



AboitizPower
A Better Future

INTERNAL AUDIT CHARTER



ABOITIZ POWER CORPORATION
GROUP INTERNAL AUDIT

INTERNAL AUDIT CHARTER

The purpose of this statement is to provide an understanding of the role and responsibilities of the **Group Internal Audit (GIA)** team and its functions under the policies established by the Management and the Board of Directors of Aboitiz Power Corporation (APC), subsequently referred to as “the Company” through the Manual of Corporate Governance.

POLICY

It is the policy of the Company to maintain an Internal Audit Organization as a primary resource of the Board of Directors and the Audit Committee in the effective discharge of its duties and responsibilities by reviewing and evaluating the Company’s operations including its subsidiaries and affiliates.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Company’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes

ROLE

It is through analyses, recommendations, counsel and information dissemination among the proper channels that the GIA team will help in improving the effectiveness of risk management, control, and governance processes.

GIA is a staff organization and it functions in an advisory capacity. It exercises no direct responsibility or authority on the operating activities or functions it reviews.

The primary responsibility for assuring that an adequate system of internal control is in place and is operating effectively rests with the management of the Company, its affiliates and subsidiaries.

Where a separate auditing function operates for the subsidiary or affiliate:

- GIA will focus on areas that are not covered by the Resident Audit Team,
 - a. areas of highest risk as determined by the Business Unit (BU) risk registers;
 - b. areas mandated by the Audit Committee to be covered by GIA; or
 - c. areas where GIA find resident auditors are not in the best position to review being organic to the company.
- GIA will review the reports and processes of the Resident Audit Teams to ensure that audits were performed in accordance with the standards of internal audit and address the areas of highest risks as determined in the BU risk registers.
- GIA will take into account its responsibility in ensuring that the Audit Committee is informed of the audit issues on a timely basis by furnishing the Committee with copies of the reports of concluded engagements.

GIA will use external professional assistance as deemed necessary.

PROFESSIONAL STANDARDS

It is the responsibility of the GIA Head to ensure that assurance and consulting services conform or exceed the International Standards for the Professional Practice of Internal Auditing (ISPPA). It is also the team's responsibility to abide by the Institute of Internal Auditor's (IIA) Code of Ethics and to adhere to established professional standards such as IIA's Practice Advisories, Practice Guides and Position Papers as applicable to guide operations.

It is also the responsibility of the GIA Head as well as its team members to establish a quality assurance and improvement program (QAIP) by which the GIA Head assures the operations of internal auditing activities.

AUTHORITY

GIA has full, free and unrestricted access to any and all operating and financial company records, information, systems and applications, physical properties, activities and personnel relevant to the Company and subject under review.

All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

GIA will also have direct, free and unrestricted access to the Board.

ORGANIZATION

GIA reports functionally to the Board Audit Committee and administratively (i.e. day-to-day operations) to the Chief Executive Officer.

The Board will approve all decisions regarding the performance evaluation, appointment, or removal of the GIA Head as well as the GIA Head's annual compensation and salary adjustment.

The GIA Head will communicate and interact directly with the Board, including in private/executive sessions and between Board meetings, as appropriate.

INDEPENDENCE AND OBJECTIVITY

The Company's senior management and the Board of Directors support GIA to assure cooperation of the audit clients and the performance of the audit activity free from interference by any element in the Company, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independence and objectivity.

GIA is a recommendatory body. It will have no direct operational responsibility of authority over any of the activities audited. GIA will not implement internal controls, develop procedures and install systems, prepare records or engage in any other activity normally reviewed by the team, as this may impair its objectivity and judgment.

Internal auditors must exhibit the highest level of professional objectivity and always must make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The GIA Head will confirm to the Board, at least annually, the organizational independence of the internal audit activity.

SCOPE OF WORK

As disclosed in the Manual of Corporate Governance, GIA, on the basis of the approved internal audit plan, should cover, at a minimum, the evaluation of the adequacy and effectiveness of the

internal controls that cover the Company's governance, risk management processes, operations, information systems, including the reliability and integrity of financials and the operations of its assets, and compliance with contracts, laws, rules and regulations.

