

2) INTERNAL AUDIT

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Independent and objective assurance provider to the Board and top management	Internal control performance, risk management performance and governance process performance	In-house and occasionally co-source selected special engagements	Helen T. de Guzman	Internal Audit reports functionally to the Audit & Risk Management Committee of the Board and administratively to the CEO

(b) Appointment/Removal of Internal Auditor

Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

YES. The appointment and/or removal of the Internal Auditor requires the approval of the Company's Audit and Risk Management Committee and confirmation by the Board of Directors.

(c) Reporting Relationship with the Audit Committee

Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

The Internal Auditor reports functionally to the Audit & Risk Management Committee of the Board and administratively to the CEO. Internal Auditor has unrestricted access to all functions, records, property, and personnel for the specific purpose of the audit and has full access to the Audit and Risk Management Committee. The Internal Auditor has full and free access

to the Audit and Risk Management Committee.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Nina Zyril N. Lim	Career Advancement in Different Field
Angelica Hazel D. Cabañas	Career Advancement in Different Field

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit’s progress against plans, significant issues, significant findings and examination trends. The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.

<p>Progress against Plans</p>	<ul style="list-style-type: none"> • 2014 Risk-based Audit Plan was reviewed and approved by Management and the Audit & Risk Management Committee • As of year-end 2014, following status/progress was reported: <ul style="list-style-type: none"> - Completed 78% (21/27) of the planned audit engagements - Completed 100% (5/5) of unplanned/requested audits - Completed all “maintenance” audits - 96% acceptance of audit recommendations - 100% accomplishment in the monitoring and quarterly reporting of status of audit recommendations to the Audit Committee
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Issues	<ul style="list-style-type: none"> i. Compliance ii. Updating of established processes or development of new processes iii. Segregation of function
Findings	<ul style="list-style-type: none"> i. Exceptions noted on employee compliance to established policies & procedures for certain policies and processes. ii. With the on-going transformation and conversion to new information systems, formalizing and institutionalizing new policies and procedures are still work in progress. iii. Segregation of custodial function for new stocks and salvaged/scrap materials for implementation.
Examination Trends	Adoption of continuous auditing.

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

Policies & Procedures	Implementation
Internal Audit Policies and Procedures Manual	Updates/enhancements to be incorporated in 2015
Conflict of Interest Disclosure	Implemented
Internal Audit Approach to Fraud	For enhancement and formalization in 2015

(g) Mechanism and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company’s shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors	Financial Analysts	Investment Banks	Rating Agencies
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(Internal and External)			
Internal Audit Charter	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>
<ul style="list-style-type: none"> • Annual disclosure of conflict of interest • Annual declaration of independence • “Blackout Policy” on trading of stocks 	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>	<p>Financial Analysts, Investment Banks and Rating Agencies are considered public and therefore the PSE Disclosure Rules to protect public interest will be followed.</p> <p>Meralco adheres to the principal objectives of the PSE to provide a fair, orderly, efficient, and transparent market for the trading of securities and to determine the suitability of securities for listing for the protection of the public interest at all times.</p>

(h) Full Compliance

State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The following attest to the Company's full compliance with the SEC Code of Corporate Governance.

- Chairman
- President and Chief Executive Officer
- Compliance Officer

4) WORK DONE AND ISSUES ADDRESSED

Name of Committee	Work Done	Issues Addressed
Audit and Risk Management	The committee had nine (9) meetings in 2014. The accomplishments of the Committee for the year are the following: Internal Control: <ul style="list-style-type: none">• Obtained management's assurance on the adequacy and effectiveness of the Company's internal control system and noted Management's Control Policy.• Evaluated the effectiveness of the internal control system of the Company, Financial Reporting: <ul style="list-style-type: none">• Reviewed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Company.• Commissioned the external auditors to review the interim consolidated financial statements as of June 30, 2014 and September 30, 2014 in relation to the local bond offering of the Company.	No issues on compliance matters were required to be addressed by the Committee.

	<ul style="list-style-type: none">• Evaluated the updated Related Party Transaction Policy of the Company.• Recommended for Board approval the Audited Consolidated Financial Statements of the Company for the year ended December 31, 2014. <p>Audit Process:</p> <ul style="list-style-type: none">• Assessed the independence, performance and effectiveness of the External Auditors, SGV & Co. CPAs (SGV) taking into consideration their credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board as the External Auditors of the Company with the assurance that the lead audit partner complies with Rule 68 of the Securities Regulation Code on rotation of External Auditors.• Held executive sessions with the External Auditors without the presence of management.• Reviewed and approved the audit plan, scope of work and proposed fees of SGV for audit and other related services.• Reviewed and approved the annual Internal Audit Plan.• Discussed and dissected the results of audits reported by the chief audit executive in her quarterly reports to the Committee.• Monitored the audit recommendations of Internal Audit and discussed management's appropriate corrective actions.• Assessed Internal Audit's performance for the preceding year.• Discussed the progress of the whistleblowing program of the Company called "<i>e-Report Mo</i>", which is administered by the Corporate Governance Office. <p>Risk Management:</p> <ul style="list-style-type: none">• Reviewed management's top business risks and discussed on-going risk treatments.	
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	<ul style="list-style-type: none"> Noted Management’s short-to-medium term plans to streamline enterprise risk management integration in the annual strategic planning activities, to institutionalize risk management functions at the subsidiaries, and to develop a risk reporting dashboard that will facilitate reporting and monitoring of top risks and mitigation plans to the Committee. <p>Compliance:</p> <ul style="list-style-type: none"> Reviewed and assessed management’s processes of monitoring compliance with laws and regulations through Internal Audit. Obtained updates on the status of compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the ERC, the SEC and other regulators concerned with environment and safety, labor, and others. 	
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5) COMMITTEE PROGRAM

Name of Committee	Planned Programs	Issues to be Addressed
Audit and Risk Management	<ul style="list-style-type: none"> Develop continuing education program for members of the Audit & Risk Management Committee Develop Audit & Risk Management Committee Toolkit for Committee Members Perform reviews of the following- <ul style="list-style-type: none"> i. Company’s framework for fraud prevention and detection including its whistleblowing program ii. Process for communicating the Code of Conduct to company personnel and management and for monitoring compliance therewith 	<ul style="list-style-type: none"> Appropriate seminars or forum specifically designed for Audit and/or Risk Management committees are quite limited in the country. Provide easy reference especially for new committee members not only to understand the committee’s roles and responsibilities but also to develop and maintain necessary technical knowledge to discharge them.

		<ul style="list-style-type: none">• Fulfill oversight responsibility as defined in the charter. Reviews were undertaken and discussed.
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