A. Purposes

The primary purpose of the Audit and Risk Management Committee (the "Committee") is to assist the MERALCO Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the risk management process, and the company's process of monitoring compliance with laws and regulations.

B. Authority

The Committee shall have the authority, duties and responsibilities as set out herein and such other duties and powers as may be delegated to the Committee by the Board.

In the performance of its duties and responsibilities, the Committee is empowered to:

- Have resources and authority appropriate to discharge its responsibilities as set out in this Charter, including the authority to engage external auditors for special audits, reviews and other procedures and to obtain advice from special counsel and other experts or consultants to assist in the conduct of investigation, without need for Board approval;
- Seek any information it may require from any employee, director, agent or advisor and all such persons will be directed to cooperate with the request made by the Committee;
- Meet separately with any Company officer, the chief audit executive and/or the external auditors or outside counsel to discuss any matter that the Committee or any of the foregoing persons or firms believe should be discussed privately; and
- Resolve any disagreements between Management and the auditors regarding financial reporting.

C. Duties and Responsibilities

To carry out its purposes, the Committee shall have the following duties and responsibilities.

1. With respect to financial reporting process and internal control system

   1.1 Advise Management and the external auditors that they are expected to provide to the Committee a timely analysis of significant/critical financial reporting issues and practices particularly as they relate to the completeness, accuracy and fairness of the quarterly and annual financial statements before submission to the Board with particular focus on the following matters:

   a. appropriateness of accounting policies and practices;
   b. judgmental issues and estimates;
   c. adequacy of disclosure, including as to unusual items;

d. consistency within the financial statements;
e. any significant audit adjustments; and
f. the going concern assumption;

1.2 Review with Management and the external auditors the results of the audit of the financial statements, including any difficulties encountered;

1.3 Understand the scope of internal and external auditors' review of internal control over financial reporting, **which review shall include the identification of material errors and fraud,** and obtain reports on significant findings and recommendations, **actions and measures in case of error and fraud**, together with Management's responses;

1.4 Consider the effectiveness of the Company's internal control system, **with management's assurance that the Company's organizational and operational controls are adequate and effectively functioning,** including information technology security and control; and

1.5 Obtain and consider any reports or communications submitted to the Committee by the external auditors.

1.6 Review the representation letter of management before submission to the external auditors.

2. With respect to the auditing process

Internal Auditor

2.1 Review the appointment or replacement of the Internal Audit Head or chief audit executive who shall functionally report directly to the Committee, and ensure that the internal audit organization shall be free from interference by outside parties in the performance of its work;

2.2 Review and approve the annual internal audit plan and any update on the Company's Internal Audit Charter. The plan should include the audit scope, resources and budget necessary to implement the same;

2.3 Advise the chief audit executive that he or she is expected to provide to the Committee summaries of and, as appropriate, significant reports to Management prepared by the Internal Audit and Management's responses thereto;

2.4 Require the chief audit executive to render to the Committee an annual report on the internal audit organization's activities and performance relative to the audit plans and strategies approved by the Committee, which report shall include significant risk exposures and control issues, corporate governance issues and other matters requested by the Committee or the Board; and

2.5 Require a statement from the chief audit executive that the activities of the internal audit organization are conducted in accordance with the International Standards for the

Professional Practice of Internal Auditing or ISPPIA; if otherwise, a disclosure that the internal audit organization has not yet fully achieved compliance with the ISPPIA.

External Auditor

2.6 Review and evaluate procedures and criteria for the selection, appointment, performance evaluation and if appropriate, the termination of services of the external auditors and recommend the same to the Board and if required, to the Shareholders, for approval;

2.7 Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;

2.8 Review and approve in consultation with the chief audit executive and the head of the Finance organization, all audit and non-audit services to be performed by the external auditors and the related fees to be paid for such services; and ensure that non-audit services, if allowed or approved, are disclosed in the Company's annual report;

2.9 Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company (Statement of Independence) and evaluate any relationships or services disclosed in such Statement that may impact the objectivity, independence or quality of services of the external auditors and take appropriate action in response to such Statement to satisfy itself of the external auditor's independence; and

2.10 Ensure that the external auditors or its lead audit partner of the external auditing firm assigned to the Company is changed or rotated once every five (5) years or such shorter or longer period provided under applicable laws and regulations.

3. With respect to enterprise risk management

3.1 Oversee the Company's risk management framework, the policies and processes adopted by Management with respect to risk identification and assessment, development of risk management strategies **including the development and implementation of a Business Continuity Plan** and monitoring of risk management performance;

3.2 Oversee the Company's framework for fraud prevention and detection including its whistle-blower program; and

3.3 Oversee Management's risk management activities and require Management to provide a report and discuss with the Committee about the Company's significant or major risk exposures, if any, and the steps taken by Management to manage and monitor such risks.

