

AMENDED MANUAL ON CORPORATE GOVERNANCE (August 2016)

SECTION 8 – ACCOUNTABILITY AND AUDIT

A. The Board is primarily accountable to the stockholders. It should provide a balanced and comprehensible assessment of the Corporation's performance, position and prospects on a quarterly basis, including interim and other report that could adversely affect its business, as well as reports to regulators that are required by law.

Thus, it is essential that Management provide all members of the Board with accurate and timely information that would enable the Board to comply with its responsibilities to the stockholders.

Management should formulate, under the supervision of the Audit Committee, the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

- (i) The extent of its responsibility in the preparation of the financial statements of the corporation, with the corresponding delineation of the responsibilities that pertain to the external auditor, should be clearly explained;
- (ii) An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the corporation for the benefit of all stockholders and other stakeholders;
- (iii) On the basis of the approved audit plans, internal audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the corporation's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules and regulations;
- (iv) The corporation should consistently comply with the financial reporting requirements of the SEC and the IC;
- (v) The external auditor should be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the corporation, should be changed with the same frequency. The Internal Auditor should submit to the Audit Committee and Management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Audit Committee. The annual report should include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and Management. The Internal Auditor should certify that he conducts his activities in accordance with the International

Standards on the Professional Practice of Internal Auditing. If he does not, he shall disclose to the Board and Management the reasons why he has not fully complied with the said standards.

- B. The Board, after consultations with the Audit Committee, shall recommend to the stockholders an external auditor duly accredited by the SEC and the IC who shall undertake an independent audit of the corporation, and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders. The external auditor shall not, at the same time, provide internal audit services to the corporation. Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for and the date of effectivity of such action shall be reported in the corporation's annual and current reports. The report shall include a discussion of any disagreement between him and the corporation on accounting principles or practices, financial disclosures or audit procedures which the former auditor and the corporation failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the corporation to the external auditor before its submission.

If the external auditor believes that any statement made in an annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

C. External Auditor

i. An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of the Corporation. An External Auditor shall be selected and appointed by the stockholders upon recommendation of the Audit Committee.

ii. The reason/s for the resignation, dismissal or cessation from service and the date thereof of an External Auditor shall be reported in the Corporation's annual and current reports. Said report shall include a discussion of any disagreement with said former external auditor on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

iii. The External Auditor of the company shall not at the same time provide the services of an Internal Auditor. The Corporation shall ensure that other non-audit work shall not be in conflict with the functions of the External Auditor.

iv. The External Auditor shall be rotated or the handling partner shall be changed every five (5) years or earlier.

- v. If an external auditor believes that the statements made in the Corporation's annual reports, information statement or proxy statement filed during engagement is incorrect or incomplete, he shall qualify his views in said reports.

Under the supervision of the Audit Committee, the Internal Auditor should formulate the rules and procedures on financial reporting and internal control.

D. Internal Auditor

- i. The Corporation shall have in place an independent Internal Audit function which shall be performed by an Internal Auditor or a group of Internal Auditors, through which its Board, senior management, and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls remain effective and appropriate, and are complied with.
- ii. The Internal Auditor shall report to the Audit Committee.
- iii. The minimum internal control mechanisms for management's operational responsibility shall center on the CEO, being ultimately accountable for the Corporation's organizational and procedural controls.
- iv. The scope and particulars of a system of effective organizational and procedural controls shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.