WILCON DEPOT

# 2019
# ANNUAL REPORT


## BUILDING BIG IDEAS

# CX HERO

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# CORPORATE PROFILE


**Wilcon Depot, Inc.** (PSE: WLCON) is the Philippines' leading home improvement and construction supplies retailer. It caters to the fast-growing segment of middle- to high-income homeowners whose needs range from new home construction, renovation, repair and maintenance to home improvement, furnishing and design. Wilcon is top-of-mind among homebuilders and homeowners looking to build or renovate their homes with its complete spectrum of product offerings. Wilcon carries local and international brands of tiles, sanitary wares and plumbing, hardware and tools, and other DIY items such as electrical and lighting, paints and building materials, doors and mouldings, and also household items such as furniture and home interiors, appliances and housewares, among others. Despite having a huge collection of products, Wilcon maintains ease in shopping through its organized and clutter-free environment.

Wilcon traces its roots in 1977 when its founder, Mr. William T. Belo, opened his first branch, a modest 60-sqm hardware store, in Quezon City. He gradually expanded the pioneer Wilcon branch as business picked up, opening three more Metro Manila branches with an average area of 2,400 sqm from 1989 to 1995.

Wilcon's first foray outside Metro Manila was in 2002 when it opened a branch in Davao City. In its continued efforts to find ways of delivering the best service to its customers, Wilcon built its first depot-format store in Las Piñas in 2003. The depot-format is a new store concept for the business at that time and at 10,000 sqm, much larger than the older branches with a more comprehensive product selection. The depots offered more comfortable shopping experience with free parking spaces, air-conditioned stores, reliable delivery service and knowledgeable sales personnel. Over the next 16 years, Wilcon rapidly expanded its operations with the opening of 47 more depot format stores around the country.

In its initial years, the business operated under several corporate entities based on the geographical location of the branches and store formats. The companies were then consolidated into Wilcon Builders Depot, Inc. (WBDI), to achieve economies of scale and promote operational efficiencies, which was completed in 2013.

On December 17, 2015, the Company, Wilcon Depot, Inc. (WDI) was incorporated to operate the retail business of WBDI, which was renamed to Wilcon Corporation (WC) in November 2016. WDI commenced operations on April 1, 2016 upon the transfer of the retail operations of the parent company and was listed on the Philippine Stock Exchange on March 31, 2017.

# OUR MISSION

To help people build, improve, and refine their homes for a sustainable and comfortable life.

# OUR VISION

Our vision is to become the preferred company in our industry for all our key stakeholders: our customers, our partners, our employees, our shareholders and the society we live in.

To deserve the trust and respect our key stakeholders place in us, we at Wilcon differentiate ourselves by the standard of excellence and commitment we adhere to.


**For our customers,** we are committed to delivering products and solutions of superior quality and providing excellent and reliable service.

**For our partners,** we are committed in nurturing a winning network of suppliers in order to create mutual and enduring value.

**For our employees,** we are committed to create an environment that respects their dignity as persons, cultivates knowledge and talent, and empowers them to be the best they can be through continuous career and development opportunities.

**For our shareholders,** we are committed to maximize long – term returns to shareholders that can enable growth and prosperity in the business, and in turn, provide more opportunities for our employees and more solutions to our customers.

**For the society we live in,** we are committed to delivering products and solutions of superior quality and providing excellent and reliable service.

