



INTERNAL AUDIT CHARTER

Introduction

It is the policy of SM Investments Corporation (SMIC) Board of Directors to maintain and support a quality Internal Audit function.

The Internal Audit Charter represents the general authorization from the Audit Committee to perform Internal Audit activities in accordance with the annual audit plan approved by the Audit Committee.

The Internal Audit Charter sets out the purpose, authority, and responsibility of the Internal Audit function. It defines the Internal Audit's scope of work and establishes its position within the organization, authorizes access to records, personnel, systems, and physical properties relevant to the audit engagements.

1. Purpose of Internal Audit

Under SMIC's Internal Audit Charter, the primary purpose of Internal Audit is to provide an independent, objective, and reasonable assurance and value-adding services through systematic and disciplined evaluation of the Company's governance system, risk management, and internal control environment of the Company (SMIC) as well as any entity within the Group, which Management or the Audit Committee deems necessary to include.

2. Responsibilities

The Charter also requires the Internal Audit to perform the following:

- a. Develop a flexible annual audit plan using an appropriate risk-based methodology to determine the priorities of internal audit activities, consistent with the Company's goals, and submit such plan as well as periodic updates to the Audit Committee for review and approval.
- b. Implement the approved annual audit plan, including special tasks or projects mandated by Management or Audit Committee.
- c. Maintain a team of professional audit staff with sufficient and relevant knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.
- d. Issue periodic reports to the Audit Committee and Management, summarizing results of audit activities. Thereafter, conduct follow-up audit in a timely manner to ascertain the adequacy, effectiveness, and timeliness of management actions on the reported audit observations and agreed recommendations.
- e. Assist in the investigation of significant suspected fraudulent activities within the Company and notify the Management and the Audit Committee of the results.
- f. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- g. Use of up-to-date tools and technology for audit analytics and keep current on accounting and financial principles, pronouncements, as well as technical issues and trends.
- h. Engage a qualified independent third party to perform an External Quality Assurance Review at least every five years and communicate its results to the Management and Audit Committee.

3. Scope of Work

In order to fulfill its purpose and responsibilities, the Internal Audit's scope of work within the Company, shall include the following:

- a. Determine independently and objectively whether the Company's governance system, risk management, internal controls, and processes, as designed and represented by management, are adequate and functioning in an effective manner to provide reasonable assurance that:
 - Resources are acquired economically, used efficiently, and protected with adequate safeguard measures;
 - Reliability and integrity of financial and operational information are maintained at all times;
 - Company policies, rules, standards, procedures, and applicable laws and regulations which could have significant impact on company operations are complied with;
 - Pertinent legislative or regulatory issues impacting the Company are recognized and appropriately addressed;
 - Quality and continuous improvements are fostered within the internal control environment of the Company; and
 - Opportunities for enhancing operational efficiency, business performance, profitability, and Company's image/reputation as well as risks mitigation are identified during audits and communicated to the Management and Audit Committee.
- b. Provide assurance, advisory and/or ad-hoc services, as requested by the Management and/or Audit Committee.

4. Authority

The Chief Audit Executive (CAE) and his/her entire Internal Audit Team, shall be authorized to:

- a. have full and unrestricted access to all personnel records, documents, systems and information that are required for the effective and efficient audit process;
- b. engage the assistance and participation of all relevant corporate units/officers in relation to the conduct of investigative audits to facilitate the appropriate disciplinary proceedings necessary to determine culpability of erring officers or employees; and
- c. seek the services of qualified third-party external professionals, whenever necessary, to fully carry out the approved audit plan.

5. Independence

To maintain the independence of the Internal Audit, the CAE functionally reports to the Board of Directors, through the Audit Committee. The CAE has direct and free access to communicate with the Management and Audit Committee. Internal Audit, by virtue of its reporting line, communicates the results of the internal audit work, as necessary. Accordingly, Internal Audit maintains its autonomy from management directives in the performance of its functions.

The CAE and Internal Audit Staff are not authorized to perform or be involved in any operational duties for the Company or initiate/approve transactions outside of the Internal Audit department.

6. Liaison with External Auditor

Internal and external audit activities will be coordinated to ensure adequate audit coverage and to minimize duplication of effort/work. Sharing of knowledge and relevant practices shall be observed between external and internal auditors.

7. Professional Standards

Internal Audit shall comply with the International Standards for the Professional Practice of Internal Auditing to ensure that: (1) All internal audit assignments are undertaken with due professional care; (2) Audit work

is performed by suitably skilled, experienced and competent auditors; (3) Audit programs are developed and implemented in accordance with professional standards; and, (4) All of its members have access to training that is required to foster their professional development.

8. Fraud

The Internal Audit must have sufficient capability to evaluate the risk of fraud and the manner by which such risk is managed. It has the primary responsibility for the investigation of all suspected fraudulent acts as defined in Company's Fraud Policy.

9. Review of Charter

This charter shall be reviewed whenever necessary to ensure an appropriate level of cost-effective and value-driven internal audit activities to the Company.

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