

August 23, 2019

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City, 1307

Re: Material Related Party Transactions Policy

Gentlemen:

In compliance with the Securities and Exchange Commission's Memorandum Circular No. 10, Series of 2019 or the "Rules on Material Related Party Transactions for Publicly-Listed Companies," we submit herewith Semirara Mining and Power Corporation's policy on Material Related Party Transactions.

Thank you and we hope that you find the foregoing in order.

Very truly yours,

SEMIRARA MINING AND POWER CORPORATION

By:



JOHN R. SADULLO
VP, Legal & Corporate Secretary



SEMIRARA MINING AND POWER CORPORATION & Subsidiaries

MATERIAL RELATED PARTY TRANSACTION POLICY

(As approved by the Board of Directors on August 9, 2019)

1. INTRODUCTION

This Policy focuses on **Material** Related Party Transactions and shall be applied in compliance with the Securities and Exchange Commission (SEC) Memorandum Circular No. 10 of 2019, Rules on Material Related Party Transactions for Publicly-Listed Companies (PLCs) pursuant to the Revised Corporation Code of the Philippines.

SEC's Rules on Material Related Party Transactions recognize that transactions between and among related parties may create financial, commercial and economic benefits to individual entities and to the entire group where said entities belong.

2. POLICY

It is the SMPC's group-wide policy that any transaction with a Related Party is handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations, and conducted on an arm's length basis to protect the interest of SMPC's shareholders and other stakeholders.

SMPC's Material RPT Policy covers all transactions meeting the materiality threshold of transactions **amounting to ten percent (10%) or higher of SMPC's Total Assets**. Since SMPC is a parent company, the total assets shall pertain to its **Consolidated Assets based on its latest audited financial statements**. This Policy encompasses all subsidiaries within SMPC.

3. DEFINITIONS

3.1 Material Related Party Transactions

Any related party transaction/s, either **individually**, or in **aggregate** over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of SMPC's Consolidated Assets based on its latest audited financial statements.

3.2 Related Parties cover the following:

- i. SMPC's Directors,
- ii. Officers,
- iii. Substantial Shareholders, and
- iv. their (nos. i-iii) spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law of SMPC's Directors, Officers and Substantial Shareholders, if these persons have control, joint control or significant influence over SMPC.

SMPC's Officers – include but not limited to the President, C-level officers, Compliance Officer, Corporate Secretary, and all other officers provided in the company's by-laws.

SMPC's Substantial Shareholder - any person who is **directly or indirectly the beneficial owner of more than ten percent (10%)** of SCC shares. *(Rule 38 of the IRR of the SRC)*

A person shall be deemed to have an **indirect beneficial ownership** interest in any security which is:

1. held by members of his immediate family sharing the same household;
2. held by a partnership in which he is a general partner;
3. held by a corporation in which he is a controlling shareholder'
4. subject to any contract, arrangement or understanding which gives him voting power or investment power with respect to such securities. *(Rule 3 of the IRR of the SRC)*

3.3 Related Parties also cover the following:

- i. SMPC's Parent Company,
- ii. Subsidiaries,
- iii. Fellow Subsidiaries,
- iv. Associate, Affiliate, Joint Venture, or
- v. an Entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

SMPC's Parent – an Entity that controls SMPC. This includes the **ultimate parent** of SMPC. A Person or an Entity controls SMPC if and only if the Person or Entity has all of the following:

- Power over SMPC;
- Exposure or rights, to variable returns from its involvement with SMPC; and
- The ability to use its power over SMPC to affect the amount of SMPC's returns.

SMPC's Subsidiaries – Entities that are controlled, directly or indirectly, by SMPC.

Fellow Subsidiaries of SMPC – includes Entities under the control of SMPC's Parent company.

