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Pacific Online Systems Corporation LOTO

PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

Form/Report Type	Related Party Transactions Policy & Guidelines
Report Period/Report Date	Oct 18, 2019

Description of the Disclosure

Please see attached Related Party Transactions Policy & Guidelines as filed with SEC.

Filed on behalf by:

Name	JASON NALUPTA
Designation	ASSISTANT CORPORATE SECRETARY

COVER SHEET

A S 0 9 3 0 8 8 0 9
S.E.C. Registration Number

P A C I F I C O N L I N E S Y S T E M S
C O R P O R A T I O N

(Company's Full Name)

2 8 / F E A S T T O W E R P S E C E N T R E
E X C H A N G E R D . O R T I G A S P A S I G
(Business Address: No. Street City / Town / Province)

JASON C. NALUPTA
Contact Person

632-09-05
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

Every Second
Friday of APRIL
Month Day
Annual Meeting

RELATED PARTY TRANSACTIONS POLICY & GUIDELINES FORM TYPE

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be Accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

RELATED PARTY TRANSACTIONS POLICY & GUIDELINES

PACIFIC ONLINE SYSTEMS CORPORATION (hereinafter, "Pacific Online" or the "Corporation") is committed to the highest standards of ethics in compliance with all applicable laws, rules, and regulations as it conducts its business as a good corporate citizen. This commitment and standard of conduct governs POSC's relationships with its customers, external providers, shareholders, competitors, the communities it operates in, and with employees themselves at every level of the organization.

I. Purpose

The purpose of the policy is to provide guidelines that would ensure the integrity and transparency of Related Party Transactions (RPT) and ensure that all transactions are always to the interest of the Corporation, in particular, of its minority shareholders and other stakeholders.

II. Definition of Terms

For purposes of the Pacific Online RPT Policy & Guidelines, the following terms as used herein shall mean:

Related Parties - covers Pacific Online'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 Corporation. It also covers the Corporation'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 the Corporation's equity security.

Affiliate - refers to an entity linked directly or indirectly to Pacific Online 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 Pacific Online, 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 Pacific Online and the entity; or,
- Management contract or any arrangement granting power to the Corporation to direct or cause the direction of management and policies of the entity, or vice-versa.

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

Significant Influence - is the power to participate in the financial and operating policy decisions of the Corporation but has no control or joint control of those policies.

Control - A person or an entity controls the Corporation if and only if the person or entity has all of the following:

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

Related Party Transactions - a transfer of resources, services or obligations between the Corporation 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.

Material Related Party Transactions - transactions reaching the set threshold amount as may be recommended by Management and approved by the Board of Directors, provided, that in all cases, any related party transaction, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to at least ten percent (10%) of Pacific Online's total assets based on its latest audited financial statements shall come within the coverage of this term.

Materiality Threshold - shall be Ten Percent (10%) of the Corporation's total assets based on its latest audited consolidated financial statements, or such lower amount as shall be determined by Management and approved by the Board of Directors.

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

III. Coverage and Materiality Threshold

- A. **Policy.** It is the Company's policy that transactions with related parties are made at terms equivalent or comparable to prevailing market rates and on arm's length basis.
- B. **Material Transactions.** Management shall present Material Related Party Transactions proposed to be entered into by the Company to the Board for approval prior to Management execution.

Transactions identified by Management as sensitive or otherwise material, even though the values thereof do not meet the Materiality Threshold, may be submitted to the Board for review.

The mandatory referral to the Board of Directors for the Material Related Party Transactions shall include any renewal or material changes in the previously-approved terms and conditions thereof. For purposes of this proviso, changes in the terms and conditions shall be "material" if it involves changes in, among others, the price, interest rate, maturity date, payment terms, commissions, fees, tenor, and/or collateral requirement.

- C. **Exceptions.** Related Party Transactions not expressly provided herein shall not be covered by this policy.

For further clarity, the following transactions are excluded from the coverage of this Related Party Transactions Policy and Guidelines, and, therefore, need not pass through Board review and approval:

1. Compensation of directors and employment of executive officers;
2. Transactions with similar terms available to all employees;
3. Banking, treasury and foreign exchange transactions, finance or insurance-related services and transactions with a Related Party, if the terms are generally the same as, or similar to, offers of other banks or insurance companies in the ordinary course of business;
4. Share transactions such as dividends, repurchase, rights offerings, available to all shareholders on a pro-rata ownership basis;
5. Transaction/s with a Related Party involving the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with rules, law or governmental authority; and,
6. Transfer of resources between parent company and subsidiaries, and between wholly-owned subsidiaries of a common parent company.

IV. Guidelines on Related Party Transactions

- A. **General.** Material Transactions shall be reviewed and approved in accordance with the principles of integrity, transparency and fairness, to ensure that they are to be entered into at arm's length basis and will be to the best interest of the Corporation and its subsidiaries or their shareholders, including minority shareholders; and that no preferential treatment shall be given to Related Parties that are not extended to non-related parties under similar circumstances.

- B. Standards.** In the review of the RPTs, the following, among others, shall be taken into consideration:
1. The Related Party's relationship to the Company and interest in the transaction;
 2. Material facts of the proposed transaction, including the proposed aggregate value of such transaction;
 3. Benefit to the Corporation of the proposed transaction;
 4. Availability of other sources of comparable products or services; and,
 5. Full assessment of whether the proposed transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.
- C. Third Party Evaluation.** Should it be deemed necessary to erase any doubt, before the execution of a Material Transaction, an external independent party may be engaged to evaluate the fairness of the terms of the Material 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.
- D. Price Discovery Mechanism.** In like manner, where it shall be deemed necessary, an effective price discovery mechanism may also be availed of to ensure that transactions are engaged into at terms that promote the best interest of the Corporation 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.
- E. Duty to Disclose.** The members of the Board, substantial shareholders, and officers shall fully disclose to the Board of Directors all material facts related to Material Transactions as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the Corporation. Such disclosure shall be made at the Board meetings where the Material Transaction will be presented for approval and before the completion or execution of the Material Transaction.
- F. Conflict of Interest Policy.** The Corporation's Policy on Conflict of Interest and its Manual on Corporate Governance provides clear stipulations with regard to the identification, prevention and management of any conflict of interest.

