

Related Party Transactions

POLICY



Related Party Transactions Policy

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Version No: 1.0

Page 2 of 12

Governing policy:	Not Applicable
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Approver:

Original Sgd.

Jose Pamintuan De Jesus
Chairman, Independent Non-Executive Director

Date: 4/26/21

Approver:

Original Sgd.

Roman Felipe S. Reyes
Independent Non-Executive Director

Date: 4/26/21

Approver:

Original Sgd.

Atty. Laurice P. Esteban-Tuason
Corporate Compliance Officer

Date: 4/26/2021

***unless otherwise indicated, this policy shall apply beyond the review date.**

Implementation effectivity date:	April 26, 2021
Approval Date of last revision	N/A
Effectivity Date of last revision	N/A
Date of governing policy review*	April 26, 2022

- Related legislation, standards, policies, procedures, guidelines, and local protocols**
- SEC Memorandum Circular No. 10 series of 2019, otherwise known as the Rules on Material Related Party Transactions for Publicly Listed Companies.
 - Securities Regulations Code,
 - Philippine Stock Exchange Disclosure Rules,
 - Corporation Code of the Philippines and
 - All applicable laws of the Philippines
 - Code of Business Ethics Policy
 - Conflict of Interest Policy

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Related Party Transactions Policy

Table of Contents

1. Purpose and Scope.....	4
2. Oversight and Responsibility	4
3. Definition of Terms.....	4
4. Related Party Transactions Approval and Ratification	7
5. Material Related Party Transactions Approval and Ratification	7
7. Disciplinary sanctions for non-compliance	9
8. Related document references	9
9. Details of revision/s made to this policy	10
10. Annex A – page 1 & 2.....	11

1. Purpose and Scope

This Related Party Transactions Policy aims to ensure the integrity and transparency of all Related Party Transactions (the "RPT"), as defined herein, of Converge Information and Communications Technology Solutions, Inc. (the "Company"), its subsidiaries, affiliates, and related parties. Related Party Transactions, as defined herein, of the Company shall be reviewed, approved, ratified, and disclosed as required under relevant laws, rules, and regulations.

2. Oversight and Responsibility

The Board of Directors of the Company (the "Board") 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. The Board has approved this Related Party Transactions Policy to ensure effective compliance with existing laws, rules, and regulations at all times and that these Related Party Transactions are conducted on an arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged.

The Board has established the Audit and Related Party Transactions Committee (the "Audit and RPT Committee") to oversee this policy and to ensure compliance thereto, in accordance with the laws, rules, and applicable regulations.

2.1.1. The Audit and RPT Committee - The Board hereby designates the members of the Audit and RPT Committee to serve as the Related Party Transactions Committee to review the related party transactions of the Company. The following are the functions of the Audit and RPT Committee, among others:

- a) Monitors on an ongoing basis existing relation/s between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors.
- b) Evaluates Material RPTs (as defined below), for approval of the Board, to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating Material RPTs, the Committee considers, among others, the following:
 1. The related party's relationship to the Company and interest in the transaction;
 2. The material facts of the proposed Material RPT, including the proposed aggregate value of such transaction;
 3. The benefits to the Company of the proposed Material RPT;
 4. The availability of other sources of comparable products or services; and

5. An assessment of whether the proposed Material RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company should have an effective price discovery system in place and exercise due diligence in determining a fair price for Material RPTs;
- c) Assures appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Company's Material RPT;
- d) Submits reports to the Board of Directors on a regular basis, the status, and aggregate exposures to each related party, as well as the total amount of exposures to all related parties;
- e) Ensures that transactions with related parties, including the write-off of exposures, are subject to a periodic independent review or audit process; and
- f) Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including a periodic review of RPT policies and procedures.

2.1.2. The Management

The Management has the responsibility to provide and maintain an effective audit, compliance and risk system (the "Related Party Registry System") which will be able to: (i) define the related parties' extent of relationship with the Company; (ii) assess situations in which a non-related party (with whom the Company has entered into a transaction) becomes a related party and vice-versa; and (iii) generate information on the nature and amount of exposures of the Company to a particular related party.

