



GROUP INTERNAL AUDIT CHARTER

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Effective Date : August 15, 2018

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A. Introduction

The Group Internal Audit (GIA) Charter sets forth the framework for the conduct of the Internal Audit's function in Cosco Capital, Inc. its affiliates and subsidiaries (hereinafter referred to as the Group) as approved by the Audit Committee.

The Charter aims to establish the Internal Audit's position within the Group, and to outline standards and policies which will generally carry out the Internal Audit functions.

B. Policy

It is the policy of the Group to establish the Internal Audit Department to assist in achieving the set objectives by providing the Management, Audit Committee and Board of Directors an independent and objective assurance and consulting activities designed to add value and improve the operations of the Group.

C. Authority and Confidentiality

As a body governed by the Chairman of the Board and the Audit Committee, authorization is granted to the GIA team to:

- have unrestricted access to any and all operating and financial company records, information, systems and applications, physical properties and personnel relevant to the performance of audit assignment;
- obtain the necessary cooperation and assistance of personnel in various departments/offices as deemed necessary;
- determine audit coverage and select required techniques to accomplish objectives; and
- have direct access to the Chairman of the Board.

The authority granted to the GIA carries with it strict accountability for confidentiality and for safeguarding of all records, documents, and information accessed during the course of undertaking internal audit activities. Any information obtained in the conduct of internal audit shall be used exclusively for the benefit of the Group.

D. Independence and Objectivity

At all times, GIA must be independent and objective in the implementation of their duties. These are the key principles which govern the GIA during the conduct of audit engagement. To preserve the independent and neutral status of the GIA, the following tenets shall be observed:

- Reporting Line
 - GIA shall be directly reporting to the following: (a) Chairman of the Board; and (b) Audit Committee
- Limitation of Authority
 - GIA's function is recommendatory in nature; therefore it shall not be directly responsible for any of the Group's business operations.
 - GIA shall not have any authority to supersede or formulate policies, internal controls, and transactional procedures and processes, nor originate decisions that may be perceived as conflict of interest and/or cause prejudice to their objectivity
 - GIA shall not have any executive power, except those directly related to internal audit team management. It cannot impose implementation of operational and functional activities outside that of the internal audit team.

E. Work Scope and Responsibilities

The mandate of GIA encompasses all the business units of the Group and shall cover all existing key business activities involving systems, processes, operations, and functions. As such, no department or business unit of the Group shall be immune from this audit engagement, neither shall any personnel be allowed to interfere nor constrain the performance of duties of the GIA.



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GIA's scope and responsibilities shall cover, at the bare minimum, the following:

- Prepare an annual internal audit plan to be submitted and approved by the Audit Committee;
- Evaluate and review adequacy and effectiveness of existing policies and guidelines covering internal controls, risk management, corporate governance, and operational and financial risks;
- Where fraud occurs or is suspected to have occurred, GIA shall conduct extensive fraud investigation and notify Management, Chairman of the Board, and Audit Committee of the result of the investigation;
- Conduct review of asset management, including its safeguarding and disposal;
- Evaluate and review adherence to accounting standards of financial and management reporting.

Other administrative functions include:

- Participation in the review of quarterly and annual financial reports;
- Submission of reports to Management, Chairman of the Board, and Audit Committee summarizing the result of audit activities periodically;
- Involvement in the planning, design and implementation of new/revised procedures/software application to ensure that the systems or controls are properly tested, documented and implemented to meet the user's requirements;
- Conduct monitoring and follow-up on significant findings and recommendations of previous audit engagement;
- Coordination with the External Auditors and Subsidiary's existing internal audit team, as necessary; and
- Management of internal audit team members, including promotion and retention of qualified and exceptional team members.

If a subsidiary has an existing internal audit team, GIA shall undertake the following:

- Review audit engagement and findings of the subsidiary's internal audit team to ensure that engagement procedures are observed in accordance to GIA's objective and auditing standards;
- Conduct audit examination in areas where the subsidiary's internal audit team has not covered; or where GIA deems necessary to check and review (i.e. high risk areas);
- Prepare and timely submit report to the Chairman of the Board and Audit Committee on all matters pertaining to its audit engagement.

Special Audit Projects

As a body governed by the Chairman of the Board and the Audit Committee, the GIA may be directed to conduct special audit engagements as they may deem necessary, and must abide by this directive. Special audit projects may or may not be explicitly covered in the GIA's Annual Internal Audit Plan.

F. Communicating Results

Result of the audit work will be communicated to the Department Head that was audited through the accomplishment of Preliminary Audit Observation/Findings (PAOF). The Department Head is expected to reply, structured as follows:

- State whether there is an agreement or disagreement with the facts presented;
- Explain the exceptions noted;
- Provide the action plan to prevent recurrence of the cited issue; and
- Set time table to execute the action plan.

After gathering the result of PAOF, an audit exit conference will be conducted with the Management and Auditees to finalize the audit engagement. GIA will prepare the formal audit report to communicate the audit observations, findings, recommendations and management plans to be distributed accordingly to all concerned parties.

GIA will follow-up on corrective actions undergone by the management/auditees to prevent occurrence of new issues and recurrence of old ones. It is the management's responsibility to implement approved findings and recommendations within the mutually agreed time frame.



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Quarterly audit reports shall be submitted to the Chairman of the Board and Audit Committee to discuss the audit activities, findings, status of outstanding issues arising from previous audit engagements, and actions undertaken by the Management/Auditees.

Summary reports shall be released to the Audit Committee prior to the scheduled Audit Committee meetings. Likewise, a year-end report will be released on a per company basis.

G. Standards of Audit Practice

In performing its independent functions, GIA will abide and be governed by the provisions of the newly amended SEC Code of Corporate Governance, the Group Audit Committee Charter and professional practices framework as established by the Institute of Internal Auditors.

H. Effective Date

This Charter shall take effect on August 15, 2018.

Approved by: Audit Committee

Robert Y. Cokeng
Chairman

Oscar S. Reyes
Member

Atty. Bienvenido E. Laguesma
Member

Leonardo B. Deyao
Member

Susan P. Co
Member

Approved by: Board of Directors

Lucio L. Co
Chairman