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INTEGRATED MICRO-ELECTRONICS, INC.

AUDIT AND RISK COMMITTEE CHARTER

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A. Introduction

This document sets out the policies, responsibilities, and authority of Integrated Micro-electronic Inc.'s ("IMI" or the "Company") Audit and Risk Committee (the "Committee") and the procedures that shall guide the function of the Committee, in fulfilling its oversight responsibilities as part of the Company's Board of Directors (the "Board") and is accountable to the Board for its performance.

The Committee shall review the Charter at least annually and obtain the approval of the Board of Directors for any revisions thereto or for any case where external bodies may suggest a change. Suggestions by such external bodies, however, are subject to the approval of the Committee.


B. Policy Statement

It is the policy of IMI to constitute and maintain an Audit and Risk Committee which shall provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders relating to:

- The integrity of the Company's financial statements and the financial reporting process;
- The appointment, remuneration, qualifications, independence and performance of the independent external auditors and the integrity of the audit process as a whole;
- The effectiveness of the systems of internal control and the risk management process;
- The performance and leadership of the internal audit function;
- The company's compliance with applicable legal, regulatory and corporate governance requirements; and
- The preparation of year-end report of the Committee for approval of the Board and to be included in the annual report.

To fulfill this oversight responsibility, the Committee shall maintain a free and open communication with the Company's external auditors, the internal auditors and the management of the Company.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention, with full access to all records, books of accounts, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose.

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C. Authority

Corporate Governance is the system through which the shareholders, creditors and other stakeholders of a Corporation are assured that Management enhances the value of the organization.

- The Board of Directors is responsible to the shareholders in ensuring that value is created and sustained.
- Management is responsible to the Board in the day-to-day operations of the organization. This includes: 1. Operating an effective risk management process; 2. Maintaining a strong system of internal controls; and 3. Ensuring the integrity of the Company's financial statement including the related disclosures.
- The Audit Risk Committee assists the Board of Directors fulfill its responsibility for oversight of the organization's corporate governance process including risk management.

This entails an understanding of the risks, control and financial reporting issues inherent to the organization.


To carry out its responsibilities, the Committee relies on the expertise and knowledge of management, the internal auditors and external auditors and the designated risk officer and risk management unit

- The external auditors are directly responsible to the Committee in helping ensure the integrity of the financial statements.
- The internal auditors help the Committee in monitoring the risks, control and financial reporting issues through the continuous review of the effectiveness of the organization's risk management controls and corporate governance processes.

The designated risk officer and the risk management unit help the Committee identify various risks and exposures of the company through periodic assessment and implementation of risk mitigation strategies and controls.

The Audit and Risk Committee has the authority to:

- Appoint, compensate and oversee the work of the public accounting firm employed by the Company to conduct the annual audit. This firm will report directly to the Committee.
- Resolve any disagreements between management and the external auditor regarding financial reporting.
- Direct the Internal Audit function.

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- Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation, when necessary, without the permission of the Board or Management. The Committee shall be provided with the needed resources to support its work.
- Seek any information it requires from employees - all of whom are directed to cooperate with the Committee's requests - or external parties.
- Meet with Company officers, Chief Internal Auditor, external auditors, or outside counsel, as often as necessary, to discuss any issues arising from the audit process.
- Meet with the designated risk officer to discuss the risk management structure, risk issues and mitigation strategies and its overall effectiveness.

D. Responsibilities

The Audit and Risk Committee is expected, through the provision of checks and balances, to support the corporate governance process. Specifically, it shall be responsible for the following:

1. Financial Reporting

- 1.1 Review of the financial statements and all related disclosures and reports certified by the Chief Financial Officer and released to the public and/or submitted to the Securities and Exchange Commission and for compliance with both the internal financial management handbook and pertinent accounting standards, including legal and regulatory requirements.
- 1.2 Review of the quarterly, half-year and annual financial statements before submission to the Board, focusing on changes in accounting policies and practices, alternative accounting treatments and major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, tax, legal, and stock exchange requirements.
- 1.3 Ensure that Management formulates accounting/reporting processes and practices in accordance with the Philippine and International Financial Reporting Standards, including rules and procedures in compliance with the financial reporting requirements of the various applicable regulatory agencies.

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2. Internal Audit

2.1 Review and recommends to the Board, the approval of the Internal Audit Charter (IA Charter) which formally defines the role of Internal Audit and the audit plan as well as oversees the implementation of the IA Charter.

