

Ayala Corporation
Audit Committee Charter

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Reference: Ayala Corporation's Manual of Corporate Governance dated
August 27, 2002

A. Introduction

This document sets out the roles, responsibilities, and authority of Ayala Corporation's Audit Committee; including the rules of procedures that shall guide the function of the Committee, as approved by the Board of Directors.

The Committee shall review the charter at least annually and obtain the approval of the full Board of Directors for any revisions thereto or for any case where external bodies may suggest a change. Suggestions by such external bodies, however, are subject to the approval of the Committee.

B. Statement of Policy

It is the policy of Ayala Corporation to constitute and maintain an Audit Committee which shall provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders relating to:

- the Company's financial statements and the financial reporting process,
- the systems of internal and financial reporting controls,
- the internal audit activity,
- the annual independent audit of the Company's financial statements, and
- compliance with legal and regulatory matters.

To fulfill this responsibility, the Committee shall maintain free and open communication with the Company's independent auditors, the internal auditors and the management of the Company.

In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention, with full access to all records, books of accounts, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose.

C. Perspective

In response to the call for stronger corporate governance practices and to comply with the requirements of the Code of Corporate Governance issued by the Philippine Securities and Exchange Commission (SEC) in April 2002, the Board of Directors approved the establishment of a Manual of Corporate Governance for Ayala Corporation. The Manual was filed with the SEC on August 27, 2002 and shall be effective on January 01, 2003.

Corporate Governance is the system through which the shareholders, creditors and other stakeholders of a Corporation are assured that Management enhances the value of the organization.

- The Board of Directors is responsible to the shareholders in ensuring that value is created and sustained.

- Management is responsible to the Board in the day-to-day operations of the organization. This includes:
 - ⇒ Operating an effective risk management process
 - ⇒ Maintaining a strong system of internal controls
 - ⇒ Preparing financial statements that reliably capture the results of the Company's operations and its financial condition
- The Audit Committee assists the Board of Directors fulfill its responsibility for oversight of the organization's corporate governance processes.

This entails an understanding of the risks, control and financial reporting issues inherent to the organization.

To carry out its responsibilities, the Committee relies on the expertise and knowledge of Management, the Internal Auditors and Independent Auditors,

- The Independent Auditors are responsible to the Audit Committee in helping ensure the integrity of the financial statements.
- The Internal Auditors help the Committee identify the risks, control and financial reporting issues through the continuous review of the effectiveness of the organization's risk management, controls and corporate governance processes.

D. Roles and Responsibilities

The Audit Committee is expected, through the provision of checks and balances, to support the corporate governance process. Specifically, it shall be responsible for the following:

1 *Financial Reporting*

- 1.1 Review of the financial statements and all related disclosures and reports certified by the Chief Financial Officer and released to the public and/or submitted to the Philippine Securities and Exchange Commission for compliance with both the internal financial management handbook and pertinent accounting standards, including legal and regulatory requirements.
- 1.2 Review of the quarterly, half-year and annual financial statements before submission to the Board, focusing on changes in accounting policies and practices, alternative accounting treatments and major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, tax, legal, and stock exchange requirements.

- 1.3 Ensuring that a transparent financial management system, supported by a Procedures and Policies Handbook that will be used by the entire organization, is established to ensure the integrity of internal control activities throughout the Corporation.
- 1.4 Elevating to international standards the Company's accounting and auditing processes, practices and methodologies, and the development of the following:
 - Definitive timetable within which the accounting system of the Corporation will be International Accounting Standards (IAS) compliant.
 - An accountability statement that will specifically identify officers and/or personnel directly responsible for the accomplishment of such task.

2 Internal Audit

- 2.1 Review and approval of the Internal Audit Charter and subsequent revisions thereto.
- 2.2 Setting up the Internal Audit Department, including the appointment of the Chief Audit Executive. The Committee shall establish and identify the reporting line of the Chief Audit Executive so that the reporting levels allow the internal audit activity to fulfill its responsibilities. The Committee, having appointed the Chief Audit Executive, shall also concur in his/her replacement, re-assignment or dismissal.
- 2.3 Ensuring that the Internal Auditors have free and full access to all the Corporation's records, properties and personnel relevant to and required by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results.
- 2.4 Approval of the Annual Internal Audit Work Plan and all deviations therefrom, ensuring that the audit resources are reasonably allocated to the areas of highest risk.
- 2.5 Review of reports of the Internal Auditors and regulatory agencies, where applicable, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.
- 2.6 Review of Internal Audit's periodic reports and the Internal Audit Annual Report. Periodic reports shall highlight the status of projects in accordance with the audit plan approved by the Committee, as well as any unplanned projects. Such reports shall include a summary of key findings and recommendations, including the status of implementation. The Annual Report shall discuss the Internal Audit Department's activities and performance relative to the audit plans and strategies approved by the Audit Committee.

- 2.7 Conducting separate meetings with the Chief Audit Executive to discuss any matter that the Committee or the auditors may deem necessary to be discussed privately.
- 2.8 Provision of inputs on the performance of the Internal Audit Department and communication/discussion of such inputs with the Chief Executive Officer who shall then translate these into a performance appraisal applicable to the Chief Audit Executive and the Internal Auditors taken as a whole.
- 2.9 As necessary, institution of special investigations and, if appropriate, the hiring of special counsel or experts to provide the necessary assistance.

