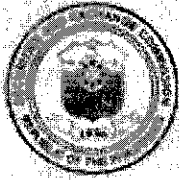




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## SECURITIES AND EXCHANGE COMMISSION

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28 October 2019

**SECURITIES AND EXCHANGE COMMISSION**  
PICC Complex, Roxas Boulevard, Pasay City

Attention: **Hon. Vicente Garciano P. Felizmenio Jr.**  
*Director, Markets & Securities Regulations Department*

**PHILIPPINE STOCK EXCHANGE, INC.**  
6<sup>th</sup> Floor, PSE Tower  
5<sup>th</sup> Avenue corner 28<sup>th</sup> Street  
Bonifacio Global City, Taguig City

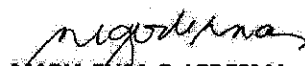
Attention: **Ms. Janet Rose A. Encarnacion**  
*Head, Disclosure Department*

Gentlemen:

In Compliance with SEC Memo Circular No. 10 Series of 2019, we are pleased to submit our Related Party Transaction Policy.

We hope that you find the attached in order.

Very truly yours,

  
**MARIA ELISA G. LEDESMA**  
*Assistant Corporate Secretary*



## RELATED PARTY TRANSACTION POLICY

### **Section 1. Statement of Policy and Purpose**

Liberty Flour Mills, Inc. (the "Company") recognizes that there are tangible benefits that may be attained and secured through related party transactions ("RPTs"). However, despite the advantages of RPTs, there is always the underlying temptation that RPTs may be used to the personal benefit of Related Parties. This being the case transactions entered into between a Related Party and the Company may be skewed in favor of a particular party to the detriment of the other. There is also the possibility that RPTs entered into by the Company may create conflict of interest scenarios that may put into question the Board of Director's faithful performance of its fiduciary duty to the Company. In view of the foregoing, the Company hereby adopts this Related Party Transaction Policy (the "Policy") to maintain the transparency and integrity of the Company's RPTs.

### **Section 2. Definition of Terms**

1. **Affiliate** – refers to an entity linked directly or indirectly to the Company through any one or a combination of any of the following:
  - a. 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;
  - b. Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;
  - c. Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the Company and the entity; or
  - d. Management contract or any arrangement granting power to the Company to direct or cost the direction of management and policies of the entity, or vice versa.
2. **Associate** – An entity over which the Company holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the Company has significant influence.
3. **Control** – A person or entity shall only be deemed in control of the Company if and only if the following such person or entity possess all of the following:
  - a. Power over the Company;
  - b. Exposure or rights to variable returns from its involvement with the Company; and



Liberty Flour Mills, Inc.

- c. The ability to use its power over the Company to affect the amount of reporting the Company's returns.
4. **Material Related Party Transaction** - Any related party transaction/s, either individually, or 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.
5. **Materiality Threshold** - Ten Percent (10%) of the Company's total assets based on its latest audited financial statement. If Company is a parent company, the total assets shall pertain to its total consolidated assets.
6. **Related Party** - The Company's Directors, officers, substantial shareholders and their spouses and relatives within the fourth (4<sup>th</sup>) degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the Company. It also covers the 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.
7. **Related Party Registry** - A record of the organizational and structural composition, including any change thereon, of the company and its related parties.
8. **Related Party Transactions** - A transfer of resources, services or obligations between the Company and the 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.
9. **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.

### **Section 3. Duties, Responsibilities, and Role of the Board of Directors**

The Board of Directors shall have the overall responsibility in ensuring that transactions with Related Parties are handled in sound and prudent manner, with integrity, and in compliance applicable laws and regulations to protect the interests of the Company, its shareholders, and stakeholders. To 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 RPTs to ensure effective compliance with existing laws, rules and regulations and that material are RPTs are conducted on an arm's length basis and that no shareholder is unduly disadvantaged.



2. To approve all RPTs that cross the Materiality Threshold and write-off material exposures to related parties, as well as any renewal or material changes in the terms and conditions of for the approval of Material RPTs.

There shall be a material changes in the terms and conditions of Material RPTs when there is a change in the price, interest rate, maturity date, payment terms, commission, fees, tenor, or collateral required for a given transaction.

3. To establish an effective audit, risk, and compliance system to:
  - a. Determine, identify and monitor RPTs and Material RPTs
  - b. Continuously review and evaluate existing relationships among businesses and counterparties; and
  - c. Identify, measure, monitor and control risks arising from Material RPTs.