2.2 Set up the Internal Audit Department, including the appointment, replacement, re-assignment or dismissal of the Internal Audit Head. The Committee shall establish and identify the reporting line of the Internal Audit Head so that the reporting levels allow the internal audit activity to fulfill its responsibilities.

The Audit and Risk Committee shall also approve the terms and conditions for outsourcing internal audit services.

2.3 Ensure that the Internal Auditors have free and full access to all the Company's records, properties and personnel relevant to and required by its function and that the internal audit activity shall be free from interference in determining its scope, performing its work and communicating its results.


2.4 Review and approve the Annual Internal Audit Work Plan and all deviations therefrom, and ensure that internal audit examinations cover the evaluation of adequacy and effectiveness of controls encompassing the Company's governance, operations, information system, reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with contracts, laws, rules and regulations.

The Annual Internal Audit Plan shall include the audit scope, resources and budget necessary to implement it.

The Committee shall also ensure that audit resources are reasonably allocated to the areas of highest risk and ensure that the Annual Internal Audit Plan is in conformity with the objectives of the Company.

2.5 Review the reports of the Internal Auditors and regulatory agencies, where applicable, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues.

2.6 Review the Internal Audit's periodic reports and the Internal Audit Annual Report. Periodic reports shall highlight the status of projects in accordance with the audit plan approved by the Committee, as well as any unplanned projects. Such reports shall include a summary of key

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findings and recommendations, including the status of implementation. The Annual Report shall discuss the Internal Audit Department's activity, purpose, authority, responsibility and performance relative to the audit plans and strategies approved by the Audit and Risk Committee.

- 2.7 Conduct separate meetings with the Internal Audit Head to discuss any matter that the Committee or the auditors may deem necessary to be discussed privately.
- 2.8 Provide inputs on the performance of the Internal Audit Department and communication/discussion of such inputs with the, Chief Financial Officer or his designate who shall then translate these into a performance appraisal applicable to the Internal Audit Head and the Internal Auditors taken as a whole.
- 2.9 Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.
- 2.10 Performs oversight function over internal audit function who shall provide functional support


3. External Audit

- 3.1 Review the performance and recommend the appointment, retention or discharge and fees of the external auditor, duly accredited by Securities and Exchange Commission. In case of resignation or cessation from service of an external auditor, ensure that there is a process for reporting in the annual and current reports the reason for cessation from service, and the date thereof, of an external auditor.

A preliminary copy of the said report shall be given by the Company to the external auditor before its submission.

- 3.2 Ensure the rotation of the lead engagement partner at least once every five (5) years and consider whether there should be a regular rotation of the audit firm itself.
- 3.3 Review and pre-approve the external auditor's plans and ascertain the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit.


In this regard, the Committee shall discuss with the external auditors, before the audit commences, the nature and scope of the audit, and ensure cooperation when more than one professional service firm is needed.

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- 3.4 Monitor the coordination of efforts between the external and internal auditors. The Committee shall ensure that the internal and external auditors act independently from each other.
- 3.5 Review the reports of the external auditors, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner, including addressing control governance and compliance issues.
- 3.6 Conduct a separate meeting in executive session, with the external auditors to discuss any matter that the committee or auditors believe should be discussed privately, including the results of the audit, year-end financial statements, the quality of management, financial and accounting controls.
- 3.7 Review and approve of the proportion of audit versus non-audit work both in relation to their significance to the auditor and in relation to the Company's year-end financial statements, and total expenditure on consultancy, to ensure that non-audit work will not be in conflict with the audit functions of the external auditor. The amount of both audit and non-audit work of external auditors shall be disclosed in the annual report.
- 3.8 Ensure that the external auditor has unrestricted access to all records, properties and personnel to enable performance of the required audit.
- 3.9 Review with the external auditor any problems or difficulties, including any restrictions on the scope of the external auditor's activities or on access to requested information and any significant disagreements with management. The review may also include discussion of any proposed accounting adjustments that were "passed" or not recorded.
- 3.10 Review of the external auditor's evaluation of internal accounting controls. external auditors shall provide feedback to the Audit and Risk Committee on their observations of internal control weaknesses arising from statutory financial audits. External auditors should highlight findings which are disputed by Management or where Management has not agreed to implement remedial actions that would rectify the identified weaknesses.

