for a hard copy. The Company nonetheless will provide without fee a hard copy to stockholders' who will be requesting.</a>

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	YES
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Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	YES (Part of the Information Statement)
The auditors to be appointed or re-appointed.	YES (Part of the Information Statement)
An explanation of the dividend policy, if any dividend is to be declared.	YES (Part of the Information Statement)
The amount payable for final dividends.	NO (if any, will be disclosed during the ASM)
Documents required for proxy vote.	YES (An instructions for proxy is stated in the notice)

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

The final amount of the dividends is determined and approved by the Board of Directors during their first meeting immediately preceding the ASM.

#### 5) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
The minority Stockholders must not be deprived of their right to representation	The Company recognizes cumulative voting and follows Title III, Section 24 of the Corporation Code which states that a stockholder may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholders should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes, for as long as the name of their nominees are submitted to the Nomination Committee for pre-qualification.

#### K. INVESTORS RELATIONS PROGRAM

1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The Company disseminates all material information to its investors and stockholders through timely disclosures to the Securities and Exchange Commission ("SEC") and the Philippine Stock Exchange ("PSE").

Company disclosures/ reports/ announcements are reviewed by the Corporate Information Officer, Compliance Officer, and Investor Relations Officer. The final approval depends in the nature of the announcement.

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	<b>Details</b>
(1) Objectives	Promote transparency by timely disclosure of material information.
(2) Principles	Ensure that all stakeholders are provided the right information to assists stakeholders to make appropriate investment decisions.
(3) Modes of Communications	<ul style="list-style-type: none"> <li>- Corporate disclosures with the PSE &amp; SEC, and other regulatory agencies</li> <li>- Company announcements via Company Website</li> <li>- Media Press releases</li> <li>- Meetings/Teleconference with key investors and analysts</li> <li>- Investment conferences/briefings</li> <li>- Site visits by stakeholders</li> <li>- Conversations via email and telephone to reply to queries addressed to the Investor relations office</li> <li>- Snail Mail/Courier/Email of requested publicly disclosed documents (i.e. prospectus, company profile)</li> </ul>
(4) Investors Relations Officer	Mr. Dany Cleo B. Uson Tel. No. (+632) 886.37.03 Email. dbuson@harborstar.com.ph

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

Such extraordinary events/actions - acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets are subject to the approval of the Board and the Stockholders, if necessary.

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

The independent party that evaluates the fairness of the transaction price may vary per transaction.

#### L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

<b>Initiative</b>	<b>Beneficiary</b>
Adopt-a- Mangrove Project	Aiming to plant a total of 20,000 mangrove seedlings, Harbor Star strives to conserve, restore, and enhance the marine ecosystem of Banoyo, San Luis, Batangas. The maintenance of the conservation area paved the way for an additional livelihood program to the residents of Brgy. Banoyo.
Scholarship Program	The aim of the program is to provide a window of opportunity to children & giving a chance to adults with potential to get quality education in relation to the upcoming AEC 2015.

## M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
<b>Board of Directors</b>	The Governance Committee Undertakes and approves an annual performance assessment of the Board, its committees and the individual directors.  Individual Director–Self-Assessment Performance Evaluation Review.	Assessment Guidelines and Scorecard prepared in accordance with the mandates of this Manual.
<b>Board Committees</b>		
<b>Individual Directors</b>		
<b>CEO/President</b>	An evaluation of the President's performance shall be made annually by the Non-executive Directors based on objective and subjective criteria such as performance of the business, accomplishment of long-term strategic objectives, management development and organizational development.	<ul style="list-style-type: none"> <li>- Strategic and visionary leadership capabilities. He should be able to manage people and motivate them in performing their respective duties with integrity and proficiency. He should also be flexible and integrative with the ability to evaluate complex situations and issues concerning the business of the Corporation.</li> <li>- Able to represent Management to the Corporation's stakeholders / shareholders and effectively communicate to them the Corporation's mission and vision and how the organization is working towards achieving these goals;</li> <li>- Creditable professional drive. He should have an excessive appetite for success with the professional drive and commitment to the growth and success of the business, himself and people working with him and for him;</li> <li>- The President must be a leader and role model of Management and employees. He should be able to promote a culture of optimal talent, above-par aptitude, strong leadership, performance, at all levels of the business;</li> <li>- Superior personal and professional inter-relationships abilities. The President should be able to build sustainable relationships with people both internal and external to the Corporation. He should also be able to represent the Corporation to the business community to advance its goals and sustainability and build a network of prospective partners / allies to make the Corporation more globally competitive</li> </ul>

## N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
First Violation	Reprimanded
Second Violation	Suspension
Third Violation	Removal/ Dismissal from Office

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on \_\_\_\_\_.

**SIGNATURES**

**GERONIMO P. BELLA, JR.**

Chairman of the Board and Chief Executive Officer

**JOSE S. NAVARRO**

Independent Director

**MANUEL H. PUEY**

Independent Director

**ADELIA D. VASQUEZ**

Compliance Officer

**SUBSCRIBED AND SWORN** to before me this day of \_\_\_\_\_, affiant(s) is exhibiting to me their Tax Identification Number (TIN) and Social Security System (SSS) No. as follows:

<b>NAME</b>	<b>TIN</b>	<b>SSS</b>
Geronimo P. Bella, Jr.	138 640 367	03-5696336-7
Jose S. Navarro	121 501 339	03-4346224-0
Manuel H. Puey	105 549 022	03-1594084-2
Adelia D. Vasquez	102 093 192	03-9235438-3

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Series of 2015.