All Directors and the Corporation's officers and employees have the duty to conduct fair business transactions with the Corporation and ensure that personal interest do not conflict with the interests of the Corporation. It is provided further that the basic principle to be observed is that any director, officer, or employee should not use his

position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. A conflict of interest shall be considered material if his personal or business interest is antagonistic to that of the Corporation, or stands to acquire or gain financial advantage at the expense of the Corporation. All Directors, officers and employees are obligated to disclose to the Corporation any actual or potential conflict of interest.

- G. Whistle-Blowing Mechanisms.** All stakeholders shall be encouraged to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable Material Transactions. Where necessary, the Corporation's Whistle-Blowing Policy shall be amended to 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.
- H. Remedies for Abusive Material Related Party Transactions.** In instances where Abusive Material Related Party Transactions shall be discovered, it shall be the duty of Management to ensure that the Corporation's losses are cut and available remedies shall be availed of to allow the Corporation to recover its losses or opportunity costs incurred by the Corporation arising out of, or in connection with, the Abusive Material Related Party Transaction. The Corporation's personnel, officers or directors, who have been remiss in their duties in handling Material Related Party Transactions in accordance with company policies shall be dealt with in accordance with existing disciplinary policies.

Furthermore, pursuant to Sections 26 and 27 of the Revised Corporation Code, an interested director or officer of the 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 Related Party Transactions. The disqualification shall be for a period of at least one (1) year or more, as may be determined by the SEC.

For purposes of this provision, Abusive Material Related Party Transactions refer to transactions that are not entered at arm's length and unduly favor a related party.

V. Duties of the Board of Directors

- A. Review and Approval of Material Transactions.** 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 Corporation's shareholders and other stakeholders. Towards this end, the Board of Directors shall carry out the following duties and responsibilities:

1. To institutionalize an overarching policy on the management of Material Transactions to ensure effective compliance with existing laws, rules and regulations at all times and that Material Transactions are conducted on an arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged.
2. To approve all Material Transactions 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 Transactions previously approved.
3. To establish an effective audit, risk and compliance system to:
 - a. Determine, identify and monitor related parties and Material Transactions;
 - b. Continuously review and evaluate existing relationships between and among businesses and counterparties; and,
 - c. Identify, measure, monitor and control risks arising from Material Transactions.

The system shall be able to define the Related Parties' extent of relationship with the Corporation; assess situations in which a non-related party (with whom the Corporation 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 Corporation 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.

B. **Voting Requirement.** All individual Material Transactions 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 Transaction.

In case that a majority of the independent directors' vote is not secured, the Material Transaction may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

C. **Disclosure and Disqualification.** Directors with personal interest in a Material 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.

VI. Disclosure of RPTs

Full disclosure of all Material Transactions for an understanding of the potential effect of the relationship on the financial statements shall be made by the Corporation. This shall be stated in the Company's financial statements, its quarterly and annual financial reports, its Integrated Annual Corporate Governance Report, and other applicable filings to the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE) and other applicable regulatory bodies. Such disclosures are available on the corporate website and readily accessible to the public.

An Advisement Report of any Material Transaction shall be filed with the SEC within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by the Corporate Secretary or other authorized representative of the Corporation.

At a minimum, the disclosures on the Corporation's Material Transactions shall include the following information:

- i. complete name of the Related Party;
- ii. relationship of the parties;
- iii. execution date of the Material Transaction;
- iv. financial or non-financial interest of the Related Parties;
- v. type and nature of transaction as well as a description of the assets involved;
- vi. total consolidated assets of the Corporation;
- vii. amount or contract price;

- viii. percentage of the contract price to the total consolidated assets of the Corporation;
- 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 Transaction and the corresponding voting percentage obtained).

VII. Periodic Review

A. **Management Review.** Management shall conduct a periodic assessment on the following items:

- Collectability of receivables from related parties and the need to provide allowance for doubtful accounts for such receivables;
- Market and financial risks faced by related parties;
- Guarantees issued to or received from related parties;
- Financial and economic soundness of RPTs (e.g. receivables and payables, cash placements and loans, investments in shares of stock, management / service fees, etc.)

B. **Self-Assessment and Periodic Review of Policy** - The Internal Audit shall conduct a periodic review of the effectiveness of the Corporation's system and internal controls governing Material 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.

VIII. Compliance with the RPT Policy


The Corporation is committed to upholding and protecting the interests and rights of all of its shareholders at all times. As such, all transactions including RPTs that require shareholders' approval as deemed by the Committee are submitted for approval.

The Corporation's Compliance Officer shall ensure that the Corporation 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 Corporation's transactions and identify any potential Material Transaction that would require review by the Board. He shall ensure that the Corporation's Material Transactions policy is kept updated and is properly implemented throughout the organization.


All transactions, contracts or agreement not consistent or is non-compliant with any portion or provision of this Policy shall be revoked or nullified.

A director, officer, employee, or Related Party is subject to the corresponding procedures and penalties under the Corporation's Code of Conduct and relevant laws, as applicable.

Adopted and approved by the Board of Directors on 15 October 2019.



WILLY N. OCIER
Chairman and President



GRACE L. GATDULA
Compliance Officer