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## SECURITIES AND EXCHANGE COMMISSION

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# CENTRAL AZUCARERA DE TARLAC, INC.

## MATERIAL RELATED PARTY TRANSACTIONS POLICY

### Statement of the Policy

The Central Azucarera de Tarlac (hereinafter referred to as the "Company") hereby adopts the following Policy on Material Related Party Transactions in compliance with the Securities and Exchange Commission's (SEC) Memorandum Circular No. 10, Series of 2019 Governing the Rules on Material Related Party Transactions for Publicly-Listed Companies.

### Section 1. Objectives

This Material Related Party Transactions Policy (hereinafter referred to as the "Policy") shall apply to the Company, including its subsidiaries and affiliates, in order to:

- a. ensure that every material related party transaction is at arm's length and conducted in a manner that will protect the Company from conflicts of interest which may arise out of or in connection with material related party transactions as defined herein
- b. promote good governance by ensuring that said transactions will be thoroughly reviewed, deliberated, approved or ratified and properly disclosed in consideration of the interests of all stakeholders of the company and in compliance with legal and regulatory requirements

### Section 2. Definition of Terms

For purposes of this Policy, the following definitions shall apply:

- a. **Abusive Material Related Party Transaction** – material related party transactions that are not entered with objectivity, impartiality, and fairness that unduly favor a related party.
- b. **Affiliate** – an entity linked directly or indirectly to the Company 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 the Company, 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 Company and the entity; or

- Management contract or any arrangement granting power to the Company to direct or cause the direction of management and policies of the entity, or vice-versa.
- c. **Associate** – an entity over which the Company holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Company has significant influence.
- d. **Control** – a person or an entity controls the Company if and only if the person or entity has all of the following:
  - Power over the Company;
  - Exposure, or rights, to variable returns from its involvement with the Company; and
  - The ability to use its power over the Company to affect the amount of the Company's return
- e. **Material Related Party Transactions (MRPT)** – 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 the Company's total assets based on its latest audited financial statement.
- f. **Materiality Threshold** – ten percent (10%) of the Company's total assets based on its latest audited financial statement. The total assets shall pertain to the Company's total consolidated assets.
- g. **Related parties** – covers the directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Company. It also covers the Company's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.
- h. **Related party transactions (RPT)** – transfer of resources, services or obligations between the Company and a related party, regardless of whether a price is charged. This also includes outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.
- i. **Related Party Registry** – a record of the organizational and structural composition, including any change thereon, of the company and its related parties.
- j. **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.
- k. **Subsidiary** – a corporation with more than fifty percent (50%) of the voting stock of which is owned or controlled, directly or indirectly, through one or more intermediaries, by another corporation, which thereby becomes its parent corporation.
- l. **Substantial Shareholder** – any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of the Company's equity security.

### **Section 3. Coverage**

This Policy covers any of the following material related party transactions:

- a. A single transaction entered into by any related party as defined under Section 1 amounting to ten percent (10%) or more of the total consolidated assets of the Company
- b. Series of transactions over a period of twelve (12) months entered into by the same related party as defined under Section 1 amounting to ten percent (10%) or more of the total consolidated assets of the Company
- c. Transactions amounting to ten percent (10%) or more of the total consolidated assets that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required under this policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPT to the requirements of this Material RPT Policy.

### **Section 4. Identification of Material Related Party Transactions**

- a. Principle of Arm's Length transaction

The Company shall ensure that no preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

To ensure that the MRPTs are entered into at terms that promote the best interest of the Company, its shareholders and other stakeholders, effective price discovery mechanism shall be resorted to, such as but not limited to, acquiring the services of an external valuation expert, opening the transaction to the procurement process or publication of a property available for sale.

All transactions, including MRPTs, shall be subject to the applicable existing procurement process of the Company.

- b. Identification of MRPT

The Management shall maintain a Related Party Registry, and ensure that regular updates of the same including any change thereon, and those of its related parties. The Management together with the Compliance Officer shall conduct a quarterly review of the same.

The Management shall make a preliminary determination if a transaction may be considered an MRPT based on the definition provided for in Section 3 for purposes of reporting the same to the Audit Committee and the Board of Directors.

c. Review and Assessment of the Audit Committee

The Management shall promptly report all proposed MRPT transactions which falls under the definition provided for in Section 3 to the Audit Committee<sup>1</sup>. Such report shall contain the following information:

- i. Description of the proposed transaction;
- ii. Related party/ies involved and the relationship with the Company;
- iii. Financial or non-financial interest of the related parties;
- iv. Amount or contract price and the percentage of the contract price to the total consolidated assets of the Company;
- v. Proposed terms and conditions; and

The Audit Committee shall determine whether the proposed MRPT complies with the existing laws, rules and regulations. It shall also prepare a recommendation for the Board of Directors to consider whether to approve, ratify, disapprove or reject an MRPT.