Associate includes:

- an Entity over which SMPC has significant influence.
- Where SMPC holds twenty percent (20%) or more of the voting power of an Entity, it will be presumed that SMPC has significant influence unless it can be clearly demonstrated that this is not the case. (IAS 28)

Affiliate - an Entity linked directly or indirectly to SMPC through any one or a combination of any of the following:

- Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of SMPC, or vice-versa;
- Interlocking directorship or officership, except in cases involving Independent Directors as defined under existing regulations;
- Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the SMPC and the Entity; or
- Management contract or any arrangement granting power to SMPC to direct or cause the direction of management and policies of the Entity, or vice-versa.

3.4 Significant Influence

The power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies.

3.5 Control

A person or an Entity controls SMPC if and only if the person or Entity has all of the following:

- i. Power over SMPC;
- ii. Exposure, or rights, to variable returns from its involvement with SMPC; and
- iii. The ability to use its power over SMPC to affect the amount of the SMPC's returns.

3.6 Related Party Transactions cover the following:

- i. A **transfer of resources, services or obligations** between SMPC & a Related Party, regardless of whether a price is charged.
- ii. **Outstanding** transactions that are entered into with an **unrelated party** that **subsequently becomes a related party**.

3.7 Related Party Registry

A record of the organizational and structural composition, including

any change thereon, of SMPC and its related parties.

4. MATERIALITY THRESHOLD

Material RPTs meeting the threshold of **ten percent (10%) of SMPC's Consolidated Assets, individual or aggregate covering the same related party, within a twelve (12)-month period.**

5. CONFLICT OF INTEREST

The identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with material RPTs shall include the following, among others:

- i. Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material information, including their respective interests in the material RPT to the Board/Audit Committee;
- ii. Abstain from the discussion, approval and management of such transaction or matter affecting the company; and
- iii. In case of refusal to abstain, their attendance shall not be counted for purposes of assessing the quorum and their votes shall not be counted for purposes of determining majority approval.
- iv. The Audit Committee may establish guidelines to oversee conflicts of interest of Management, Board Directors and shareholders, including misuse of corporate assets and abuse in RPTs.

6. ARM'S LENGTH TERMS

The guidelines in ensuring arm's length terms of Material RPTs are:

- i. Before the execution of the Material RPT, the Board of Directors shall appoint an external independent party to evaluate the fairness of the terms of the material RPTs.

An external independent party may include, but is not limited to, auditing/accounting firms and third party consultants and appraisers.

- ii. An effective price discovery mechanism which may include, but is not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

7. APPROVAL OF MATERIAL RELATED PARTY TRANSACTIONS

- 7.1. All Material RPTs that breach and exceed the materiality threshold, as defined in Section 4 of this Policy, shall be approved by **at least two-thirds (2/3) vote of the Board** of Directors, with at least a **majority of the Independent Directors** to approve the Material RPT.
- 7.2. In case that a **majority of the Independent Directors' vote is not secured**, the Material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

8. DUTIES AND RESPONSIBILITIES

8.1. Board of Directors

The Board of Directors shall carry out the following:

- Institutionalize an overarching policy on the management of Material RPTs.
- Approve all Material RPTs that cross the materiality threshold.
- Approve all write-off of material exposures to related parties.
- Approve any renewal or material changes in the terms and conditions of material RPTs previously approved in accordance with this Policy. Material changes in the terms and conditions of the Material RPT include, but are not limited to, changes in the price, interest rate, maturity date, payment terms, commissions, fees, tenor and collateral requirement of the Material RPT.
- Oversee the effectiveness of an audit, risk and compliance system.
- Oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing.

The **Audit Committee** is tasked to assist the Board in the oversight and review of the propriety of RPTs and their required reporting disclosures.

8.2. Senior Management

Senior Management shall establish an effective audit, risk and compliance system to:

- Determine, identify and monitor related parties and Material RPTs;
- Continuously review and evaluate existing relationships between and among businesses and counterparties;
- Identify, measure, monitor and control risks arising from Material

- RPTs; and
- Facilitate submission of accurate reports for disclosure.

8.3. Finance

The **Chief Finance Officer** shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis.