# BRANCHES NATIONWIDE


**METRO MANILA (DEPOT)**

- VALENZUELA CITY
- FAIRVIEW
- QUIRINO
- BALINTAWAK
- QUEZON AVENUE
- LIBIS
- PASONG TAMO
- WILCON IT HUB
- SUCAT
- ALABANG
- FILINVEST

**METRO MANILA (HOME ESSENTIALS)**

- MINDANAO AVENUE
- CITY CENTER, VISAYAS AVENUE
- MUÑOZ
- ALI MALL
- STA. MESA
- PASAY CITY

**LUZON (DEPOT)**

- LAOAG, ILOCOS NORTE
- VILLASIS, PANGASINAN
- IGUIG, CAGAYAN
- CABANATUAN CITY, NUEVA ECIJA
- TARLAC CITY
- DAU, PAMPANGA
- SAN FERNANDO, PAMPANGA
- MEXICO, PAMPANGA
- BALIUAG, BULACAN
- TAYTAY, RIZAL
- MAYAMOT, ANTIPOLO CITY
- SAN ISIDRO, ANTIPOLO CITY
- DASMARIÑAS CITY
- GENERAL TRIAS CITY
- KAWIT, CAVITE
- BACOOR CITY
- SILANG, CAVITE
- CALAMBA CITY
- SAN PABLO CITY
- STA. ROSA CITY
- STO. TOMAS CITY
- ALANGILAN, BATANGAS CITY
- LIPA CITY
- TAYABAS, QUEZON
- NAGA CITY
- PUERTO PRINCESA CITY

**VISAYAS (DEPOT)**

- JARO, ILOILO CITY
- TACLOBAN CITY, LEYTE
- TALISAY CITY, CEBU
- MANDAUE CITY, CEBU
- STA. BARBARA, ILOILO
- TALISAY - BACOLOD, NEGROS OCCIDENTAL

**(HOME ESSENTIALS)**

- FESTIVEWALK MALL MANDURRIAO, ILOILO CITY

**MINDANAO (DEPOT)**

- BUTUAN CITY
- CAGAYAN DE ORO CITY, MISAMIS ORIENTAL
- MATINA, DAVAO CITY
- PANACAN, DAVAO CITY
- ZAMBOANGA CITY
- GENERAL SANTOS CITY
- OPOL, MISAMIS ORIENTAL

# COMPANY HIGHLIGHTS

## 2017-PRESENT


- Initial public offering of WDI
- Roll out of the five-year 29-depot expansion plan

## 2015-2016

- Wilcon Depot, Inc. was established on December 17, 2015
- Retail business was transferred from Wilcon Corporation to Wilcon Depot, Inc. on April 1, 2016

## 2009-2014

- Major re-branding / Evolution of Wilcon logo and brand
- Re-conceptualization of the smaller-sized stores into a separate format labeled "Home Essentials"
- Consolidation of operations under one entity (Wilcon Builders Depot, Inc., now Wilcon Corporation)
- Enhanced exclusive and in-house brand offerings

## 2002 - UP

- Introduced & expanded depot format
- Converted into a modern trade channel
- Pure retail operations offering a complete spectrum of home improvement products

## 1977-2001

- Traditional trade
- Small hardware store format
- Wholesale and retail operations

# MESSAGE

Dear shareholders,

I am pleased to report another great year for Wilcon Depot, Inc. The year 2019 was not without its challenges but we were able to deliver the results that we wanted.

We have been making great strides towards cementing our leadership position in the finishing construction supplies and home improvement space. We have gone this far through our relentless focus on being the most complete and reliable partner of our customers in building, renovating and enhancing their homes. We were able to send across this value proposition to our market through our continued investments in our store network expansion, product offerings and supply chain, enabling technology, marketing efforts and our most valuable assets – our employees, our CX (Customer Experience) heroes.

For 2019, we added six new depots to our store network. We closed the year with 57 branches, 50 depots and seven Home Essentials. The early successes of the new branches that we have been opening in the last few years have validated our strategy of going closer to our markets, creating opportunities for us to serve a wider customer base and letting them experience Wilcon's brand of service. Aside from opening new stores, we have also expanded and renovated six existing branches to better serve our growing number of customers in those areas.