d. Board Action

Prior to the execution of the material related party transaction, the Board of Directors, may appoint an external independent party to evaluate the fairness of the terms of the material related party transaction. An external independent party may include, but is not limited to, auditing/ accounting firms and third party consultants and appraisers. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

## **Section 5. Approval of Material RPT**

All MRPTs shall be assessed, reviewed and thoroughly evaluated to ensure that they are conducted on an arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged. The following are necessary for the approval of the execution of any MRPT,

- a. All individual MRPT 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 voting to approve the material related party transaction.<sup>2</sup> In case that a majority of the independent directors' vote is not secured, the material related party transactions may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

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<sup>1</sup> Pursuant to the Company's Manual on Corporate Governance the Audit Committee is tasked to perform the functions of Related Party Transactions Committee.

<sup>2</sup> At present the Company has two (2) Independent Directors. Hence, the two-thirds (2/3) vote to approve the material party transactions shall include the vote of the two (2) independent directors.

- b. For aggregate related party transaction within a twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the company's total consolidated assets, the same board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.
- c. Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

## **Section 6. Management of Potential or Actual Conflict of Interest and Disclosure of RPTs**

- a. Directors, officers, and employees of the Company with personal interests in any transaction with the Company shall fully and timely disclose any and all material fact or interest that they may have on RPTS.
- b. At the start of each fiscal year, all employees are required to answer the appropriate form representing all their interests, whether financial or not, which may at some point transact with the Company at the start of the year, which shall be submitted to the head of Human Resources. The latter shall compile the same and monitor for entry to the Related Party Registry.

## **Section 7. Self-Assessment and Periodic Review of the Policy**

The internal audit shall conduct a periodic review of the effectiveness of the Company's system and internal controls governing material related party transactions 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.

The Company's Compliance Officer shall ensure that the Company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He/she shall aid in the review of the Company's transactions and identify any potential material RPT that would require review by the Board. He/she shall ensure that the Company's material RPT policy is kept updated and is properly implemented throughout the Company.

## **Section 8. Whistleblowing Mechanisms.**

The Company has an existing whistleblowing mechanism pursuant to its Whistleblowing Policy that is consistent with its Code of Conduct and Manual of Corporate Governance. This policy provides a formal procedure for a whistle blower, who may be a director, officer, employee, or other third party, who may raise his/her concerns regarding an illicit or unethical event inside the Corporation. The whistle blower is assured that the safeguards are established for protection from reprisals, harassment, or disciplinary action as a result of raising the said concern.

## **Section 9. Remedies for Abusive Material Related Party Transactions**

The Company, through the Management, shall immediately terminate an abusive MRPT after due notice.

The Company, through its Board of Directors and upon recommendation of the Audit Committee, may seek restitution for any losses incurred and such other remedies as existing laws, rules and regulations may provide from abusive material related party transactions or those that were not conducted on fair and reasonable terms under Section 4 hereof. Such action should aim to cut losses and allow recovery of losses or opportunity costs incurred by the company arising out of or in connection with abusive material related party transactions.

The Company may also impose such other penalties against the director, officer, or employee who maybe found to be remiss in their duty in connection with the handling the MRPT in accordance with the Company's Code of Conduct and Manual on Corporate Governance.

## **Section 12. Disclosure and Regulatory Reporting**

The Company shall submit the following disclosures/reports of MRPTS to the SEC:

1. A summary of material related party transactions entered into during the reporting year which shall be disclosed in the Company's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30;
2. Advisement Report (attached as Annex "A") of any material related party transaction filed within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by the Company's Corporate Secretary or authorized representative.

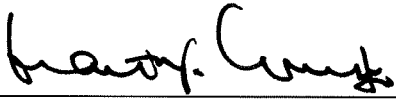
The disclosure and the report should include, at least, the following information:

- vi. complete name of the related party;
- vii. relationship of the parties;
- viii. execution date of the material RPT;
- ix. financial or non-financial interest of the related parties;
- x. type and nature of transaction as well as a description of the assets involved;
- xi. total (consolidated) assets;
- xii. amount or contract price;
- xiii. percentage of the contract price to the total assets of the Company;
- xiv. carrying amount of collateral, if any;
- xv. terms and conditions;
- xvi. rationale for entering into the transaction; and
- xvii. the approval obtained (i.e., names of directors present, name of directors who approved the material RPT and the corresponding voting percentage obtained).



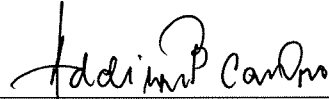
All other reports and/or documents that may be required from time to time under prevailing laws, rules and other regulations.

**APPROVED** by the Board of Directors during the Regular Meeting held ON 10 September 2019 at Makati City.



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**MARTIN IGNACIO P. LORENZO**  
Chairman of the Board



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**ADDISON B. CASTRO**  
Compliance Officer