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| <b>REVISION HISTORY</b>      |                              |                       |
|------------------------------|------------------------------|-----------------------|
| <b>Description of Change</b> | <b>Author</b>                | <b>Revision</b>       |
| New                          | Laurice S. Dela Cruz/Finance | 0 (February 17, 2015) |
| Update                       | Laurice S. Dela Cruz/Finance | 1 (May 22, 2017)      |
| Update                       | Laurice S. Dela Cruz/Finance | 2 (October 07, 2019)  |



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## 1.0 PURPOSE

Integrated Micro-Electronics, Inc. (the “Company”) recognizes that Related Party Transactions (RPTs) may create financial, commercial and economic benefits to the entities and the group and can present potential or actual conflicts of interest that may raise questions about whether such transactions are in the best interests of the Company and shareholders. To promote good corporate governance and the protection of minority investors, the Company has adopted this Policy to ensure that its RPTs are at arm’s length, their terms are fair, and they will inure to the best interest of the Company and its Subsidiaries or Associates and their shareholders.

This policy sets forth the guidelines and procedures that will govern the review, approval, and ratification of certain transactions by the relevant committee and the Board of Directors (BOD) to ensure that related party relationships have been accounted for and disclosed consistent with the principles of transparency and fairness.

## 2.0 REFERENCE AND RELATED DOCUMENTS

IMI Manual of Corporate Governance  
Philippine Accounting Standards (PAS) 24, *Related Party Disclosures*  
SEC Memorandum Circular No. 10, Series of 2019, *Rules on Material Related Party Transactions for Publicly-Listed Companies*

## 3.0 DEFINITION OF TERMS

For the purpose of the Policy, the following definition of terms shall apply:

- 3.1 **Related Party Transaction (RPT)** – is 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 transactions that are entered into with an unrelated party that subsequently becomes a related party.
- 3.2 **Related Parties** – covers the Company’s directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity and affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the reporting entity. 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. Refer to Annex A for further definition and instances of a related party.
- 3.3 **Material Related Party Transaction** – are those transactions that are potentially or actually significant to the Company as determined by the relevant committee and the BOD and in accordance with the definition of the Securities and Exchange Commission (SEC).
- 3.4 **SEC-Defined Material Related Party Transactions (SEC-Defined 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 the Company’s consolidated assets based on its latest audited financial statements.



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

3.6 **Company-Recognized Material Related Party Transactions (Company-Recognized Material RPTs)** - are those transactions that meet the threshold values approved by the Related Party Transactions Committee (the “Committee”) to be potentially or actually significant to the Company and other requirements as may be determined by the Committee upon the recommendation of the Risk Management Executive Committee (as represented by the Chief Risk Officer).

3.7 **Company Materiality Threshold** – US\$1,000,000 or five percent (5%) of the Company’s consolidated assets based on its latest audited financial statements, whichever is lower.

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

3.9 **Fair and at Arm’s Length** – refers to transactions in an open and unrestricted market and between willing parties who are knowledgeable, informed, and who act independently of and without regard to any relationship with each other.

3.10 **Key Management Personnel** – persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.

3.11 **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.

3.12 **Subsidiary** – entities controlled by a reporting entity

3.13 **Affiliate** – refers to an entity linked directly or indirectly to the reporting entity 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%);
- 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 reporting entity and the entity; or
- d. Management contract or any arrangement granting power to the reporting entity to direct or cause the direction of management and policies of the entity, or vice versa

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

3.15 **Significant influence** – the power to participate in the financial and operating policy decisions of an entity but has no control or joint control of those policies.



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3.16 **Control** – a person or an entity controls a reporting entity if and only if the person or entity has all of the following:

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

#### **4.0 COVERAGE**

4.1 This policy covers both SEC-Defined Material RPTs and the Company-Recognized Material RPTs between the Company and a Related Party as defined above (the "Material RPTs"). If the Company's Subsidiary or Associate has not adopted its own policy on RPTs, this policy shall also cover the RPTs between such Subsidiary or Associate and a Related Party as defined above.

4.2 Transactions meeting the SEC and Company Materiality Thresholds that were entered into with an unrelated party who subsequently becomes a related party may be excluded from the limits and approval process required in this 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 party shall subject the RPT to the requirements of this policy. The prospective treatment should, however, be without prejudice to regulatory actions that may be enforced for transactions determined to not have been carried out on an arm's length basis.

#### **5.0 REVIEW AND APPROVAL OF RELATED PARTY TRANSACTIONS**

5.1 Prior to the finalization of any related party agreement, management shall report to the Committee all new or proposed Material RPTs amounting to at least US\$1,000,000 or five percent (5%) of the Company's consolidated assets based on its latest audited financial statements, whichever is lower. Transactions below the SEC and Company Materiality Thresholds may undergo review and approval process based on internal approval limits set by the Company.