In support of an expanding store network and increased revenue contribution of our exclusively distributed products, we have likewise completed the construction of additional warehouse buildings in our existing main distribution center and at the close of the year opened our new regional hub in the south of Metro Manila. The regional hub is meant to improve our fulfillment and distribution processes to our growing number of stores and customer base in the region. We have also grown our in-house and exclusive product offerings. We not only introduced new brands and added to our categories but also expanded product lines under existing brands.

Wilcon always believed in harnessing the benefits of technology to better serve our market and deliver excellent customer service all the time. As part of our "Smart Transformation" thrust in 2019, we began the process of enhancing our current e-commerce platform. We started with a basic, internally-developed e-commerce platform when we first launched this at the start of 2019. By the end of the year, we completed the purchase of a new POS (point-of-sale) system that would be more suitable to a more advanced platform. We also started to shortlist tier one e-commerce platform providers that will be the right fit operationally and the most financially sensible to us at the same time. We completed the purchase of a new e-commerce platform in the first quarter of 2020 and we expect the roll out of this with the new POS system to commence in the fourth quarter of this year.

In 2019, we have also started with the recording and collation of data on sustainability metrics. This is in preparation for formulating a formal sustainability approach and roadmap that would be the basis for our ESG (Environmental, Social and Governance) journey.

Our continued efforts to strengthen our leadership position has again resulted in a strong financial performance in 2019. Sales grew 16.3% to P24.476 billion for the year, which generated net earnings of P2.125 billion, a 15.8% hike from the 2018 level. This strong performance enabled us to increase our dividend payout this 2020 to P0.18 per share from last year's P0.16 per share.

We were looking forward to an even better 2020 but as you may all know by now, we are in the middle of a pandemic that has wreaked havoc on the global economy. We are currently traversing through this very difficult time with the aim of continuously serving the needs of our market while doing our best to ensure that our CX heroes, our customers and the various communities we are in are kept safe. How apropos that our theme for this year, which we launched at the start of the year, is to celebrate our CX heroes – our dedicated frontliners, whose service we are thankful for.

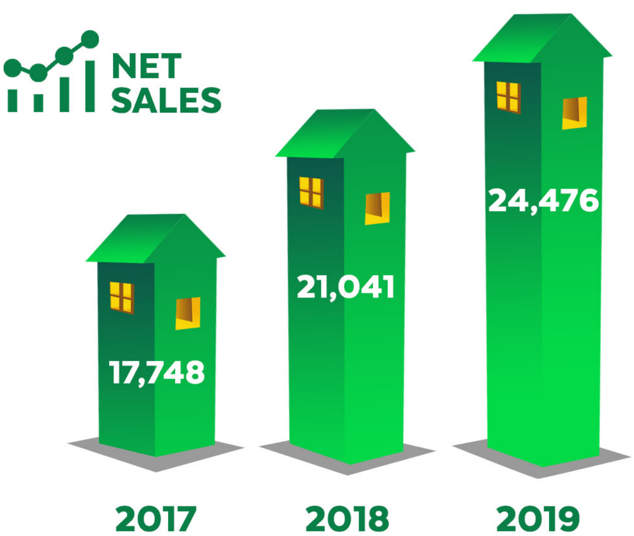
We are hopeful that we shall all overcome this crisis and continue on to reach greater heights together with your tireless support and faith in our management.

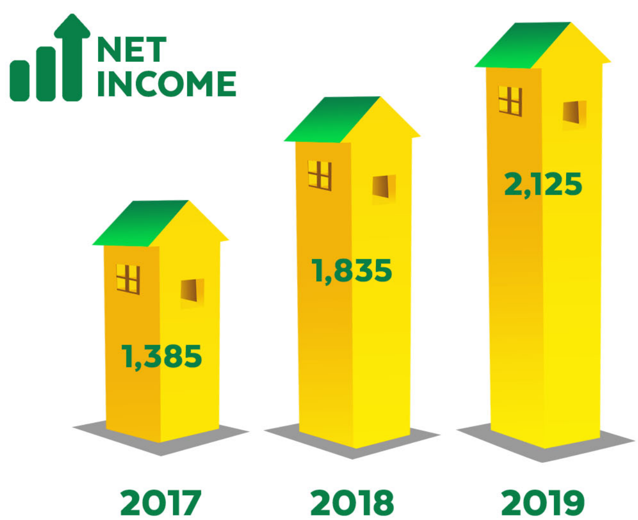
Together, WeWILCONquer!