The system should 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; 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 Compliance Officer 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 subsequently approved and ratified 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 address legitimate issues on Material RPTs that are raised. The Board should take responsibility for ensuring that employees, shareholders, and stakeholders who raise concerns are protected from detrimental treatment or reprisals.

#### **Section 4. Duties, Responsibilities, and Role of 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, Law, and regulations.



#### **Section 5. Duties, Responsibilities and Role of the Audit Committee**

In furtherance of this Policy, the Audit Committee shall be given the task of supervising and conducting a periodic review of the effectiveness of the Company's system and internal controls governing RPTs and Material RPTs to assess consistency with policies and procedures approved by the Board. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

#### **Section 6. Duties, Responsibilities and Role of the Compliance Officer**

The Compliance Officer shall ensure that the Company complies with relevant rules and regulations and is informed of the regulatory developments in areas affecting related parties. He/she shall aid in the review of the Company's transactions and identify any potential Material RPTs that would require Board review and approval. The Compliance officer shall also ensure that this Policy is kept updated and properly implemented throughout the Company.

#### **Section 7. Review of RPTs and Material RPTs**

The following shall be used by the Board to determine whether an RPT is made at an arm's length basis:

1. Relationship of the Related Party to the Company;
2. The interest of the Related Party and the Company in the transaction;
3. The size and value of the transaction;
4. The benefit to the Company vis-à-vis the benefit to the Related Party;
5. The bargaining power of the Related Party vis-à-vis the Company's;
6. Purpose and timing of the transaction;
7. The availability of the services or products from an unrelated party as well as the price and terms for which they may be secured;
8. Whether the transaction would create a conflict of interest scenario which would otherwise be improper, considering the size, value, and terms of the transaction;
9. Whether, under the circumstances of the transaction, the terms and conditions of such transaction are no less favorable than those that are generally available to unrelated parties;



10. Other matters and material information which the Board of Directors may deem appropriate to consider, or as may be recommended by the Audit Committee or the Compliance Officer;

Provided, that before execution of a Material RPT, the Board shall appoint an external independent party to evaluate the fairness and terms of the Material RPT to ensure the fairness and transparency of the transaction to ensure protection of the rights of shareholders and other stakeholders.

#### **Section 8. Guidelines for Determining Arm's Length Transactions**

In the determination of whether a transaction is an arm's length transaction, the Company shall ensure that there is no preferential treatment, favorable advantage, or preference given under the terms of an agreement, that is granted to a Related Party that is not extended to a non-related party under similar circumstances.

#### **Section 9. Approval of Material RPTs**

All Material RPTs, except for those provided for in Section 11 of the Policy, shall be approved by at least two-thirds (2/3) vote of the Board, with at least a majority of the independent directors voting to approve the material RPT. In the event that the majority vote of the independent directors is not secured, the Material RPT may be ratified by the stockholders representing at least two-thirds (2/3) of the of the outstanding capital stock.

For aggregate RPT transactions within a twelve (12) month period that breach the Materiality Threshold, the same board approval would be required for 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.

#### **Section 10. Disclosure Requirements of Material RPTs**

The members of the Board, substantial shareholders, and officers shall fully disclosure 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. The disclosure provided by this section shall be made in the meeting of the Board when such transaction is presented for approval, and before the completion or execution of the Material RPT.

#### **Section 11. Exceptions and Exclusions to the Policy**

The following transactions shall be excluded from this Policy:





1. Transactions that are entered into in the normal course of business and under customary or normal commercial terms entered into by the Company with a Related Party;
2. Purchase and sale of goods, products, or commodities whose price is based on a fixed or graduated scale which is fixed by law, regulation, or customarily used in the course of trade or business;
3. Transactions that result from the process of competitive bidding if there is participation of Non-Related Parties;
4. Declaration of Dividends by the Company or by a Related party which inure to the benefit of the relevant party;
5. All transactions and incidences that result from the ownership of shares of stock which are available to all shareholders on a pro-rata basis;
6. Transactions entered by the Company with a Related Party which are for the sharing of services on a cost basis and allocated in a fair and equitable manner. These services such as, but not limited to, accounting, legal, human resource, information technology services, and training;
7. Transfer of resources between the Company and its wholly owned subsidiaries;
8. Transactions whose terms are available to all employees;
9. Repayment of advances that are made by the Company to a Related Party and vice versa;
10. Compensation of the relevant directors and officers whose compensation is subject to the determination of the Remuneration Committee; and
11. Transaction similar to the above.