4. With respect to **Compliance**

4.1 Monitor compliance and adherence by the Company with all applicable laws and regulations pursuant to which the Company conducts its operations and business activities; and

4.2 Obtain regular updates from Management and Company's legal counsel regarding compliance matters including findings of any examinations by regulatory agencies and any auditor observations.

4.3 Review the process for communicating the codes of conduct to employee personnel and management, and for monitoring compliance with said codes of conduct.

5. Other responsibilities

5.1 Report its activities to the Board on a regular basis and make such recommendations with respect thereto and other matters as the Committee may deem necessary or appropriate;

5.2 Conduct or authorize an investigation into any matter that falls within its scope of responsibilities;

5.3 Develop related continuing education program for members of the Audit and Risk Management Committee in coordination with the Nomination and Governance Committee;

5.4 Review and assess the adequacy of this Charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law and regulation;

5.5 Evaluate the Committee's performance on a regular basis; and

5.6 Perform other activities related to this Charter as requested by the Board of Directors.

D. Members

1. The Committee shall be composed of at least three (3) Board members, who shall preferably have accounting and finance backgrounds, two of whom shall be Independent Directors and another with audit experience, and only such Member-Directors shall have voting rights. The Chairman shall be an Independent Director. Each member of the Committee ("Member") shall have at least an adequate understanding of the Company's financial management systems and environment. The Members, including the Chairman thereof, shall be appointed by the Board of Directors annually.

2. **The Audit and Risk Management Committee shall consider succession-related issues relative to the chair and members of the Committee and draw up a plan for due consideration by the Nomination and Governance Committee to effectively address any such issues, even as it recognizes the annual Board election and committee membership appointment processes inherent in the Company. Such plan may consider the length of term each committee members and the chair may serve, the complex nature of the role, continuity of the Committee's work and the orderly transfer of accumulated knowledge.**

3. The Board of Directors may appoint one or more persons to serve as advisor(s) to the Committee ("Advisors"). Advisors shall have the right to attend and speak at any meeting of the Committee, but shall have no right to vote in respect of any action by the Committee.

4. The Chairman of the Committee or any Member or Advisor may be removed from office only by the Board of Directors.

E. Meetings

1. The Committee shall hold meetings at such times and places as it considers appropriate provided that not less than four (4) meetings shall be held each year.

2. Meetings of the Committee shall be convened by the Chairman of the Committee as and when he considers appropriate and the Chairman shall convene a meeting upon the request of a majority in number of the voting Members.

3. The Committee shall appoint a Secretary who shall prepare minutes of meetings of the Committee and keep books and records of the Committee.

4. A Committee meeting shall be convened by not less than three (3) calendar days' notice in writing, specifying the place, date and time for the meeting and the general nature of the businesses to be transacted at the meeting.

5. Notwithstanding that a meeting is called by shorter notice, it shall be deemed to have been duly convened if it is so agreed by the Members present in the meeting at which there is a quorum. A Member may consent to short notice and may waive notice of any meeting of the Committee and any such waiver may be retrospective.

6. Each Member/Advisor shall give to the Secretary of the Committee an address and a facsimile number for the service of notices of meetings of the Committee.

7. Notice of a meeting of the Committee shall be deemed to be duly given to a Member/Advisor if it is given to him personally, in writing or orally, or sent to him by mail or facsimile transmission to his address or facsimile number, as appropriate, given by him to the Secretary of the Committee in accordance with Section (6) above.

8. The quorum for a meeting of the Committee shall be a majority of the voting Members present throughout the meeting.

9. Members and Advisors may participate in a meeting of the Committee through teleconference or video conference by means of which all persons participating in the meeting can hear each other.

10. Resolutions at a meeting of the Committee at which there is a quorum shall be passed by a simple majority of votes of the voting Members present at such meeting. Each voting Member, including the Chairman of the Committee shall have one (1) vote. In case of an equality of votes, the Chairman of the Committee shall not have a second or casting vote.

F. Amendment or Alteration of this Charter

This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by resolutions of the Board of Directors.

Reviewed By:	Endorsed By:	Approved By:
(Ret.) CJ Artemio V. Panganiban Chairman, Audit & Risk Management Committee	Pedro E. Roxas Chairman, Nomination & Governance Committee	Manuel V. Pangilinan Chairman of the Board