



PXP ENERGY CORPORATION  
(formerly Philex Petroleum Corporation)  
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October 21, 2019

**SECURITIES AND EXCHANGE COMMISSION**

PICC Complex, Roxas Boulevard  
Pasay City

Attention: Atty. Rachel Esther J. Gumbang-Remalante  
OIC, Corporate Governance and Finance Department

**PHILIPPINE STOCK EXCHANGE, INC.**

PSE Tower, 5<sup>th</sup> Avenue corner 28<sup>th</sup> Street,  
Bonifacio Global City, Taguig City

Attention: Ms. Janet A. Encarnacion  
Head, Disclosure Department

Subject: Submission of Material Related Party Transactions Policy to SEC and PSE

Gentlemen:

In compliance with SEC Memorandum Circular No. 10, Series of 2019, we are submitting our Revised Material Related Party Transactions Policy.

Very truly yours,

  
**MARK H. RILLES**  
Finance Controller

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## Related Party Transaction Policy

### 1. RATIONALE

The **Related Party Transaction (RPT) Policy** is intended to ensure proper review, approval, and reporting of transactions between the Company and Related Parties, consistent with the Revised Corporation Code, the Securities Regulations Code and such other related laws and issuances, applicable accounting standards, disclosure requirements and principles of good corporate governance.

### 2. GENERAL PRINCIPLES

The Company shall, as soon as practicable, adopt implementing rules and regulations in furtherance of this Policy, in accordance with the following guidelines:

- 2.1 The Company shall at all times observe and adhere to the provisions of the Revised Corporation Code, its Articles of Incorporation and By-laws, and all other relevant laws, rules and regulations, as may be applicable in the review, approval and disclosure of Related Party Transactions<sup>1</sup> ("**RPT**"). The Company shall at all times observe, uphold and respect the rights of its shareholders, minority and majority alike, through this RPT Policy.
- 2.2 As matter of policy and procedure, all Material and/or Significant RPT shall be subject to review and endorsement by the **Related Party Transaction Committee** ("**RPT Committee**") and with the concurrence of all Independent Directors prior to approval by the Board except those covered under Annex B ("**Exempt RPT**").
- 2.3 All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the board of directors, with all independent directors voting to approve the material RPT.
- 2.4 In the review and approval of RPT, the Company shall at all times abide by the following standards:
  - a. That the RPT is "fair and at arm's length"<sup>2</sup>;
  - b. That the RPT is in the best interest of the Company and its stockholders, based on relevant circumstances which include:
    - i. Basic terms of the transaction;
    - ii. Related party's interest in the transaction;

<sup>1</sup> Please see Annex A for definition of "Related Party Transactions" and "Related Parties".

<sup>2</sup> "Fair & at Arm's Length" refers to transactions in an open and unrestricted market and between willing parties who are knowledgeable, informed, and who act independently of and without regard to any relationship with each other.

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- iii. Purpose and timing of the transaction;
- iv. Nature of the Company's participation in the transaction;
- v. Cost basis and other relevant information if involving sale of assets;
- vi. Information on potential counterparties in the transaction including market prices for similar products and services;
- vii. Description of any provisions or limitations that may be imposed as a result of the transaction; and,
- viii. Any potential reputational risk issues that may arise as a result of or in connection with the transaction.

2.5 For purposes of this Policy, a Material and/or Significant RPT shall cover all transactions meeting the materiality threshold<sup>3</sup>. Transactions amounting to ten percent (10%) or more of the total 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 in the 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 Rules. The prospective treatment should, however, be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

2.6 Guidelines in ensuring arm's length terms. It is the policy of the company that clear guidelines must be established in ensuring that no preferential treatment shall be given and/or extended to related parties and their affiliates.

Before the execution of the material RPT, the Board of Directors should appoint an external independent party and/or set an effective price discovery mechanism to evaluate the fairness of the terms of the material RPTs and ensure that transactions engaged into shall promote the best interest of the company and its shareholders.

An external independent party may include but is not limited to auditing/accounting firms and third party consultants and appraisers. Likewise, the price discovery mechanism may also 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.

2.7 Self-assessment and periodic review of policy or upon issuance of new laws, pronouncements and regulations affecting this Policy. The internal audit shall conduct periodic reviews and provide audit reports, indicating exceptions and/or breaches in limits on the effectiveness of the company's existing systems and internal controls relating to

<sup>3</sup> Please see Annex A for definition of "materiality threshold"

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material RPTs. The resulting audit reports shall be presented directly to the Audit Committee.

