

Audit Committee Charter

I. Rationale

The Audit Committee has the authority and responsibility to ensure compliance of the Company with audit-related laws and regulations, and to implement the necessary mechanisms. The Audit Committee shall enhance the Board's oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It shall be responsible for the setting up of the Internal Audit Department and for the appointment of the Internal Auditor as well as the independent external auditor who shall both report directly to the Audit Committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system. Further, the Audit Committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend meetings, and adequate resources to enable it to effectively discharge its functions.

II. Composition and Membership

A. Committee

Composition

The Audit Committee shall be composed of at least three (3) appropriately qualified directors, the majority of whom, including the chairperson, should be independent directors. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance. Each member shall have adequate understanding at least, or competence at most, of the Company's financial management systems and environment.

Chairperson

The chairperson of the Audit Committee should not be the chairperson of the Board or of any other committees.

Appointment

Members of the Audit Committee are appointed by the Board.

Removal

The members may be removed by the Board based on grounds determined by the Board following internal procedures set.

B. Internal Audit ("IA") Department

The Audit Committee shall establish an IA Department, which shall have such number of personnel as may be necessary and shall be lead by an IA Head or Chief Audit Executive ("CAE") recommended

by the Audit Committee and appointed by the Board¹. The CAE is responsible for IA activities of the organization, including those that are outsourced to a third-party service provider. In case of a fully outsourced IA activity, qualified independent executive or senior management personnel will be assigned the responsibility for managing the fully outsourced IA activity.²

The terms and conditions for outsourcing IA services shall be approved by the Audit Committee.

C. External Auditor

Subject to the approval of the Board and ratification of the shareholders of the Company, the Audit Committee shall recommend the appointment, reappointment, removal, and fees of the external auditor, who should be duly accredited by the Securities and Exchange Commission (the "Commission").³ The external auditor must be credible, competent and has the ability to understand complex transactions, including related party transactions and valuation of such transactions.⁴ In case of removal or change of the external auditor, the reasons therefor shall be disclosed to the appropriate regulators and the public through the Company website and required disclosures.⁵

The Audit Committee is responsible for ensuring that the external auditor has quality control procedures.⁶

III. **Frequency, General Timing, and Procedures of Meetings**

1. The Audit Committee shall meet twice a year at a minimum, with authority to convene additional meetings as may be required.
2. The Audit Committee members are requested to attend every meeting. The Audit Committee shall invite to the meetings members of management, selected representatives from internal and external auditors and/or other functional groups of the Company as may be necessary.
3. The meeting agenda shall be prepared and provided in advance to the Audit Committee members, along with appropriate briefing materials. The minutes of the meeting shall be prepared and routed promptly.
4. The Audit Committee shall likewise periodically meet with the Board without the presence of the Chief Executive Officer ("CEO").
5. The Audit Committee shall also periodically meet with the head of the IA.

IV. **Duties and Responsibilities**

¹ See Code for PLCs, Recommendation 12.3.

² See Code for PLCs, Recommendation 12.3.

³ See Code for PLCs, Recommendation 9.1, Explanation : **** Shareholders' ratification clarifies or emphasizes that the external auditor is accountable to the shareholders or to the company as a whole, rather than to the management whom he may interact with in the conduct of his audit.*

⁴ See IACGR, Supplement to Recommendation 9.2 (1).

⁵ See Code for PLCs, Recommendation 9.1.

⁶ See IACGR, Supplement to Recommendation 9.2 (2).

