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SECURITIES AND EXCHANGE COMMISSION

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LEPANTO CONSOLIDATED MINING CO.

Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

23 October 2019


Corporate Governance and Finance Department
Securities and Exchange Commission
HEAD OFFICE Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City

Re: **Policy on Material Related Party Transactions**

Gentlemen:

We are submitting herewith our Policy on Material Related Party Transactions in compliance with SEC Memorandum Circular No. 10 Series of 2019.

Very truly yours,


ODETTE A. JAVIER
Vice President and
Asst. Corporate Secretary

Cc: PSE



LEPANTO CONSOLIDATED MINING CO.

Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

POLICY ON MATERIAL RELATED PARTY TRANSACTIONS

LEPANTO CONSOLIDATED MINING COMPANY hereby adopts the following Policy on Material Related Party Transactions.

POLICY STATEMENT

This Policy covers only related party transactions which amount to ten percent (10%) or more of the total consolidated assets of the Company as of the latest audited financial statements.

SECTION 1. Definition of Terms

For purposes of this Material RPT Rules, the following definitions shall apply:

“Abusive Material RPTs” shall mean Material Related Party Transactions that are not entered at arm’s length and unduly favor a Related Party.

Affiliate – refers to an entity linked directly or indirectly to Lepanto 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, of at least ten percent (10%) 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;
- Management contract or any arrangement granting power to Lepanto to direct or cause the direction of management and policies of the entity, or vice-versa.

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

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

Control – there is control when a person or an 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 his/its power over the Company to affect the amount of its returns.

Investigators - a team appointed by the Board to investigate Material RPTs, which team shall be chaired by an independent director and may include other board members or officers of the Company.

Material RPTs – Any RPT, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to at least ten percent (10%) of the Company's consolidated total assets based on its latest audited financial statements.

Materiality Threshold – Ten percent (10%) of the Company's consolidated total assets based on its latest audited financial statements.

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

Related Parties – covers the Company's directors, officers, substantial shareholders and their Relatives. Lepanto's subsidiaries, Associates, and Affiliates are also Related Parties.

Related Party Transactions (RPT) – a transfer of resources, services or obligations between the 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.

Relatives- the spouses or children of the Company's directors, officers and Substantial Shareholders if these relatives may be expected to influence the director, officer or substantial shareholder in their dealings with the Company. Persons who have control, joint control, or significant influence over the Company who are related within the fourth civil degree of consanguinity with the Company's directors, officers, or substantial shareholders

Substantial Shareholder – any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of Lepanto's equity security.

SECTION 2. Identification of Related Parties. For the purposes of this Policy, the persons and entities named hereunder are Related Parties of Lepanto, who shall be included in a Related Party Registry which shall be updated quarterly:

- a. The members of Lepanto's Board of Directors and their Relatives;
- b. The Chief Executive Officer, President and Chief Operating Officer, Chief Finance Officer (CFO), Treasurer, Corporate Secretary, Executive Vice President, Senior Vice President, Vice President and Asst. Vice Presidents and their Relatives;
- c. Substantial Shareholders and their Relatives;
- d. Diamond Drilling Corporation of the Philippines
- e. Lepanto Investment and Development Corporation
- f. Shipline, Incorporated
- g. Far Southeast Gold Resources, Inc.
- h. Manila Mining Corporation

SECTION 3. Coverage of Material RPT Policy. The Material RPT policy shall cover all transactions meeting the Materiality Threshold but not the following transactions:

- a. Customary transactions for the provision of services between the Company and its Subsidiaries or Affiliates/Associates or between/ among such Subsidiaries, Affiliates and Associates;
- b. Share transactions such as but not limited to dividends, repurchase, rights offerings; and
- c. Transfer of resources between Lepanto and a wholly-owned Subsidiary or between wholly-owned Subsidiaries;

SECTION 4. Notice to the Board of Directors of Proposed Material RPTs. The CFO or the Related Party involved shall notify the Board of Directors, through the Corporate Secretary, of any proposed transaction that falls within the Materiality Threshold and the matter shall be taken up by the Board in a special meeting or at its next regular meeting. The Notice shall include the following details:

- a. the nature of the Material RPT;
- b. name of the Related Party;
- c. the Related Party's interest in the Material RPT;
- d. the approximate value or the amount involved in the Material RPT;
- e. the approximate value or the amount of the Related Party's interest in the Material RPT;
- f. the benefit to the Company of the Material RPT; and
- g. the timing of the Material RPT.

