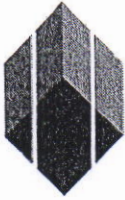




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**SECURITIES AND EXCHANGE COMMISSION**

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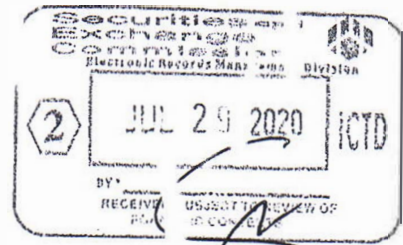
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**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

22 July 2020

SECURITIES AND EXCHANGE COMMISSION
Electronic Records Management Division (ICTD)
Secretariat Bldg., PICC Complex
Roxas Blvd., Pasay City 1307



Sirs:

We are transmitting the Policy on Material Related Party Transactions of the Philippine National Construction Corporation in compliance with SEC Memorandum Circular No. 10, Series of 2019.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,


REY NATHANIEL C. IFURUNG
Compliance Officer



PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

POLICY ON MATERIAL RELATED PARTY TRANSACTIONS

Policy Statement

The Philippine National Construction Corporation (PNCC) pursuant to its Revised Manual of Corporate Governance 2017 requiring it to ensure that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality which shall include the appropriate review and approval of material or significant RPTs which guarantee fairness and transparency of the transactions which shall encompass all entities within the group, taking into account their size, structure, risk profile and complexity of operations, and in compliance with SEC Memorandum Circular No. 10, Series of 2019, hereby adopts this Policy on Material Related Party Transactions.

PNCC recognizes that transactions between and among related parties may create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, related party transactions (RPTs) are generally allowed provided, that when RPTs amount to ten percent (10%) or higher of the Company's total assets, it shall be considered as material related party transactions subject to this Policy.

Transactions covering or involving ten percent (10%) or more of the Company's total assets shall be considered material transactions covered under this Policy.

Section 1. Definition of Terms

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

- a. **Related parties** - covers PNCC 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 PNCC. It also covers PNCC'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.

- b. **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.
- c. **Affiliate** - refers to an entity linked directly or indirectly to PNCC 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 PNCC, 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 PNCC and the entity; or
 - Management contract on any arrangement granting power to PNCC to direct or cause the direction of management and policies of the entity, or vice-versa.
- d. **Associate** - An entity over which PNCC holds twenty percent (20%) or more of the voting power, directly or indirectly, or which PNCC has significant influence.
- e. **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.
- f. **Control** - A person or an entity controls PNCC if and only if the person or entity has all of the following:
- Power over PNCC;
 - Exposure, or rights, to variable returns from its involvement with PNCC; and
 - The ability to use its power over PNCC to affect the amount

of PNCC's returns.

- g. **Related party transactions** - a transfer of resources, services or obligations between PNCC 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.
- h. **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.
- i. **Materiality Threshold** - Ten percent (10%) of the company's total assets based on its latest audited financial statement. If PNCC is a parent company, the total assets shall pertain to its total consolidated assets.
- j. **Related Party Registry** - A record of the organizational and structural composition, including any change thereon, of the Company and its related parties.

Section 2. DUTIES AND RESPONSIBILITIES

A. Board of Directors

The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of the Company's shareholders and other stakeholders. Towards this end, the Board of direct shall carry out the following duties and responsibilities:

- 1. To institutionalize an overarching policy on the management of material RPTs to ensure effective compliance with existing laws, rules and regulations at all times and that material RPTs are conducted on an arm's length basis, and that no shareholder or

stakeholder is unduly disadvantaged.

2. To approve all material RPTs that cross the materiality threshold and write-off of material exposures to related parties, as well as any renewal or material changes in the terms and conditions of material RPTs previously approved in accordance with Section 3 (f) of 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.

3. To 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; and
 - Identify, measure, monitor and control risks arising from material RPTs.

The system shall be able to define the related parties' extent of relationship with the Company; assess situations in which a non-related party (with whom a company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the nature and amount of exposures of the Company to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance officers and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the SEC and audit functions for review. Any change in the policy and procedure shall be approved by majority of the Board of Directors and approved by majority of the stockholders constituting a quorum.

4. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The Board should

ensure that senior management addresses legitimate issues on material RPTs that are raised. The Board should take responsibility for ensuring that stakeholders who raise concerns are protected from detrimental treatment or reprisals.

5. To monitor and manage potential conflicts of interest of Directors, Management, and shareholders, including misuse of corporate assets and abuse in related party transactions.¹
6. The Corporate Governance Committee shall perform the duties and functions on related party transactions under this Policy and in accordance with Section 5.3.e of the Revised Manual of Corporate Governance.²

B. Senior Management

Senior management shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the Company's policy and SEC regulations.

Section 3: MATERIAL RELATED PARTY TRANSACTIONS POLICY

A group-wide material RPT policy encompassing all entities within the conglomerate, taking into account its size, structure, risk profile and complexity of operations is hereby adopted.

Material RPT policies shall include, but not be limited to the following:

- a. **Identification of related parties.** Related parties are as defined in Section 1a hereof. The Management/Board of Directors shall be required to quarterly review and update the Related Party Registry to capture organizational and structural changes in the Company and its related parties.

¹ Section 8(e), GCG MC No. 2012-07, Code of Corporate Governance for GOCC:

² Board Resolution BD 03-2020, 29 January 2020.

