

# **SAN MIGUEL FOOD AND BEVERAGE, INC.**

## **AUDIT COMMITTEE CHARTER**

This Audit Committee Charter (this “Charter”) sets out the purpose, membership and qualifications, structure and operations, duties and responsibilities of the Audit Committee (the “Committee”) of San Miguel Food and Beverage, Inc., formerly San Miguel Pure Foods Company Inc. (the “Company”), and the procedures which guide the conduct of its functions.

### **1. PURPOSE**

Pursuant to the Company’s By-laws and Manual on Corporate Governance (the “CG Manual”), the Board of Directors of the Company (the “Board”) constituted the Committee to assist the Board in fulfilling its oversight responsibility of the Company’s corporate governance processes relating to the:

- Quality and integrity of the Company’s financial statements and financial reporting process;
- Effectiveness of the Company’s internal control systems;
- Independence and performance of the Company’s internal and external auditors;
- Compliance by the Company with accounting standards, legal and regulatory requirements, including the Company’s disclosure policies and procedures;
- Evaluation of management's process to assess and manage the Company's enterprise risk issues; and
- Fulfillment of the other responsibilities set out herein.

The Committee is accountable to the Board for its performance and shall prepare the report of the Committee required to be included in the Company’s annual report.

### **2. MEMBERSHIP AND QUALIFICATIONS**

2.1 Composition. The Committee shall be composed of at least three (3) members of the Board, at least two (2) of whom shall be Independent Directors as defined in the CG Manual. The Chairman of the Committee shall be an Independent Director.

2.2 Qualification. Each member of the Committee shall have the qualifications and none of the disqualifications of a Director, as set out in the CG Manual. Members of the Committee shall be (or shall become within a reasonable time after appointment) financially literate, and preferably have an accounting and finance background, as such qualification is interpreted by the Board; provided that at least one (1) member shall

have audit experience. Each member shall have adequate understanding at least, or competence at most, of the Company's financial management systems and environment, as well as the Company's business and the industry in which it operates.

2.3 Appointment. The Chairman and the members of the Committee are appointed by a majority vote of the members of the Board constituting a quorum either during the Organizational Board Meeting of the Company or, if there is a vacancy, during any meeting of the Board constituting a quorum. Membership shall be reviewed every year after election of the Board by the Company's stockholders at their annual meeting, or earlier if the Board deems necessary.

2.4 Removal. The Chairman and members of the Committee may be removed from the Committee by a majority vote of the Board.

### **3. STRUCTURE AND OPERATIONS**

3.1 Meetings. The Committee shall meet at such times and places as it considers appropriate, but no less than three (3) times a year. The Chairman of the Committee, any Committee member, or the Corporate Secretary of the Company, may call a meeting of the Committee.

3.2 Quorum. Attendance of at least two (2) Committee members shall constitute a quorum for the Committee to transact business. The Committee shall act only on the affirmative vote of at least a majority of the members present in a meeting at which there is a quorum.

3.3 Chairman. The Chairman of the Committee shall preside in all meetings of the Committee. In the absence of the Committee Chairman, the Committee members present shall elect one (1) of their members as Chairman of the meeting.

3.4 Secretary of the Meeting. The Company's Corporate Secretary shall be the secretary of the Committee.

3.5 Notice of Meeting. A notice of each meeting confirming the date, time, venue, and agenda shall be given to each member of the Committee at least two (2) working days prior to the date of the meeting. The notice will include the agenda to be discussed during the meeting.

3.6 Record of Meetings. Full minutes of the proceedings of, and resolutions made during, Committee meetings, shall be kept by the Corporate Secretary. Draft minutes shall be sent to the Committee members for their comment. Notices, minutes, agenda and supporting papers will be made available to any Director upon request to the Corporate Secretary.

3.7 Other Attendees. As necessary, the Committee may invite members of management and organization staff of the Company and any of its subsidiaries, to attend the Committee meeting and provide pertinent information or data. At the discretion of the Committee, separate meetings with any member of the Company's or its subsidiaries' management may be held, whenever it is deemed appropriate by the Committee for the exercise of its functions.

