

POLICY ON NON-AUDIT SERVICES OF EXTERNAL AUDITOR

Rationale

Non-audit services provided by the company's external auditor, because of their size or nature, can give rise to threats to the auditor's objectivity and independence. The purpose of this policy is to ensure that the provision of non-audit services does not impair, or is not perceived to impair the external auditor's independence or objectivity.

The creation of this policy also considered the following regulations and requirements:

- SEC Memo Circular No. 19 of 2016 dated November 22, 2016 under the principle on Strengthening the External Auditor's Independence and Improving Audit Quality which espouses, recommends, and explains that –

"Principle 9

The company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

Recommendation 9.3

The company should disclose the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest. The Audit Committee should be alert for any potential conflict of interest situations, given the guidelines or policies on on-audit services, which could be viewed as impairing the external auditor's objectivity. (underscoring provided)

Explanation

The Audit Committee, in the performance of its duty, oversees the overall relationship with the external auditor. It evaluates and determines the nature of non-audit services, if any, of the external auditor. Further, the Committee periodically reviews the proportion of non-audit fees paid to the external auditor in relation to the corporation's overall consultancy expenses. Allowing the same auditor to perform non-audit services for the company may create a potential conflict of interest. In order to mitigate the risk of possible conflict between the auditor and the company, the Audit Committee puts in place robust policies and procedures designed to promote auditor independence in the long run. In formulating these policies and procedures, the Committee is guided by nationally and internationally recognized best practices and regulatory requirements or issuances."

- Wilcon Depot Inc.'s Revised Manual on Corporate Governance 2017 in Section V.B. enumerated the duties and responsibilities of the Audit Committee, including item (h) which states that –

"Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the Corporation's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an External Auditor or may

pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report."

Section XI of the Company's Revised Manual on Corporate Governance about Strengthening the External Auditor's Independence and Improving Quality likewise emphasizes that –

"The Audit Committee Charter shall include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter shall also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis."

"The nature of non-audit services performed by the external auditor shall be disclosed in the Annual Report to deal with any potential conflict of interest. The Audit Committee shall be on alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity."

Specific Policies and Guidelines

The Company primarily adopts the pertinent prohibitions set forth in the Amended Rule 68 prescribed by the Securities and Exchange Commission. Part I.3.B of this rule on the Additional Requirement for Independent Auditors of Regulated Entities under category (vii) Operational Requirements where in item (a) the following are enumerated:

"An accredited firm or independent auditor shall not engage in any of the following non-audit services for his statutory audit clients, unless the safeguards under the Code of Ethics for CPA's are undertaken by the firm or auditor to reduce the threat of independence:

- 1) Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- 2) Financial information systems design and implementation;
- 3) Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- 4) Actuarial services;
- 5) Internal audit outsourcing services;
- 6) Management functions or human resources;
- 7) Broker or dealer, investment adviser, or investment banking services;
- 8) Legal services and other professional services unrelated to the audit; and
- 9) Any other services that the Commission may declare as not permissible

The following general guidelines shall be observed by the Company when it is necessary and justifiable to engage the external auditor in providing non-audit services:

- The skills and experience of the external auditor or auditors of the audit firm engaged by the Company make them the most suitable supplier of the non-audit service;

- There are safeguards in place that eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of the particular service by the auditors; and
- The fees incurred, or to be incurred, for non-audit services in aggregate (and for any substantial individual service) relative to the audit fee would not be perceived by a reasonable and informed third party as giving rise to loss of independence on the part of the external auditor.

All non-audit services by the external auditor, regardless of amount shall have approval by the Audit Committee prior to engagement. The Company Management, as part of the approval process shall provide the Audit Committee with adequate justification and explanation on the intent to engage the non-audit service of the external auditor, the nature and scope of the engagement, the amount of service fee for the particular engagement, and the aggregate amount of fees for all non-audit services by the external auditor during the current year compared with the audit fees.

This Policy on Non-Audit Services of Company's External Auditor is hereby adopted and presented by Wilcon Depot Inc.'s Management to the Board of Directors, through the Audit Committee for its review and approval.


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MR. MARK ANDREW Y. BELO
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Reviewed and endorsed by:


MR. RICARDO S. PASCUA
Chairman, Audit Committee


MR. ROLANDO S. NARCISO
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Date : May 09, 2018