5.2 All Material RPTs shall be reviewed by the Committee and endorsed to the BOD for approval except those transactions listed in Section 9.0 of this Policy. The BOD shall approve a Material RPT before its commencement. If not identified beforehand, the Material RPT must be subsequently reviewed by the Committee and ratified by the BOD or the same may be discontinued, rescinded or modified to make it acceptable for ratification.

5.3 Each individual SEC-Defined Material RPT shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the independent directors voting to approve such material RPT. In case that a majority of the independent directors' vote is not secured, such material RPT may be ratified by the vote of stockholders representing at least two-thirds (2/3) of the outstanding capital stock. For aggregate SEC-Defined Material RPTs within a twelve (12)-month period, the same BOD approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same Related Party.

5.4 In the review of the RPTs, the Committee shall consider the following factors:

- a. the terms of the transaction;
- b. the aggregate value of the transaction;



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- c. whether the terms of the transaction are no less favorable than those generally available to non-related parties under the same or similar circumstances;
- d. the extent of Related Party's interest in the transaction;
- e. purpose and timing of the transaction;
- f. whether the transaction would present an improper conflict of interest or special risks or contingencies for the Company or any of its Subsidiaries or Associates, or the Related Party taking into account the size of the transaction and the overall financial position of the Related Party; and
- g. any material information or other factors the Committee deems relevant.

#### **6.0 DISCLOSURE REQUIREMENT OF MATERIAL RPTs**

- 6.1 All directors, officers, substantial shareholders and employees of the Company shall complete the mandatory Annual Declaration of Compliance to the Code of Conduct to prevent conduct that actually constitutes a conflict of interest, as well as conduct that could be perceived as creating a conflict with the Company's interests.
- 6.2 All directors and key officers shall accomplish the Form on Identification of Related Parties to be maintained in the Related Party Registry.
- 6.3 Prior to entering into a Material RPT, a Related Party or the Company or any of its Subsidiaries or Associates, as the case may be, shall fully disclose Material RPTs to the BOD through the Committee all material facts related to the Material RPT as well as their direct interest in any transaction or matter that may affect or is affecting the Company.
- 6.4 The Related Party and the Committee shall also make this disclosure at the board meeting where the Material RPT will be presented for approval and before the completion or execution of the Material RPT.

#### **7.0 IDENTIFICATION, PREVENTION OR MANAGEMENT OF POTENTIAL OR ACTUAL CONFLICT OF INTEREST**

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.

#### **8.0 GUIDELINES IN ENSURING ARM'S LENGTH TERMS**

- 8.1 The Company shall ensure that no preferential treatment shall be given to Related Parties that are not extended to non-related parties under similar circumstances.
- 8.2 For SEC-Defined Material RPTs, an external independent party shall be appointed to evaluate the fairness of the terms of the transaction and to ensure the protection of the rights of the shareholders and other stakeholders. To ensure that transactions are at arm's length terms and to promote the best interest of the Company and its shareholders, the Company may adhere to the OECD Transfer Pricing Guidelines, Bureau of Internal Revenue (BIR) transfer pricing regulations, or any other price discovery mechanism that the BOD may deem appropriate.



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## 9.0 RELATED PARTY TRANSACTIONS DELEGATED TO MANAGEMENT

9.1 All Material RPTs shall be covered by this Policy except those that may be explicitly excluded/exempted by the SEC.

9.2 The following RPTs shall not be subject to review by the Committee provided they do not breach the SEC Materiality Threshold. These, however, shall be subjected for review at management level:

1. Compensation of directors and employment of executive officers approved or endorsed by the Compensation Committee and the BOD.
2. Transactions with similar terms available to all employees generally.
3. Banking, 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 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.

## 10.0 WHISTLE BLOWING MECHANISMS

10.1 The Whistleblower Policy of the Company extends to any concerns about illegal, unethical or questionable Material RPTs. Directors, officers, employees and stakeholders are encouraged to communicate any legitimate material concerns.

10.2 A Whistleblower may send or communicate a Report to the designated Reporting Channels:

| Reporting Channel     | Operator   |
|-----------------------|--|
| Face-to-face meetings | Office of the Compliance Officer or the Human Resource Compliance Group at the option of the employee or stakeholder   |
| E-mail                | <a href="mailto:compliance_officer@global-imi.com">compliance_officer@global-imi.com</a><br><a href="mailto:imi-integrityhotline@global-imi.com">imi-integrityhotline@global-imi.com</a> |

## 11.0 REMEDIES FOR ABUSIVE MATERIAL RPTs

11.1 A Related Party found to be non-compliant with the provisions of this policy and/or is proven to have entered into an abusive Material RPT shall be subject to the corresponding procedures and penalties under the Company's Code of Conduct and Ethics and relevant laws, rules and regulations, as may be applicable.

