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## SM PRIME HOLDINGS, INC.

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SMPH-CG-POL-001

### Related Party Transactions Policy

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**Introduction** In the conduct of its business, SM Prime (SMPH/the Company) may enter into transactions with related parties. This policy provides the guidelines on what constitutes a related party transaction (RPT), and sets forth the requirements for the review, approval and disclosure of RPTs.

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**Objectives** This policy is enacted to ensure that:

- a. Related party and RPTs are defined and the coverage/ scope of the policy is clearly outlined;
- b. RPTs are conducted on an arms' length basis;
- c. Potential or actual conflicts of interest which could possibly arise from RPTs are prevented or managed;
- d. RPTs are properly reviewed and approved by designated authorities; and
- e. Adequate disclosure is maintained for RPTs in accordance with applicable legal and regulatory requirements.

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**Definition of Related Party and Related Party Transaction** Per International Accounting Standards (IAS) 24<sup>1</sup>, a RPT is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Related party shall cover the following in accordance with IAS 24 on Related Party Disclosures:

A person or a close member of that person's family is related to a reporting entity<sup>2</sup> if that person:

- a. Has control or joint control over the reporting entity;
- b. Has significant influence over the reporting entity; or
- c. Is a member of the key management personnel of the reporting entity or of a parent the reporting entity.

An entity is related to the reporting entity if any of the following conditions applies:

- a. 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);
  - b. The entity is an associate<sup>3</sup> or joint venture of other entity, or an associate or joint venture of a member of a group of which the other entity is a member;
  - c. Both entities are joint ventures of the same third party;
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<sup>1</sup> International Accounting Standards (IAS) 24 on Related Party Disclosures issued by the International Accounting Standards Board.

<sup>2</sup> The entity that is preparing its financial statements.

<sup>3</sup> An entity which the Company or another entity has significant influence over.

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- d. The entity is a post-employment defined 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;
  - e. The entity is controlled or jointly controlled by a person identified in the previous paragraph;
  - f. A person identified in the previous paragraph 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);
  - g. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.
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**Exclusions**

All transactions considered USUAL COURSE OF BUSINESS, regardless of amount are not covered by the Review and Approval Process mentioned in the next section, PROVIDED, that such transactions are on substantially the same terms as those prevailing at the time for comparable products or services with unrelated parties. These include, but are not limited to, the following:

- a. Employment and corresponding compensation packages of directors and executives duly approved by the Corporate Governance Committee.
  - b. Approved employee incentives or fringe benefits given to all qualified employees (including Senior Officers).
  - c. Leasing of commercial space, real property, equipment and others either as lessee or lessor.
  - d. Banking, finance and insurance related services such as but not limited to cash investments, bank loans, dividend income from investment in equity instruments, non-life insurance policies etc.
  - e. Any transactions involved in rendering of any services covered by service level agreements and cost reimbursement in relation to manpower, utilities, construction, engineering, procurement, property management, and other similar services in the ordinary course of business.
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**Materiality Threshold**

Equal or greater than Pesos: One Hundred Million (Php 100 Mn). The RPT Committee will review and revise such threshold as it deems necessary.

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**Review and Approval Process**

All material RPTs, excluding those considered USUAL COURSE OF BUSINESS, are referred to the Chief Risk Officer for review prior to endorsement to Related Party Committee.

The Board of Directors reviews and approves all material RPTs endorsed by the Related Party Transactions Committee.

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The RPT Committee may, at any time ask for a review of any of the transactions.

All material RPTs which are approved by the Board may be subject to ratification by a vote of the majority of the minority shareholders.

Any member of the Board or Related Party Transactions Committee who has interest in the RPT must abstain from participation in the review and approval of such transaction.

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**Disclosure  
Requirements**

No materiality threshold for regulatory reporting compliance. Full disclosure of the amount, nature and details of RPTs shall be observed in the Company's annual reports, financial statements, and in its reports to the SEC, PSE and other regulatory agencies in accordance with existing laws and/or regulations.

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