The Finance function shall carry out the following:

- Report quarterly all RPTs to the Audit Committee.
- Monitor aggregate RPTs on an ongoing basis in case transactions meet and exceed the materiality threshold covering the same related party, to ensure compliance with this Policy and SEC regulations.
- Provide annually a summary of material or significant RPTs during the year for inclusion in the SEC Integrated Annual Corporate Governance Report (I-ACGR).

8.4. Legal and Corporate Secretary

All related party contracts shall be reviewed and initialed by the **Vice President, Legal**. The Legal function shall carry out the following:

i. Related Party Registry

- Identify persons and companies that are considered as SMPC's related parties as defined in this Policy.
- Maintain a Related Party Registry or a record of the organizational and structural composition, including any change thereon, of SMPC and its related parties.
- Review quarterly and update the Related Party Registry to capture organizational and structural changes in SMPC and its related parties.

ii. Board Meeting

- Ensure Material RPT contracts are included in the Board meeting agenda and maintain minutes of the Board's proper disposition.

iii. Disclosure

- File and disclose Material RPTs in a SEC Advisement Report on Material RPTs to be filed **within 3 calendar days after the execution date** of the transaction.

8.5. Audit, Risk and Compliance

The audit, risk and compliance system as well as the overarching policies shall be subject to periodic assessment by the **Internal Audit, Risk Advisory and the Compliance Officer**. The overarching policy and the system shall be made available to the SEC and audit functions for review.

- i. The **Internal Audit** shall conduct a periodic review of the effectiveness of the company's system and internal controls governing Material RPTs to assess consistency with the Board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the **Audit Committee**.
- ii. The **Risk Advisory** function shall assess the associated risks, including any potential reputational risk issue that may arise as a result or in connection with a proposed Material RPT.
- iii. The **Compliance Officer** shall carry out the following:
 - Ensure that SMPC complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties.
 - Aid in the review of SMPC's transactions and identify any potential Material RPT that would require review by the Board.
 - Ensure that SMPC's Material RPT Policy is kept updated and is properly implemented throughout the company.
 - Consolidate a Summary of Material RPTs entered into during the reporting year in SEC's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30.

9. PENALTIES

Abusive material RPTs refer to material RPTs that are not entered at arm's length and unduly favor a related party.

Directors, Officers, or personnel, who have been remiss in their duties in handling material RPTs in accordance with this Policy will result in disciplinary action, up to and including the termination of employment or directorship and possible legal action, including referral to law enforcement and regulators.

Alleged negligence and breach of conduct will be investigated. In all cases and at all times, SMPC shall observe due process and procedures.

The Board shall direct measures that would cut losses and allow recovery of losses or opportunity costs incurred by the company arising out of or in connection with abusive material RPTs.

The company's imposition of penalties shall be without prejudice to any other administrative penalties that may be imposed by the SEC, and/or civil or criminal penalties, as may be provided by the Revised Corporation Code of the Philippines, Securities Regulation Code, and other related laws.

10. WHISTLE BLOWING MECHANISM

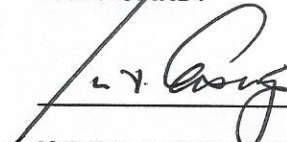
SMPC's Integrity Hotline reporting mechanism provides a secure reporting channel for stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. The reporter may use the Whistleblowing Hotline Report Form in providing details of the complaint.

Legitimate material concerns shall be investigated and addressed by an objective independent internal or external body, senior management and/or the Board itself.

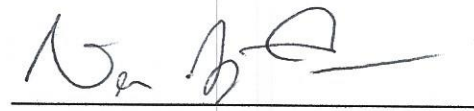
11. AMENDMENT

Any change in this Policy shall be approved by majority of the Board and approved by majority of the Stockholders constituting a quorum.

**APPROVAL FOR AND ON BEHALF OF
THE BOARD:**



ISIDRO A. CONSUNJI
Chairman of the Board & Chief
Executive Officer



NENA D. ARENAS
VP, Chief Governance Officer &
Compliance Officer