3.8 Access to Resources. The Committee shall have full access to management, personnel and records of the Company and its subsidiaries for the purpose of performance of its duties and responsibilities hereunder. The Committee may also obtain external legal counsel or independent professional advice if it considers it necessary in the performance of its functions. The Committee shall be provided with sufficient resources by the Company to discharge its duties.

3.9 Authority. The Committee shall have the authority to conduct or order the investigation into any matter within its scope of responsibility and all employees and Directors are enjoined to cooperate as requested by the Committee, without interference or censorship by management.

#### **4. DUTIES AND RESPONSIBILITIES**

The duties and responsibilities of the Committee are as follows:

##### **4.1 Financial Statements and Disclosure Matters**

4.1.1 Review all interim and annual financial statements to ensure their compliance with pertinent Philippine and internationally accepted accounting standards, internal financial management, as well as tax, legal and other regulatory requirements before submission to the Board, with particular focus on the following:

- (i) changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from the audit;
- (iv) going concern assumptions; and
- (v) disclosures of material information, subsequent events and related party transactions.

4.1.2 Review with management and the external auditors the results of the audit, including any difficulties encountered, any material errors and/or fraud identified, unusual or complex transactions and other issues warranting the attention of the Committee, and resolve any disagreements between management and the external auditors regarding financial reporting.

4.1.3 Review with management, internal auditors and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.

##### **4.2 Internal Controls and Risk Management**

4.2.1 Obtain, review and consider reports, communications and analysis submitted to the Committee by management, and the internal and external auditors of the Company, on financial and internal controls and systems of the Company, and those required by the applicable auditing or accounting standards, including such reports, communications and analysis on:

- (i) significant or critical financial reporting and internal control issues and practices, including weaknesses and deficiencies noted in these systems, processes and practices;
- (ii) the external auditor's responsibility under applicable auditing or accounting standards;
- (iii) detection of fraud and illegal acts affecting the integrity of internal controls and financial reporting systems and processes, which cause a material misstatement in the financial statements;
- (iv) significant accounting policies and practices, and changes in such policies and practices;
- (v) management's judgments and accounting estimates;
- (vi) adjustments arising from audit;
- (vii) any material communications between management and the external auditor, including management letters;
- (viii) any significant disagreements with management;
- (ix) difficulties in the audit or restrictions in the audit scope, and access to information; or
- (x) any material queries raised by the auditors to management in respect of the accounting records, financial accounts or systems of control and management's response thereto.

4.2.2 Conduct investigations, and consider and make recommendations relating to any communication or report referred to it under the Whistle Blowing Policy procedures of the Company, or relating to any findings of major investigations on internal control or financial reporting matters as delegated by the Board or on the Committee's own initiative, and management's response thereto.

4.2.3 Consider and make recommendations relating to any communication or report by regulatory agencies relating to the financial statements of the Company, and ensure that management undertakes corrective action, where necessary, in a timely manner.

4.2.4 Ensure the development of a transparent financial management system that will ensure the integrity of internal control activities throughout the Company, including a framework for fraud prevention and detection, through a step-by-step procedures and policies handbook that will be used by the entire organization.

4.2.5 Monitor and evaluate the effectiveness of the Company's internal control system, including information technology security, and risk management processes and policies.

4.2.6 Supervise management in its formulation of accounting policies, rules and procedures on financial reporting, including the extent of management's responsibility in the preparation of financial statements of the Company and the delineation of the responsibilities pertaining to the external auditors.

4.2.7 Understand the scope of the internal and external auditor's review of internal controls over financial reporting, ensuring the independence of one from the other, freedom from interference from outside parties, unrestricted access to such records, personnel and properties of the Company necessary to enable them to perform their respective functions.

4.2.8 Ensure that the Company has established risk management policies and procedures, and discuss with management and the internal auditor such policies and procedures adopted, particularly those relating to risk identification, assessment and management.

4.2.9 Regularly evaluate the adequacy and effectiveness of management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company, including receipt of regular reports from management on risk exposures and risk management activities.

#### 4.3 Internal Audit Function

4.3.1 Review with management and the head of Company's Internal Audit Group the qualifications of an internal auditor and the charter, activities, and organizational structure of the internal audit function.

4.3.2 Confirm the appointment or replacement by management of the head of the Internal Audit Group. The head of the Internal Audit Group shall functionally report directly to the Committee.

