

THE AUDIT COMMITTEE

Composition, Functions and Responsibilities

By-Laws, Article II, Section 9:

“The Board of Directors, by a vote of the majority of the whole board may appoint from the directors such committees as they may deem judicious, and to such extent as is provided by resolution delegate to such committees all or any of the powers of the Board of Directors which may be lawfully delegated, and such committees shall have and thereupon may exercise all or any of the powers so delegated to them.”

New Manual on Corporate Governance, clauses 3, 3.2, 9, and 12.3:

“3. Establishing Board Committees

Board committees shall be set up to support the performance of the Board’s functions, particularly on audit, ERM, RPTs, nomination and remuneration. The composition, functions and responsibilities of all committees, if established, shall be contained in a publicly available committee charter.

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3.2 The Board has established an Audit Committee to enhance its oversight capability over the Company’s financial reporting, Internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

3.2.1 The Audit Committee shall be composed of at least three (3) appropriately qualified Non-Executive Directors, the majority of who, including the chairman, should be independent. All of the members of the Audit Committee shall have the relevant background, knowledge, skills, and/or experience in the areas or accounting, auditing and finance. The chairman of the Audit Committee should not be the Chairman of the Board or of any other committee.

3.2.2 The Audit Committee has the following duties and responsibilities, among others:

- (a) Recommends the approval of the internal audit charter, which formally defines the role of internal audit and the audit plan, and oversees the implementation of the internal audit charter;
- (b) Through the internal audit department, monitors and evaluates the adequacy and effectiveness of the Company’s Internal control system, integrity of financial reporting, and security of physical and information assets. A well-designed Internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the Company’s resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Company’s financial data, and (d) ensure compliance with applicable laws and regulations;
- (c) Oversees the internal audit Department, and recommends the appointment and/or grounds for approval of an internal audit head or Chief Audit Executive. The Audit Committee should also approve the terms and conditions for outsourcing internal audit services;
- (d) Establishes and identifies the reporting line of the internal auditor to enable him/her to properly fulfill his/her duties and responsibilities. For this purpose, he/she should directly report to the Audit Committee;
- (e) Reviews and monitors Management’s responsiveness to the internal auditor’s findings and recommendations;

- (f) Prior to the commencement of the audit, discusses 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;
- (g) Evaluates and determines 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 Audit Committee shall disallow any non-audit work that will conflict with the external auditor's duties as an external auditor or may pose a threat to his/her independence. The non-audit work, if allowed, should be disclosed in the Company's Annual Report and Annual Corporate Governance Report;
- (h) Reviews and approves the interim and Annual Financial Statements before their submission to the Board with particular focus on the following matters:
 - (i) Any change/s in accounting policies and practices
 - (ii) Areas where a significant amount of judgment has been exercised
 - (iii) Significant adjustments resulting from the audit
 - (iv) Going concern assumptions
 - (v) Compliance with accounting standards
 - (vi) Compliance with tax, legal and regulatory requirements
- (i) Reviews the disposition of the recommendations in the external auditor's Management letter;
- (j) Performs oversight functions over the Company's Internal and external auditors. 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;
- (k) Coordinates, monitors and facilitates compliance with laws, rules and regulations;
- (l) Recommends 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; and
- (m) In case the Company does not have a risk oversight committee and/or RPT committee, performs the functions of said committees.

3.2.3 The Audit Committee meets with: (a) the Board at least once every quarter; and (b) the head of the internal audit periodically.”

“9. Strengthening the External Auditor's Independence and Improving Audit Quality

The Company shall establish standards for the appropriate selection of an external auditor, and strengthen the external auditor's independence and enhance audit quality.

- 9.1 The Audit Committee shall have a robust process for approving and recommending the appointment, reappointment, removal, and the fees of the external auditor, subject to Board approval and shareholders' ratification. The

reasons for removal or change of external auditor shall be disclosed to the regulators and the public through the Company website and required disclosures.

- 9.2 The Audit Committee charter shall include the Committee's responsibility on: (a) assessing the integrity and independence of external auditors; (b) exercising effective oversight to review and monitor the external auditor's independence and objectivity; (c) the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements; and (d) reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.
- 9.3 The Company shall disclose the nature of non-audit services performed by its external auditor in the annual report to deal with the potential conflict of interest. The Audit Committee shall be alert for any potential conflict of interest situations and follow guidelines or policies on non-audit services that could impair the external auditor's objectivity.”
- “12.3 Subject to a Company's size, risk profile and complexity of operations, the Board may appoint a qualified CAE who shall oversee and be responsible for the Company's internal audit activity, including that portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, senior management personnel should be responsible for managing the said activity. The CAE directly reports to the Audit Committee and administratively to the CEO. The following are the responsibilities of the CAE among others:
- (a) Periodically reviews the internal audit charter and presents it to senior Management and the Audit Committee for approval;
 - (b) Establishes a risk-based internal audit plan including policies and procedures to determine the priorities of the internal audit activity consistent with the Company's goals;
 - (c) Communicates the plans, resource requirements, the impact of resource limitations, and significant interim changes of the internal audit activity to senior Management and the Audit Committee for review and approval;
 - (d) Spearheads the performance of the internal audit activity to ensure it adds value to the Company;
 - (e) Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and
 - (f) Presents findings and recommendations to the Audit Committee and gives advice to senior Management and the Board on how to improve internal processes.