The company's Compliance Officer in relation to material RPTs shall have the following duties and responsibilities:

- i. ensure that the company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties;
- ii. aid in the review of the company's transactions and identify any potential material RPT that would require review by the Board; and
- iii. ensure that the company's material RPT policy is kept updated and is properly implemented throughout the company.

2.8 Whistle blowing mechanisms shall be covered by the Whistleblowing policy of the Company.

2.9 The following Material and/or Significant RPT must be approved by the Board, and, as the Board deems necessary, it may be further submitted to the stockholders for ratification and final approval:

- i. contract between an officer under the By-Laws and the Company;
- ii. contract between a director and the Company when the presence of such director in the Board meeting in which the contract was approved was necessary to constitute a quorum and the vote of such director was necessary for the approval of the contract, approval by the Company's stockholders is required;
- iii. contract between the Company and another corporation with interlocking directors, if the interest of the interlocking director in the Company is nominal<sup>4</sup> and his interest in the other corporation is substantial<sup>5</sup>, and such director's presence in the Company's Board meeting in which the contract was approved was necessary to constitute a quorum and the vote of such director

<sup>4</sup> Pursuant to Section 33 of the Corporation Code, nominal interest exists when the stockholdings of the director is twenty percent (20%) or below of the outstanding capital stock.

<sup>5</sup> A director has a substantial interest if his stockholdings exceeds twenty percent (20%) of the outstanding capital stock.

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was necessary for the approval of the contract, approval by the Company's stockholders is also required; and

- iv. management contract where the Company undertakes to manage or operate all or substantially all of the business of another corporation or vice versa.

2.10 The Company shall submit the following to the SEC:

- i. 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;
- ii. Advisement Report (attached as Annex "A") of any material RPT filed within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by the reporting PLC's Corporate Secretary or authorized representative.

2.11 All Material and/or Significant RPT shall be reported by the Compliance Officer to the Audit Committee to ensure full and timely disclosure in the annual and quarterly reports submitted to the Securities and Exchange Commission and in the Notes to the Financial Statements, whether on an interim or annual basis, as required under PAS 24 on Related Party Transaction Disclosures and other disclosure requirements; and

2.12 The Company shall ensure that the review and approval of Material and/or Significant RPT carried out by its subsidiaries are conducted in accordance with this Policy.

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### 3. EFFECTIVITY

This policy shall have immediate and prospective effect.

### 4. APPROVAL

( SIGNED )

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**Paraluman M. Navarro**  
Compliance Officer

( SIGNED )

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**Daniel Stephen P. Carlos**  
President

( SIGNED )

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**Manuel V. Pangilinan**  
Chairman

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## **ANNEX “A”: DEFINITION**

**Related parties** - covers the reporting PLC's 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 reporting PLC. It also covers the reporting PLC'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.

**Substantial Shareholder** - any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

**Affiliate** - refers to an entity linked directly or indirectly to the reporting PLC through anyone 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 PLC, 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 reporting PLC and the entity; or
- Management contract or any arrangement granting power to the reporting PLC to direct or cause the direction of management and policies of the entity, or vice-versa.

**Associate** - An entity over which the reporting PLC holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence.

**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.

**Control** - A person or an entity controls a reporting PLC if and only if the person or entity has all of the following:

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

**Related party transactions** - a transfer of resources, services or obligations between a reporting PLC and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

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**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 a company's total assets based on its latest audited financial statement.

**Materiality Threshold** - Ten percent (10%) of the company's total assets based on its latest audited financial statement. If the reporting PLC is a parent company, the total assets shall pertain to its total consolidated assets.

**Related Party Registry** - A record of the organizational and structural composition, including any change thereon, of the company and its related parties.



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### **ANNEX “B”: EXEMPT RPT**

The following shall be considered as “**Exempt RPT**”:

1. Any transaction involving a Related Party where the rates or charges involved are determined by competitive bids, in accordance with Vendor Relations Policy of the Company.
2. Any transaction involving a Related Party wherein Company is a customer or client in the ordinary or regular course of business of consumer goods or consumer services, or fees are based on a fixed or graduated scale which is publicly quoted or applied consistently to all customers or class of customers.
3. Subject to the policy and/or guidelines as may be issued and approved by the Compensation Committee, any transaction that involves the providing of compensation to a director or an executive officer in connection with his or her duties to Company or any of its subsidiaries or affiliates, including the reimbursement of reasonable business and travel expenses incurred in the ordinary course of business.

Exempt RPT are transactions which will no longer be subject for review and/or endorsement by the CG and RPT Committee.