- b. **Coverage of Material RPT policy.** The material RPT policy shall cover all transactions meeting the materiality threshold. Transactions amounting to ten percent (10%) or more of the total assets that were entered into with an unrelated party that subsequently becomes, 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 part, shall subject the material RPT to the requirements of this Policy. 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.
- c. **Adjusted Thresholds.** The Company shall be allowed to set a threshold lower than the materiality threshold provided under this Policy upon determination by the Board of Directors of the risk of the RPT to cause damage to the Company and its shareholders. The adjusted threshold, when applicable, shall be contained in this Policy.
- d. **Identification and prevention or management of potential or actual conflicts of interest** which may arise out of or in connection with material RPTs. This policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with the material RPTs. Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the Company. In case they refuse 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.
- e. **Guidelines in ensuring arm's length terms.** No preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

Before the execution of the material RPT, the Board of Directors should 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. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

The Board of Directors shall adopt other effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Company and its shareholders. The price discovery mechanism shall 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.

- f. **Approval of material RPTs.** All individual material RPTs shall be approved by at least two-thirds (2/3) vote of all members of the Board of Directors, with at least a majority of the independent directors voting to approve the material RPT. 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. For aggregate RPT transactions within a twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the Company's total assets, the same board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.

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.

- g. **Self-assessment and periodic review of policy** - 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.

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 shall aid in the review of the Company's transactions and identify any potential material RPT that would require review by the Board. He shall ensure that the Company's material RPT policy is kept updated and is properly implemented throughout the Company.

- h. **Disclosure requirement on material RPTs.** The members of the Board, substantial shareholders, and officers shall fully disclose to the Board of Directors all material facts related to material RPTs as well as the direct and indirect financial interest in any transaction or matter that may affect or is affecting the Company. Such disclosure shall be made at the board meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT.
- i. **Whistle Blowing mechanisms.** This policy shall include the current whistleblowing mechanisms of PNCC consistent with the corporate values and codes of conduct set by the Board of Directors. The policy shall encourage all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs. It shall include guidance on how legitimate material concerns should be reported, investigated and addressed by an objective independent internal or external body, senior management and/or the Board itself.
- j. **Remedies for abusive material RPTs.** This policy shall include all 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. This policy shall also include the penalties and the manner of imposing the same on

personnel, officers or directors, who have been remiss in their duties in handling material RPTs in accordance with Company policies.

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

Section 4. DISCLOSURE AND REGULATORY REPORTING

PNCC shall submit the following 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 RPT filed within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by Corporate Secretary or authorized representative.

The disclosures in both (1) and (2) above shall at least include the following information:

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


Abusive Material Related Party Transactions

Pursuant to Sections 26 and 27 of the Revised Corporation Code, an interested director or officer of a corporation shall be disqualified from being a director, trustee or officer of any other corporation on the basis of a final judgment rendered by a court of competent jurisdiction against the interested director or officer for abusive material RPTs. The disqualification shall be for a period of at least one (1) year or more, as may be determined by the SEC.

The imposition of the foregoing 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, Revised Penal Code, Anti-Graft and Corrupt Practices Act, and other related laws.

This Policy with accessible link shall be posted on the Company's website within five days (5) from its submission to the SEC.

21 July 2020, Paranaque City.


HERCULANO C. CO, JR.
Chairman of the Board


REY NATHANIEL C. IFURUNG
Compliance Officer



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

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

CORPORATE SECRETARY'S CERTIFICATE

I, MARIANO JESUS S. AVERIA, of legal age, a citizen of the Philippines, with office address at PNCC Complex, Km. 15 East Service Road, Bicutan, Paranaque City, Metro Manila, after being first duly sworn to in accordance with law, do hereby depose and state that:

1. I am the duly elected and incumbent Corporate Secretary of the Philippine National Construction Corporation (PNCC), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal place of office at PNCC Complex, Km. 15 East Service Road, Bicutan, Paranaque City Metro Manila;

2. During the special meeting of the Board of Directors of the PNCC held via teleconference on 8 July 2020 wherein a quorum was then present, the following resolution, among others, was approved by a majority vote:

BOARD RESOLUTION BD-20-2020

“WHEREAS, the filing / submission of a Policy on Material Related Party Transactions is being required by the SEC from PNCC;

WHEREAS, the Compliance Officer has drafted a policy on Material Related Party Transactions and submitted the same to the Board for its review and approval;

WHEREAS, the Board has reviewed the said Policy and found the same to be in order;

RESOLVED, AS IT IS HEREBY RESOLVED, to adopt and approve the Company's Policy on Material Related Party Transactions without prejudice to any amendment that the Board may subsequently introduce therein.”

Issued this 20th day of July 2020 at Quezon City.

MARIANO JESUS S. AVERIA

Corporate Secretary

JUL 28 2020

SUBSCRIBED AND SWORN to before me this ___ day of July 2020 Affiant exhibiting to me his Driver's License No. NO0-95-262906 which is valid until 22 October 2023 and issued at Diliman, Quezon City.

Doc. No. 148 ;
Page No. 51 ;
Book No. CMN
Series of 2020

CITY OF LORENTO F. FACINABAO
NOTARY PUBLIC for in Taguig City
Until December 31, 2020
IBP O.R. No. 094091 / 11-04-2019
PIR No. A-4750851 / 01-02-2020
MCLE Compliance No. V - 0024436
IBP O.R. No. 094091