SECTION 5. Board evaluation of the Material RPT. The Board shall evaluate and consider for approval the Material RPT taking into consideration the following:

- a. availability of other offers or options from non-Related Parties;
- b. urgency of the matter on the part of the Company;
- c. reasonableness of the terms.

SECTION 6. Review by an independent party. The Board may defer action on the proposed Material RPT and refer the same to an independent party or appraiser to ensure that the same is not an Abusive Material RPT. If such a review by an independent party or appraiser had been made prior to the board approval and execution of the Material RPT, then the Material RPT may no longer be assailed for being abusive.

SECTION 7. Approval of Material RPTs. All Material RPTs shall be approved by at least two-thirds (2/3) vote of the board of directors; Provided:

- a. That both independent directors of the Company are present at the meeting; and
- b. That if the Related Party(ies) is/are Board members, he/she/they shall abstain from participating in discussions and voting on the same.

SECTION 8. Conflict of interest considerations. In connection with every approved Material RPT, the Internal Audit Department shall submit a report to the Board, through the Audit Committee:

- a. identifying conflict situations arising from the Material RPT;
- b. measures, changes, or safeguards to be implemented to address or manage the said conflict of interest.

SECTION 9. Self-assessment and periodic review of policy. The Internal Audit Department 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.

SECTION 10. Duty of Compliance Officer. The 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 11. Disclosure requirement of Material RPTs. The concerned 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 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.

SECTION 12. Whistleblower Policy on Material RPTs. Any stakeholder who believes that a Material RPT had been executed without the requisite Board approval ("Whistleblower") may report to any member of the Board about such belief. The report shall include such details of the Material RPT as are known to the Whistleblower, who may or may not identify himself/herself. The member of the Board concerned shall forthwith advise the Chairman, the President, or any independent director of such a report and request that the report be discussed at the next Board meeting or at a special board meeting where it shall be determined whether or not an investigation of the report shall be made.

SECTION 13. Remedies for Abusive Material Related Party Transactions

- a. The Board shall appoint Investigators who will investigate who are responsible for Material RPTs that were executed without Board approval and whether the same is abusive.
- b. The same Investigators shall also determine whether the Company incurred losses or opportunity costs in entering into the Abusive Material RPT, and will recommend measures that would cut such losses, and allow recovery of such losses or opportunity costs.
- c. If, after due notice and hearing, the Investigators should find that a Director or officer was directly responsible for the Company entering into an Abusive Material Related Party Transaction which made the Company incur losses or opportunity costs, then the Investigators

will recommend a course of action or actions to the Board in relation to the recovery of losses and sanctions against the concerned director or officer.

- d. Upon receipt of the Investigators' recommendation, the Board shall take such actions as are authorized under Sections 26 and 27 of the Revised Corporation Code.

SECTION 14. Disclosure and Regulatory Reporting


- a. The Company shall submit the following to the SEC:

- (i) A summary of Material RPTs ("Summary") entered into during the reporting year, which shall be disclosed in the Company's Integrated Annual Corporate Governance Report that is submitted annually every May 30th;
- (ii) An advisement report of any Material RPT t Report within three (3) calendar days from the execution date of the same. The Advisement Report shall be signed by the reporting Corporate Secretary, or by an authorized representative appointed by the Board.

- b. At a minimum, the Summary and the Advisement Report shall include the following information:

- (i) Complete name of the Related Party;
- (ii) Relationship of the Related Parties;
- (iii) Execution date of the Material Related Party Transaction;
- (iv) Financial or non-financial interest of the Related Parties;
- (v) Type and nature of transaction and description of the assets involved;
- (vi) Total assets of the Company
- (vii) Amount or contract price;
- (viii) Percentage of the contract price to the total assets of the Company;
- (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 Related Party Transaction, and the corresponding voting percentage obtained).

SECTION 15. Effectivity. This Policy shall be effective upon approval of the Board of Directors.


FELIPE U. YAP
Chairman of the Board


MA. LOURDES B. TUASON
Compliance Officer