3. Definition of Terms

Pursuant to **Securities Exchange Commission Circular No. 10 Series of 2019 or the Rules on Material Related Party Transactions for Publicly listed Companies** the Company adopts the following definition of terms:

- 3.1.1. **Related parties** - covers the Company's reporting 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 Company. It also covers the reporting 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.
- 3.1.2. **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.
- 3.1.3. **Affiliate** - refers to an entity linked directly or indirectly to the reporting 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 reporting company and the entity; or
 - Management contract or any arrangement granting power to the reporting Company to direct or cause the direction of management and policies of the entity, or vice-versa.
- 3.1.4. Associate** - An entity over which the reporting Company holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting Company has significant influence.
- 3.1.5. 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.
- 3.1.6. Control** - A person or an entity controls a reporting Company if and only if the person or entity has all the following:
- Power over the reporting Company;
 - Exposure, or rights, to variable returns from its involvement with the reporting Company; and
 - The ability to use its power over the reporting Company to affect the amount of the reporting Company's returns.
- 3.1.7. Related Party Transactions (RPTs)** - a transfer of resources, services, or obligations between a reporting Company 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.
- 3.1.8. Material Related Party Transactions (Material RPTs)** - 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.
- 3.1.9. Materiality Threshold** - Ten percent (10%) of the Company's total assets based on its latest audited financial statement. If the reporting Company is a parent Company, the total assets shall pertain to its total consolidated assets.
- 3.1.10. Related Party Registry**- A record of the organizational and structural composition, including any change thereon, of the Company and its related parties.
- 3.1.11. Abusive Material RPTs** - refer to Material RPTs that are not entered at arm's length and unduly favor a related party, and which results into a substantial disadvantage of the Company.
- 3.1.12. Subsidiary** – refers to business affiliates, shareholder groups, subsidiaries, and minority-owned companies 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 hereby becomes its parent corporation.



Related Party Transactions Policy

Document No.: POL-CSOO-COMPL-0003

Version No: 1.0

Page 7 of 12

3.1.13. Substantial Shareholder – refers to a major shareholder or any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

4. Related Party Transactions Monitoring

To ensure the integrity, transparency, and arm's length nature of RPTs, the following process for RPT monitoring is established:

- 4.1.1.** The Board may establish guidelines for the Company's management to follow in its dealings with the Related Party/ies. Thereafter, the Audit and RPT Committee, on at least an annual basis, shall review and assess relationships with the Related Party to ensure that they follow the Company's guidelines set by the Board and that the RPTs remain appropriate, at arm's length basis, and under conditions that protect the rights of all shareholders.
- 4.1.2.** Management shall assist the Audit and RPT Committee by providing said committee with a comprehensive Related Party Registry System, which captures the organizational and structural changes in the Company and its Related Parties and corresponding transactions. The Audit and RPT Committee shall be given reports from the Related Party Registry System on a periodic basis.

5. Material Related Party Transactions Approval and Ratification

At the minimum, when RPTs amount to at least ten percent (10%) of the Company's Total Assets, they shall be considered as "Material RPTs" subject to the policies described herein:

- 5.1.1. Coverage of Material RPT policy.** This policy shall cover all 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 (AFS)
- 5.1.2. Identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with Material RPTs.** The 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.
- 5.1.3. Disclosure to the Board.** - The members of the board, substantial shareholders, and officers shall fully disclose to the Board all material facts related to Material RPTs as well as their 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.

The Board shall review all the relevant facts, information, and circumstances made available to them for all Material RPTs.

- 5.1.4. Guidelines in ensuring arm's length terms.** The Company shall adopt guidelines to ensure that no preferential treatment shall be given to Related Parties that are not extended to non-related parties under similar circumstances.

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Before the execution of the Material RPT, the Board 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 Company shall establish an effective price discovery mechanism shall provide guidance to ensure that transactions are engaged at terms that promote the best interest of the Company and its shareholders. The price discovery mechanism 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.

5.1.5. Approval of Material RPTs. All individual Material RPTs 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 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 aggregate 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.

All RPTs shall be reported to the Audit and RPT Committee on a quarterly basis. The Audit and RPT Committee may raise to the Board, for its information, any RPT which may be deemed as significant.

5.1.6. Remedies for abusive Material RPTs. Sanctions shall be strictly enforced as soon as the thorough investigation is done and upon finding that there is/are an abusive Material RPT/s which was/were not conducted in accordance with this policy nor conducted in a fair and arm's length basis. Efforts shall be made to recover losses incurred by the Company or opportunity costs arising out of or in connection with the abusive Material RPT/s.