4. Risk Management

- 4.1 Ensure that an overall risk management structure, policies and procedures exist for the Company.
- 4.2 Review the adequacy of the Company's enterprise risk management framework/process. The Board, through the Audit and Risk Committee

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provided oversight by providing continuous input, evaluation and feedback on the effectiveness of the risk management process.

- 4.3 Review the results of the annual risk assessment done by the designated Chief Risk Officer (CRO). The Report should include the material financial and non-financial risks that impact on the Company and the corresponding measures in addressing such risks.
- 4.4 Evaluate the risk assessment report submitted by the CRO on a quarterly basis. The report may include existing and emerging risks both at the Integrated Micro-Electronics, Inc. and the subsidiaries, and the related risk mitigation strategies and action plans of management.
- 4.5 Monitor the risk management activities of the Company and evaluate the effectiveness of the risk mitigation and action plans, with the assistance of the internal auditors.

This policy notwithstanding, management shall remain primarily responsible for the development, implementation and reporting of the risk management strategies, and policies and systems, intended to address the identified risks.

5. Governance/Compliance

- 5.1 Ensure that effective procedures are established for:
 - (i) The receipt, retention and resolution of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - (ii) The confidential, anonymous submission by employees or other interested persons of concerns regarding questionable accounting or auditing matters.
 - (iii) Appropriate corporate culture promoting ethical behavior.
- 5.2 Review the control environment of the Company to assess whether Top Management sets the right tone that supports a culture of integrity and promotes the corporate values of the Company.
- 5.3 Review the process for communicating the code of conduct and ethics policy to Company personnel, and for monitoring the compliance therewith, as well as compliance to all applicable laws and regulations pursuant to which the Company conducts its operations and business activities.
- 5.4 Review internal control framework implemented by Management for fraud prevention and detection.

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On an annual basis, Management, together with Internal Audit, shall assess the effectiveness of the Company's fraud framework and present the results of its assessment to Audit and Risk Committee, together with proposed improvement on the fraud policies and controls to be adopted to address any gaps noted from the review.

The Audit and Risk Committee shall also be provided by Management with reports on all cases of suspected and actual frauds and breaches of laws and regulations on a quarterly basis or more frequently, as necessary.


- 5.5 Review reports of internal and external auditors, and regulatory agencies, where applicable, ensuring that management is taking appropriate actions in a timely manner, including addressing control and compliance issues.
- 5.6 As necessary, institute and oversee special investigation, and, if appropriate, hire special counsel or experts to provide the necessary assistance.

6. Internal Control

- 6.1 Ensure that a transparent financial and operational management system, supported by a financial management handbook that will be used by the entire organization, is established to ensure the integrity of internal control activities throughout the Company.
- 6.2 Consider and discuss with management, the internal auditors, and the external auditors, the major issues as to the adequacy and effectiveness of the Company's internal control system, including internal financial controls, operational and compliance controls, information technology security and controls, and any special audit steps adopted in light of material control deficiencies.
- 6.3 For significant control weaknesses identified, the Audit and Risk Committee may request Management to explain the impact and the actions taken to rectify the identified control weaknesses.

7. Reporting and Other Responsibilities

- 7.1 Regularly report to the Board of Directors about Committee activities and issues that arise with respect to the quality or integrity of the Company's financial statement, the effectiveness of the system of internal controls, the performance and independence of the Company's external auditors, the performance of the internal audit function and the Company's compliance with legal, regulatory or corporate governance requirements.


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- 7.2 Highlight to the Board any serious concerns over the design or operating effectiveness of internal controls that may have a material impact on the financial statements.
- 7.3 For any awareness or knowledge of any suspected fraud or irregularity, or suspected infringement of any laws or regulations of any regulatory authority in the Philippines, which has or is likely to have a material impact on the Company's operating results or financial position, the Audit and Risk Committee must discuss such matter with the external auditor, and, at an appropriate time, report the matter to the Board.
- 7.4 Provide an open avenue of communication between internal audit, the external auditors, management and the Board of Directors.
- 7.5 Report annually to the Board of Directors, describing the Committee's composition, responsibilities and how they were discharged, and any other information required by law, including approval of non-audit services. Confirm annually that all responsibilities outlined in this Charter have been carried out.
- 7.6 Review any other reports the Company issues that relate to Committee responsibilities.
- 7.7 Review and assess the adequacy of the Audit and Risk Committee Charter at least annually, requesting Board of Directors' approval for proposed changes and ensure appropriate disclosure as may be required by law or regulation.
- 7.8 Perform other activities related to this Charter as requested by the Board of Directors.