4.3.3 Review and confirm the annual audit and strategic plans prepared by Company's Internal Audit Group in consultation with management, and major changes to the plans, if any. Such plan shall include the audit scope, resources and budget necessary to implement it. The scope of the internal audit examination should cover the evaluation of adequacy and effectiveness of controls on governance, operations, information systems, protection of assets and compliance with contracts, laws, rules and regulations.

4.3.4 Review significant findings and recommendations of the Internal Audit Group and management's response thereto, including timetable for implementation to correct weaknesses; and any difficulties encountered by the auditors in the course of their audit (such as restrictions on the scope or access to information).

4.3.5 Require the Internal Audit Group to submit an annual report to the Committee and management of its activities and performance relative to the audit plans, completed audit engagements and strategies approved by the Committee, which shall include significant risk exposures, control issues and such other issues as may be requested by the Committee

4.3.6 Support the internal audit function and provide high-level follow-up of audit recommendations when such action is needed.

4.3.7 Review the effectiveness of the internal audit function, including compliance with the International Standards for the Professional Practice of Internal Auditing.

#### 4.4 External Auditors

4.4.1 Shall be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of such auditor.

4.4.2 Assess and monitor the (i) external auditor's professional qualifications, competence, independence and objectivity and require the external auditor to make the statements necessary under applicable auditing standards as regards its relationship and services to the Company, discussing any relationship or services which may derogate its independence or objectivity; and (ii) the effectiveness of the audit process in accordance with applicable standards.

4.4.3 Obtain objective assurance from the external auditor that the conduct of the audit and the manner of the preparation of the financial statements comply with applicable auditing standards and rules of regulatory bodies, including exchanges on which the Company's securities are listed.

4.4.4 Review and approve the nature and scope of the audit plans of the external auditor, including scope, audit resources and expenses, and reporting obligations before the audit commences.

4.4.5 Review the reports or communications of the external auditors and ensure that management or the Board will provide a timely response to the issues raised in such reports or communications.

4.4.6 Ensure the development and implementation of policies on the engagement of an external auditor to supply non-audit work, including the fees payable therefor, and evaluate any non-audit work undertaken by the external auditor to ensure that the same does not conflict with its audit functions.

4.4.7 Ensure that the external auditor or the signing partner of the auditing firm engaged by the Company is changed every five (5) years or earlier.

#### 4.5 Compliance with Legal and Regulatory Requirements

4.5.1 Ascertain whether the Company has an effective process for determining risks and exposure from litigation and claims from non-compliance with laws and regulations.

4.5.2 Review the results of management's investigation and follow up on any instance of non-compliance, including disciplinary action.

4.5.3 Review findings resulting from examination by regulatory agencies as well as internal and external audits, if any.

## **5. REPORTING PROCESS**

5.1 The Chairman of the Committee, or in his absence, the Chairman of the meeting, shall report to the Board on the decisions and recommendations made by the Committee following each meeting.

5.2 The Committee shall prepare an annual report of its activities to the Board for inclusion in the Company's annual report.

## **6. PERFORMANCE EVALUATION**

6.1 The Committee shall assess its effectiveness periodically, with a view to ensuring that its performance accords with best practice. Such assessment must compare its performance with the requirements of this Charter, which shall be the basis of its formulation of objectives and plans to improve its performance, including any recommendations for amendments to this Charter for approval by the Board.

6.2 The Committee shall assess its performance through a self-assessment worksheet (the "Assessment") that substantially adopts the Securities and Exchange Commission (SEC) Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange.

6.3 The Assessment shall be accomplished by the Committee on an annual basis or in such shorter intervals as may be set by the Board. The results of the Assessment shall be validated by the Company's Compliance Officer.

6.4 A feedback mechanism shall be in place to receive comments from management, the internal audit function, the general counsel and external auditor. This should facilitate dialogue within the organization about possible ways to improve its performance.

6.5 The entire assessment process shall be documented and shall form part of the records of the Company that may be examined by the SEC from time to time.

6.6 This Charter shall be reviewed annually, updated as required, and shall be made available to any requesting party upon written request to the Corporate Secretary.

## **7. AMENDMENT**

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