Personnel, officers, or directors, after due process, who have been found to have willfully or negligently failed to perform their duties in handling Material RPTs shall be subject to the penalties as provided in the Company policies, including but not limited to, the Code of Ethics and Conflict of Interest Policy.

The Company shall likewise pursue all its remedies available under the law. This may include disqualification of a director, trustee, or officer after a final judgment pursuant to Section 5(c) of SEC Memorandum Circular No. 10, Series of 2019, in relation to Sections 26 and 27 of the Revised Corporation Code.

6. Whistleblowing mechanisms.

All stakeholders are encouraged to speak up and confidentially communicate without risk of retaliation, legitimate concerns about illegal, unethical, or questionable Related Party Transaction. Reporting and investigation of abusive RPTs shall be handled following the Company's Whistleblower Policy.

7. Disciplinary sanctions for non-compliance

Related Party Transactions must also comply with the Company's existing policies and procedures, including the Code of Business Ethics and Conflict of Interest Policy. Non-observance of any applicable laws relating to Related Party Transaction policy may result in, immediate discontinuation or rescission of the transaction, or modification of the transaction to make it acceptable for ratification.

8. 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 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 and RPT 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.

9. Disclosure and Regulatory Reporting

1. A summary of Material RPTs entered into during the reporting year shall be disclosed in the Company's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30;
2. The Advisement Report (attached as Annex "A") of any Material RPT must be filed within three (3) calendar days from the execution date of the Material RPT. The Advisement Report shall be signed by the Company's Chairman of the Board and Corporate Secretary; and
3. The disclosures above (1 and 2), shall include the following information:
 - a. Complete name of the Related Party/ies;
 - b. Relationship of the parties;
 - c. Execution date of the RPT;
 - d. Financial or non-financial interest of the related parties;
 - e. Type and nature of transactions as well as a description of the assets involved;
 - f. Total assets (consolidated assets, since the Company is a parent company);
 - g. Amount or contract price;
 - h. Percentage of the contract price to the total assets of the Company;
 - i. Carrying amount of collateral, if any;
 - j. Terms and conditions;
 - k. Rationale for entering into the transaction; and
 - l. The approval obtained (i.e. names of directors present, name of directors who approved the RPT and the corresponding voting percentage obtained).

10. Related document references

- Securities and Exchange Commission Memorandum Circular No. 10 series of 2019
- Corporate Governance Code,
- Securities Regulations Code,
- Philippine Stock Exchange Disclosure Rules,
- Corporation Code of the Philippines and
- All applicable laws of the Philippines
- Code of Business Ethics Policy
- Conflict of Interest Policy

11. Details of revision/s made to this policy

From time-to-time Company may make changes to this Policy and relevant Guidelines to improve the effectiveness of it/s operation pursuant to Securities Exchange Commission Circular No. 10 Series of 2019 or the Rules on Material Related Party Transactions for Publicly listed Companies.

Version No.	Date	Description of Change	Author	Approver
1.0	April 26, 2021	Initial Document	Marlyn E. Malabanan	Atty. Laurice P. Esteban-Tuason



ADVISEMENT REPORT ON MATERIAL RELATED PARTY TRANSACTIONS

Reporting PLC: SEC Identification Number:
Name of Related Party: Execution Date of Transaction:
Relationship between the Parties including financial/non-financial interest:

Table with 7 columns: Type/Nature of Transaction and Description of Assets Involved, Terms and Conditions, Rationale for Entering into the Transaction, Total Assets of Reporting PLC, Amount/Contract Price, Percentage of the Contract Price to the Total Assets of the Reporting PLC, Carrying Amount of Collateral, if any, Approving Authority.

1 Total assets shall pertain to consolidated assets if the reporting PLC is a parent company.
2 The information shall include the names of directors present, names of directors who approved the Material Related Party Transaction and the corresponding voting percentage obtained.



Related Party Transactions Policy

12. Annex A – page 1



Related Party Transactions Policy

Document No.: POL-CSOO-COMPL-0003

Version No: 1.0

Page 12 of 12

Annex A – page 2

Annex A to SEC MC No. 10, Series of 2019

SIGNATURES

Pursuant to the requirements of the Commission, the company has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

(Name of Reporting PLC)

(Name of Related Party)

.....

Name, Signature of the Corporate Secretary/
Authorized Representative³

.....

Name, Signature of the Related Party/Authorized Representative³

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