A. Audit Committee

The Audit Committee shall have the following duties and responsibilities:

- Provide oversight over management's activities in managing credit, market, liquidity, operational, legal, and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities;
- Provide oversight capability on the Company's legal and regulatory compliance and responsibility to ensure that the necessary actions are taken to address any violations;
- Recommend the approval of the IA Charter, which formally defines the role of IA and the audit plan as well as oversees the implementation of the IA Charter;
- Through the IA Department, monitor and evaluate the adequacy and effectiveness of the Company's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to i) safeguard the Company's resources and ensure their effective utilization, ii) prevent occurrence of fraud and other irregularities, iii) protect the accuracy and reliability of the Company's financial data and information technology security, and iv) ensure compliance with applicable laws and regulations;
- Oversee the IA Department and recommend the appointment and/or grounds for approval of an IA head or CAE. The Audit Committee should also approve the terms and conditions for outsourcing IA services;
- Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. For this purpose, the Internal Auditor should directly report to the Audit Committee;
- Review and monitor management's responsiveness to the Internal Auditor's findings and recommendations;
- Review the annual IA plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources, and budget necessary to implement it;
- Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensures the proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;
- Evaluate and determine the non-audit work, if any, of the external auditor, and periodically reviews the non-audit fees paid to the external auditor in relation to the total fees paid to him and to the Company's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's Annual Report and Annual Corporate Governance Report;
- Review and approve the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters:
 - Any change/s in accounting policies and practices
 - Areas where a significant amount of judgment has been exercised
 - Significant adjustments resulting from the audit
 - Going concern assumptions
 - Compliance with accounting standards
 - Compliance with tax, legal and regulatory requirements
- Review the disposition of the recommendations in the external auditor's management letter;

- Perform oversight functions over the Company’s internal and external auditors, including the review of reports submitted by them. It ensures the independence of internal and external auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- Coordinate, monitor and facilitate compliance with laws, rules and regulations;
- Recommend to the Board the appointment, reappointment, removal and fees of the external auditor, duly accredited by the Commission, who undertakes an independent audit of the Company, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders.
- Responsible for (i) assessing the integrity and independence of external auditors using an established detailed guidelines, policies, and procedures that are contained in a separate memorandum or document and (ii) exercising effective oversight to review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements;⁷
- Responsible for reviewing and monitoring the external auditor’s suitability and effectiveness on an annual basis;⁸
- Responsible for ensuring that the external auditor has quality control procedures.⁹

B. Functions of the IA¹⁰

The Company’s IA activities may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third-party service providers.¹¹

C. Functions of the CAE¹²

The functions of the CAE include:

- Periodically review the IA charter and present it to senior management and the Board Audit Committee for approval;
- Establish a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization’s goals;
- Communicate the internal audit activity’s plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit Committee for review and approval;
- Spearhead the performance of the internal audit activity to ensure it adds value to the organization;
- Report periodically to the Audit Committee on the internal audit activity’s performance relative to its plan; and
- Present findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.

V. **Evaluation and Reporting**

⁷ See Code for PLCs, Recommendation 9.2 and Explanation.

⁸ See Code for PLCs, Recommendation 9.2

⁹ See IACGR, Supplement to Recommendation 9.2 (2).

¹⁰ See Code for PLCs, Recommendation 12.2, Explanation.

¹¹ See Code for PLCs, Recommendation 12.2, Explanation.

¹² See Code for PLCs, Recommendation 12.3, Explanation.

- a. The Company should disclose the nature of non-audit services performed by its external auditor in the Annual Report.¹³
- b. The CAE should report periodically to the Audit Committee on the internal audit activity's performance relative to its plan, and present findings and recommendations to the Audit Committee and gives advice to senior management and the Board on how to improve internal processes.
- c. The Company's CEO and CAE shall, on an annual basis, provide a written attestation to the Audit Committee and/or the Board of Directors on the company's sound internal controls and compliance system.¹⁴

VI. Performance Evaluation

The Audit Committee shall:

- Review its performance annually in consultation with the President and Human Resources department with respect to the fulfillment of its functions and responsibilities as mandated in this Charter; and
- Review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for its approval.

VII. Resources

The Audit Committee shall have the right to request for the CAE to provide information or resources relevant to any report of the CAE to the Audit Committee.

VIII. Approval and Effectivity

This Charter was approved by the Board on _____ and shall take effect immediately upon such approval.

¹³ See Code for PLCS, Recommendation 9.3.

¹⁴ See IACGR, Additional Recommendation to Principle 12 (1).