E. Committee Membership

In accordance with the Manual on Corporate Governance:

- 1 The Audit and Risk Committee shall be appointed by the Board of Directors from among their number, as supported by an approved Board Resolution.
2. The Committee shall be comprised of at least three (3) members, majority of whom shall be independent. The majority members of the Committee shall not be:
 - 2.1 Executive Directors of the Company or any related corporation;

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2.2 Any person having a relationship which, in the opinion of the Board of Directors would interfere with the exercise of independent judgment carrying out the functions of the Committee.

- 3 An independent director shall chair the Committee and shall be responsible for ensuring the effective interaction among Committee members, with management and the internal and external auditors. The Chairman of the Audit and Risk Committee should not be the chairman of the Board or of any other committees.
- 4 Each member shall have an adequate understanding of accounting and auditing principles in general and of the Company's financial management systems and environment in particular.

To provide a balance between ensuring continuity and the need for fresh outlook/perspective that could be contributed by new members, at least one of the Committee members shall be retained or, depending on the discretion of the Board, the outgoing Chairman shall be retained as ad hoc member.

F. Meetings and Schedule of Activities

- 1 To provide a systematic guide for the discharge of its responsibilities, the Committee will agree on an annual calendar/schedule of activities that shall determine the agenda for each meeting subject to adjustments and/or revisions as needed. The Internal Audit Head will ensure that the schedule is carried as planned.
- 2 The Committee shall meet at least quarterly. Preferably, the quarterly meetings will be held prior to the meeting of the Board of Directors and meet with the Board at least twice a year without the presence of the CEO and other management team members. In cases when there is a need for special meetings to take up any critical items that would need approval in between the quarterly meetings, it shall be up to the Chairman of the Committee to either call for a special meeting or just allow the routing of the covering paper.
- 3 The agenda for the meetings will be developed by the Internal Audit Head based on the agreed calendar of activities and inputs from the Committee members, subject to the approval of the Chairman. The quarterly meetings will include the review and discussion of the quarterly or year-end financial statements, the related disclosures and other reportorial requirements, and updates on risk management and internal audit activities.
- 4 The President and Chief Executive Officer and the Chief Financial Officer may be requested to attend Committee meetings. As and when appropriate, the Committee may require other members of management to be present at the meetings. External subject experts,

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such as the appointed external auditors and other consultants, may also be invited to the meetings.

- 5 The Committee shall meet with the Internal Audit Head and the independent external auditors in executive session at least once a year.
- 6 The external auditors and/or Internal Audit Head and/or the Chief Risk Officer may request a meeting with the Committee whenever deemed necessary.

G. Reporting Procedures

To keep the Board of Directors apprised on the results of the Committee's activities, the Chairman of the Audit and Risk Committee shall submit a report every quarter to the Chairman of the Board; and shall be ready to present the report to the full board during its meeting for the quarter.


The Committee Chairman will also submit and present an Annual Audit and Risk Committee report to the full Board during its first meeting following the immediate calendar year.

H. Performance Evaluation and Continuous Improvement

To ensure that the Committee continues to fulfill its responsibilities in accordance with global best practices and in compliance with the Manual on Corporate Governance and other relevant regulatory requirements, the Committee shall conduct an assessment of its performance at least annually. In this regard, the Committee shall:

- 1 As a body, evaluate its performance by filling up a self-assessment questionnaire that shall benchmark its practices against the expectations set out in this Charter.
- 2 Based on the results of the self-assessment, formulate and implement plans to improve its performance. These shall include the identification of relevant training needs intended to keep the members up-to-date with corporate governance best practices, accounting and auditing standards, as well as specific areas of concern (e.g. emerging risks).
- 3 Semi-annually, review the status of implementation of such plans for improvement.

In addition, the Committee shall obtain and subject itself to an independent assessment by the Board of Directors relative to its performance in accordance with expectations set out in this Charter and the discharge of its responsibilities as specified in the Committee's Calendar of Activities.

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EDGAR O. CHUA
Chairman



RAFAEL C. ROMUALDEZ
Member



HIROSHI NISHIMURA
Member