3 External Audit

- 3.1 Recommend the appointment of the Independent Auditors and the fixing of their remuneration to the full Board.
- 3.2 Review and pre-approval of the Independent Auditor's plans to understand the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit.

In this regard, the Committee shall discuss with the Independent Auditors, before the audit commences, the nature and scope of the audit, and ensure cooperation when more than one professional service firm is needed.

- 3.3 Monitoring of the coordination of efforts between the external and internal auditors.
- 3.4 Review of the reports of the Independent Auditors and regulatory agencies, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner, including addressing control and compliance issues.
- 3.5 Conducting a separate meeting in executive session, with the external auditors to discuss any matter that the committee or auditors believe should be discussed privately, including the results of the audit, year-end financial statements, the quality of management, financial and accounting controls.
- 3.6 Review and approval of the proportion of audit versus non-audit work both in relation to their significance to the auditor and in relation to the Corporation's year-end financial statements, and total expenditure on consultancy, to ensure that non-audit work will not be in conflict with the audit functions of the independent auditor. The amount of non-audit work of independent auditors shall be disclosed in the annual report.

4 Risk Management

Review of the adequacy of Ayala Corporation's enterprise-wide risk management process. To this end, the President and the Chief Executive Officer (CEO) assisted by the Chief Risk Officer (CRO), shall provide the Committee with the results of management's annual risk assessment exercise and other information on risk exposures and risk management activities determined by the Committee as requiring close monitoring.

This policy notwithstanding, management shall remain primarily responsible for the development and implementation of the risk management strategies intended to address the identified risks.

E. Membership

In accordance with the manual of Corporate Governance:

- 1 The Audit Committee shall be comprised of at least three (3) members, at least one of whom shall be an independent director, with the other members representing the different shareholders.
- 2 An independent director shall chair the Audit Committee and shall be responsible for ensuring the effective interaction among Committee members and with management and the internal and external auditors.
- 3 Each member shall have an adequate understanding of accounting and auditing principles in general and of the Corporation's financial management systems and environment in particular.

F. Meetings and Schedule of Activities

- 1 To provide a systematic guide for the discharge of its responsibilities, the Committee will agree on an annual calendar/schedule of activities that shall determine the agenda for each meeting subject to adjustments and/or revisions as needed. The Chief Audit Executive will ensure that the schedule is carried out as planned.
- 2 The Audit Committee shall meet at least quarterly. Preferably, the quarterly meetings will be held prior to the meeting of the Board of Directors. In cases when there is a need for special meetings to take up any critical items that would need approval in between the quarterly meetings, it shall be up to the Chairman of the Audit Committee to either call for a special meeting or just allow the routing of the covering paper.
- 3 The agenda for the meetings will be developed by the Chief Audit Executive based on the agreed calendar of activities and inputs from the Committee members, subject to the approval of the Chairman. The quarterly meetings

will include the review and discussion of the quarterly or year-end financial statements, the related disclosures and other reportorial requirements.

- 4 The President, and Chief Executive Officer and the Chief Financial Officer may be requested to attend Committee meetings. As and when appropriate, the Committee may require other members of management to be present at the meetings. External subject experts, such as the appointed independent auditors and other consultants, may also be invited to the meetings.
- 5 The Committee shall meet with the internal and the external auditors in executive session at least once a year.

G. Reporting Procedures

To keep the Board of Directors apprised on the results of the Committee's activities, the Chairman of the Audit Committee shall submit a report every quarter to the Chairman of the Board; and shall be ready to present the report to the full board during its meeting for the quarter.

The Audit Committee Chairman will also submit and present an Annual Audit Committee report to the full Board during its first meeting following the immediate fiscal year.

H. Performance Evaluation and Continuous Improvement

To ensure that the Committee continues to fulfill its responsibilities in accordance with global best practices and in compliance with the Manual of Corporate Governance and other relevant regulatory requirements, the Committee shall conduct an assessment of its performance at least annually. In this regard, the Committee shall:

- 1 As a body, evaluate its performance by filling up a self-assessment questionnaire that shall benchmark its practices against the expectations set out in this Charter.
- 2 Based on the results of the self-assessment, formulate and implement plans to improve its performance. These shall include the identification of relevant training needs intended to keep the members up-to-date with corporate governance best practices, accounting and auditing standards, as well as specific areas of concern (e.g. emerging risks).
- 3 Semi-annually, review the status of implementation of such plans for improvement.

In addition, the Audit Committee shall obtain and subject itself to an independent assessment by the Board of Directors relative to its performance in accordance with expectations set out in this Charter and the discharge of its responsibilities as specified in the Audit Committee Calendar of Activities.

I. Functional and Secretariat Support

The Internal Audit Department shall support the Audit Committee in the rendition of its functions, specifically:

- 1 Internal Audit shall provide all the secretariat support to the Committee.
- 2 The Chief Audit Executive shall attend all the Committee meetings and be primarily responsible for recording the minutes of the meetings.
- 3 Internal Audit shall keep all minutes of the meetings and make these available for inspection by any member of the Audit Committee or the Board of Directors, as and when requested.
- 4 Internal Audit shall review all papers for submission to the Committee, including any proposals from management before these are submitted to the Committee for approval. If there are unresolved differences in opinion on any proposal between the proponent and Internal Audit, these shall be highlighted to the Committee for consideration and decision.