

# 2016 BOARD COMMITTEE FUNCTIONS & ACTIVITIES

## **Audit and Governance Committee (AGC).**

Three out of the five members of the AGC are independent directors, namely Francisco Ed. Lim, Arturo T. Valdez and Edgar O. Chua, its Chairman. When Mr. Valdez resigned, he was replaced by another Independent Director, Mr. Manuel I. Ayala on September 7, 2016. Other AGC members include Francis Giles B. Puno and Ernesto B. Pantangco. The AGC Chairman has more than 30 years experience in various fields, including auditing, general management and corporate affairs. A more detailed profile or qualifications of the AGC members are found in the pages on Director's Profile.

The AGC performs oversight functions in checking the integrity of EDC's financial reporting process, effectiveness and soundness of internal control environment, adequacy of audit functions for both internal and external audits, and compliance with rules, policies, laws, regulations, contracts and the code of conduct. The AGC also recommends the appointment, re-appointment and removal of the external auditor. Detailed enumeration of AGC's responsibilities are provided in the Corporate Governance Manual and the AGC Charter.

The AGC had four (4) meetings in 2016. Details of the 2016 AGC meeting attendance are found in the table above on 2016 Board Committee Composition and Attendance.

The following are the 2016 activities of the AGC:

- *Financial Reporting and Disclosures.* The AGC reviewed with management and the external auditor (SGV & Co.) the annual audited financial statements and the quarterly interim financial reports and endorsed these to the Board for approval and release to regulatory agencies, stockholders and lenders. The review included discussions on the appropriateness of accounting policies adopted by management, the reasonableness of estimates, assumptions and judgments used in the preparation of financial statements, the impact of new accounting standards and interpretations, and other key accounting issues and audit results as highlighted by the external auditor.
- *Internal Control.* The AGC monitored the effectiveness of the internal control environment through various measures such as the review of the results of the external audit regarding internal control issues; exercising functional responsibility over Internal Audit and Compliance Office and receiving reports on work done in assessing key governance, risk management and control components; discussion with management on major control issues and recommendations to improve policies and processes; and promoting a culture of integrity and ethical values in the company.

Based on the results of the assurance activities performed by the Company's Internal Audit, the external auditor's unqualified opinion on the financial statement, and discussions with management, the Committee assessed that the Company's systems of internal controls, risk management, and governance processes are adequate and generally effective.

- *External and Internal Audit.* The AGC reviewed the overall scope and audit plan of the external auditor. It also reviewed and affirmed the management evaluation on the performance of the external auditor (for the 2015 financial statements audit) and approved the re-engagement of SGV & Co. for another year (2016 audit). The AGC approved the non-audit services rendered by external auditor. It also approved the Internal Audit annual plan for 2016

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and ensured that independence is maintained, the scope of work is sufficient and resources are adequate.

- *Corporate Governance and Compliance.* The AGC monitored the Company's compliance to laws, regulations and policies. Likewise, the AGC have supported the initiatives of the Corporate Governance Office in strengthening the company's corporate governance framework: maintaining full compliance with new issuances by regulations such as submission of the Annual Corporate Governance Report (ACGR), benchmarking on CG practices with comparable ASEAN companies, improving CG evaluation system, and ensuring that all directors and senior executives comply with the corporate governance training requirements.

*Corporate Governance Citations and Recognition.* With the AGC's support to the Corporate Governance Office's programs and projects, the Company has been cited for its exemplary CG programs and practices:

(a) ASEAN Corporate Governance Scorecard for Publicly-Listed Companies (PLCs) in 2016, with a score of 92.87%; and

(b) Recipient of the 2016 Institutional Investors' Governance Award;

- *Assessment of Performance.* The AGC assessed its own performance for the year 2016 based on the guidelines and parameters set in SEC Memorandum Circular No. 4 series of 2012 which specified the required provisions or contents of an audit committee charter and the assessment of the audit committee's compliance therewith. The assessment results showed that the Audit and Governance Committee charter fully complied with SEC requirements and the committee has fully complied with requirements set forth in the audit committee charter.