11.2 Directors or officers who are guilty of bad faith in entering into abusive Material RPTs and acquiring personal or pecuniary interest in conflict with their duty as directors or officers of the Company shall be liable jointly and severally for all damages resulting therefrom suffered by the Company, its stockholders and other persons and must account for the profits which otherwise would have accrued to the Company.



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## 12.0 REVIEW AND UPDATING OF RELATED PARTY REGISTRY

A Related Party Registry shall be maintained by the Office of the Compliance Officer which shall be reviewed and updated quarterly to capture organizational and structural changes in the Company and its Related Parties.

## 13.0 POST VERIFICATION OF RELATED PARTY TRANSACTIONS

The Risk Management Executive Committee (as represented by the Chief Risk Officer) and the Committee shall perform periodic post verification of RPTs to ensure that the terms and conditions approved and recommended by the Committee and ratified by the BOD are properly and correctly implemented.

## 14.0 NOTIFICATION

The Chief Risk Officer shall (i) advise each of the subsidiaries and affiliates of the Company of this Policy and (ii) and work with the subsidiaries and affiliates of the Company to implement the Policy for each subsidiary or affiliate to adopt its own policy on RPTs.

## 15.0 SELF-ASSESSMENT AND PERIODIC REVIEW OF THE POLICY

15.1 The Committee shall annually review the threshold values and the provisions of this Policy and may recommend to the BOD amendments to this Policy as it deems appropriate.

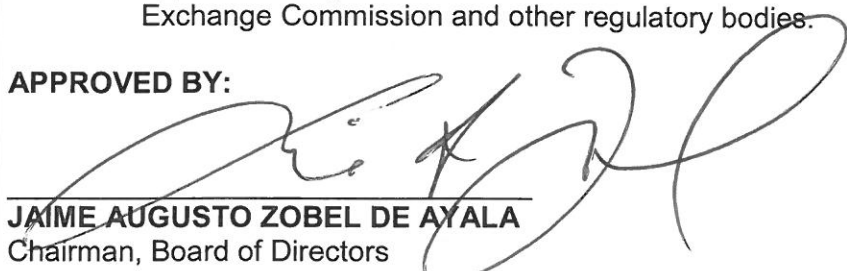
15.2 The Internal Audit shall conduct periodic review of the effectiveness of the Company's system and internal controls governing material RPTs to assess consistency with the BOD-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.


15.3 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. The Compliance Officer shall aid in the review of the Company's transactions and identify any potential Material RPTs that would require review by the BOD. The Compliance Officer shall ensure that the Company's Material RPT Policy is kept updated and is properly implemented throughout the Company.

## 16.0 DISCLOSURE AND REGULATORY REPORTING

The Material RPTs shall be disclosed in the Corporation's financial statements, and other applicable filings in accordance with the relevant rules and issuances of the Securities and Exchange Commission and other regulatory bodies.

APPROVED BY:

  
\_\_\_\_\_  
**JAIME AUGUSTO ZOBEL DE AYALA**  
Chairman, Board of Directors

  
\_\_\_\_\_  
**JAIME G. SANCHEZ**  
Compliance Officer

Form No.

Rev. A

DCC024-PT ()

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## **ANNEX A**

### **Related Party Definition**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity' in PAS 24, *Related Party Disclosure*).

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
  
- (b) An entity is related to a reporting entity if any of the following conditions applies:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).





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## **ANNEX B**

### **Examples of Related Party Transactions**

PAS 24, *Related Party Disclosures* gives the following as examples of transactions to be disclosed, if they are with a related party. The list is not intended to be exhaustive:

- (a) Purchases or sales of goods (finished or unfinished);
- (b) Purchases or sales of property and other assets;
- (c) Rendering or receiving of services;
- (d) Leases;
- (e) Transfers of research and development;
- (f) Transfers under license agreements;
- (g) Transfers under finance agreement (including loans and equity contributions in cash or in kind);
- (h) Provisions of guarantees or collateral;
- (i) Commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognized and unrecognized); and
- (j) Settlement of liabilities on behalf of the entity or by the entity on behalf of that related party

The standard also includes the following transactions:

- (a) Dividend payments
- (b) Issue of shares under rights issues to major shareholders or key management personnel
- (c) Transactions with individuals where their dealings with the entity are in a private capacity, rather than in a business capacity
- (d) Participation by a parent company or subsidiary in a defined benefit plan that shares risks between group entities

Common examples of transactions where no consideration is received but will fall under related party transactions:

- (a) Administration by an entity of another entity within a group (or of its post-employment benefit plan) free of charge;
- (b) Transfer of tax assets from one member of a group to another without payment;
- (c) Rent-free accommodation or the loan of assets at no charge;
- (d) Guaranteed by directors of bank loans to the entity.