#### **Section 12. Guidelines and Approvals for an Interlocking Director Scenario**

Except in cases of fraud, and provided that the contract is fair and reasonable under the circumstances, a contract between two or more Companies having interlocking directors shall not be invalidated on that ground alone. Provided, that if the interest of the interlocking director in one Company is substantial and his interest in the other Company or Company is merely nominal, he shall be subject to the following:

A contract of the Company with one or more of its directors or trustees or officers is voidable, at the option of such Company, unless all the following conditions are present:



1. That the presence of such director or trustee in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
2. That the vote of such director or trustee was not necessary for the approval of the contract;
3. That the contract is fair and reasonable under the circumstances; and
4. That in case of an officer, the contract has been previously authorized by the board of directors.

Where any of the first two conditions set forth in the preceding paragraph is absent, in the case of a contract with a director or trustee, such contract may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock or of at least two-thirds (2/3) of the members in a meeting called for the purpose: Provided, that full disclosure of the adverse interest of the directors or trustees involved is made at such meeting. Provided, however, that the contract is fair and reasonable under the circumstances.

Stockholders exceeding twenty percent (20%) of the outstanding capital stock shall be considered substantial for purposes of interlocking directors.

#### **Section 13. Whistle Blowing Mechanism and Procedure**

The Company encourages all its Directors, officers, employees, stockholders, and stakeholders to report any legitimate concerns about any illegal or unethical transaction between the Company and a Related Party that it may know of. It is further encouraged that the reporting of such be done confidentially to allow the board to investigate and address the matter and to negate any negative consequence that may result to a party on the basis of a false allegation.

The following procedure should be followed by any party that seeks to inform the Company of any Material RPT:

1. The relevant party that has a knowledge of a violation of this Policy, can raise the matter directly with any member of the Corporate Governance Committee or the Compliance Officer. If it is any of the aforementioned that are being alleged to have violated the terms of this Policy, then such may be made on the President.
2. Any report given, must be made in writing and may be made anonymously. Provided that the report should clearly state the parties to the transaction, the terms of the agreement (if known), the material and relevant facts, the Related Party that is part of the agreement, and supporting documents may be attached.

While the company does not expect that the matter be supported by absolute proof, before any matter is considered for action, there must be sufficient factual basis. In the absence of such factual basis the Company may refuse to act on the report.



3. The procedure for the investigation of the matter will depend on the size, terms, nature, and particularities of a given Material RPT. However, these may be either:
  - a. Resolved internally,
  - b. Raised to the President;
  - c. Raised to the Board; or
  - d. Be referred to an External Auditor.

In any case, the Chairman of the Corporate Governance Committee shall preside over the investigation. If the Chairman of the Corporate Governance Committee is the one alleged to have violated this Policy, then the matter shall be handled by the most senior member of the Corporate Governance Committee.


#### **Section 14. Remedies for Abusive Material RPTs**

A Related Party who has violated this Policy or who is proven to have caused the Company to enter into a transaction that is detrimental to the later, or otherwise abuses his/her/its relation to the Company in order to secure a favorable advantage which is not an arm's length shall be liable jointly and severally for all damages resulting therefrom suffered by the corporation, its stockholders or members and other persons.

#### **Section 15. Disclosure and Regulatory Reporting**

The Company shall disclose and report all Material RPTs in accordance with the relevant rules, regulations, issuances, and directives of the Securities and Exchange Commission.

*[Signature Page Follows]*

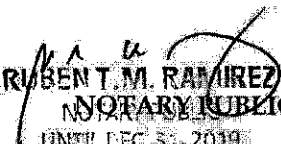
  
**WILLIAM CARLOS UY**  
Chairman/President

  
**JOSE S. JALANDONI**  
Compliance Officer

THIS DOCUMENT was personally subscribed and sworn to by the affiant before me this 28 day of October 2019 in Makati City. Affiant, who are personally known to me, avowed under penalty of law to the whole truth of the contents of the foregoing document and exhibited the following evidence of identity:

NAME	Identification Document Presented
WILLIAM CARLOS UY	TIN 123-282-691
JOSE S. JALANDONI	TIN 134-319-308

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Book No. 77  
Series of 2019.

  
**RUBEN T. M. RAMIREZ**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2019  
BP NO. 058821/01-3-19 Appointment #10-127  
ROLL NO. 257477/MCLE: ICY.0025583/8-8-2017  
PTR NO. MKT 7533572/01-3-19 MAKATI CITY