The scope of work encompasses evaluating and improving the adequacy and effectiveness of the Company's risk management processes, control and governance processes through:

1. Evaluation of the effectiveness and contribution to the improvement of risk management processes. The core internal auditing roles in regard to risk management are as follows:
 - Giving assurance on risk management processes.
 - Giving assurance that risks are correctly evaluated.
 - Evaluating risk management processes.
 - Evaluating the reporting of key risks.
 - Reviewing the management of key risks.
2. Evaluation of risk exposures based on the areas of highest risks as enumerated in the business unit risk registers relating to the organization's governance, operations and information systems taking into consideration the following:
 - Reliability, integrity and timeliness of information
 - Compliance with policies and procedures, plans, sound business practices, laws, contractual obligations and regulations
 - Safeguarding of assets and as appropriate, verifying its existence
 - Economical and efficient use of resources
 - Accomplishment of established objectives and goals for operations or programs
3. Participation in the planning, design, and implementation of major information systems to ensure that the systems are properly tested, secured, documented and implemented to meet the end-users' requirements.
4. Undertaking of consulting and/or advisory and related client service activities, the nature and scope of which are agreed with the client and are intended to add value and improve the organization's governance processes, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, due diligence, transition services, business process and control design and training.

INTERNAL AUDIT PLAN

The GIA Head will submit to senior management and the Board, at least annually, an internal audit plan for review and approval. The audit plan will consist of the proposed work schedule, budget and resource requirements. The GIA Head will communicate the impact of any resource limitation and significant interim changes to senior management and the Board.

The internal audit plan and prioritization of engagements will be developed using risk-based methodology and would include inputs from senior management and the Board. Risk details will be sourced from business unit Risk Registers maintained by the Risk Management team. Inputs from senior management will be gathered during the annual audit road show to be conducted by GIA.

Any significant deviation from the approved internal audit plan will be documented and communicated to senior management and the Board.

COMMUNICATING RESULTS

Results of audit work shall be communicated through a written report which will contain the responses of management gathered through exit conferences, audit discussions and/or management meetings. Summary reports will be released to the Audit Committee at regular intervals prior to the scheduled Audit Committee meetings. At the end of the calendar year, GIA will release its Year-ender Report on a per industry (sub-group) basis.

CONFIDENTIALITY AND RELATIONSHIPS

GIA will control access to all audit engagement records. The Company's external auditor will be provided copies of Internal Audit plans and reports, as required.

The team will also liaise with the External and Resident Auditors to:

- Foster a cooperative and professional working relationship;
- Ensure appropriate sharing of information;
- Minimize duplication and coordinate over-all audit effort; and
- Facilitate annual audit planning.

In particular, GIA shall receive copies of all external and resident auditors' communications and reports to management.

PERIODIC ASSESSMENT

The GIA Head will periodically report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility as well as performance relative to its plan. Reporting will include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

The GIA Head will also communicate to senior management and the Board its activities related to its quality assurance and improvement programs including results of any on-going internal and external assessments.

AMENDMENT OF CHARTER

The GIA Head is responsible in maintaining this Internal Audit Charter in a current state. Amendment of this Charter is subject to the review and recommendation of the Audit Committee and the final approval of the Board of Directors.

If any provision of this Charter is declared invalid, the remainder of this or any other provision not affected thereby shall remain in force and in effect.

EFFECTIVITY CLAUSE

This Charter shall take effect fifteen (15) days after the approval of the Board of Directors herein represented by the Chairman of the Board, the Chairman of the Audit Committee, the President and CEO and duly acknowledged by the GIA Head.

INTERNAL AUDIT CHARTER

Approved this **27th** day of **September**, 2012.

MARIA LOURDES Y. TANATE

AVP Group Internal Audit

ERRAMON I. ABOITIZ

President and Chief Executive Officer

ENRIQUE M. ABOITIZ, JR.

Chairman of the Board of Directors

JOSE R. FACUNDO

Chairman of the Audit Committee