**LORRAINE BELO–CINCOCHAN**
Director, President and Chief Executive Officer

# FINANCIAL HIGHLIGHTS

| FOR THE YEAR (IN PHP MILLIONS) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net Sales | 24,476 | 21,041 | 17,748 |
| Gross Income | 8,176 | 6,603 | 5,266 |
| EBIT | 3,091 | 2,347 | 1,740 |
| EBITDA | 4,225 | 2,512 | 1,844 |
| Net Income | 2,125 | 1,835 | 1,385 |
| **AS AT 31 DECEMBER (IN PHP MILLIONS)** | | | |
| Total Assets | 26,237 | 17,502 | 16,024 |
| Total Liabilities | 11,576 | 4,290 | 4,106 |
| Total Stockholders' Equity | 14,662 | 13,212 | 11,918 |
| **PER SHARE** | | | |
| Basic Earnings | 0.52 | 0.45 | 0.37 |
| Book Value | 3.58 | 3.22 | 2.91 |



# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2019 compared with period ended December 31, 2018.

*Results of Operations for the Twelve Months Ended December 31, 2019*

Wilcon Depot, Inc. (WDI or the Company) generated net income of ₱2,125 million for the year ended December 31, 2019, higher by 15.8% or ₱289 million from the ₱1,835 million reported in 2018 with net income margins of 8.7% both for 2019 and 2018. The improvement was driven by the 16.3% increase in net sales and the improved gross profit margin as a result mainly of margin-enhancing product mix strategy. The increase was partly offset by rising operating and non-cash financing expenses brought about by the adoption of the new accounting standard for recognizing operating leases and other expenses necessary to support the store network expansion strategy of the Company.

*Net Sales*

The Company recorded net sales of ₱24,476 million for the year ended December 31, 2019, 16.3% or ₱3,435 million higher than the ₱21,041 million reported in 2018. The growth was driven by the ₱2,331 million contribution from new stores accounting for 67.9% of the total increase and the comparable sales growth of 5.2% for the period.

Its flagship format, the depot, accounted for 95.9% or ₱23,469 million of the total. The format grew by 16.5% or ₱3,318 million from the ₱20,150 million net sales in 2018, driven by the continuous roll out and ramp up of new stores and same store sales growth of 5.0%.

Net sales generated by the smaller format, "home essentials", stores comprised the 2.7% or ₱658 million of total net sales and improved by 6.2% or ₱39 million from the prior year's ₱619 million with a 4.0% same store sales growth. The remaining 1.4% was accounted for by the project sales amounting to ₱349 million, increasing by 28.6% or ₱78 million in 2019.

During the year, the Company opened six new depots bringing the total number of stores to 57 (50 depots and seven home essentials) by the end of 2019. The Company opened three branches in Luzon, one in the Visayas and two in Mindanao.

*Gross Profit*

Gross profit closed at ₱8,176 million, resulting in a gross profit margin of 33.4% for the year ended December 31, 2019. For the year ended December 31, 2018, gross profit is reported at ₱6,603 million for a gross profit margin of 31.4%. The hike was brought about by the expanding contribution of the higher margin in-house and exclusive products to total net sales. Sales of exclusive and in-house products accounted for 49.5% of total net sales for the year versus 46.9% in 2018. Continued sales growth of non-exclusive products also earned for the company volume discounts in addition to cash discount opportunities successfully pursued by the company, both of which partly contributed to the improved blended gross profit margin.

*Operating Expenses*

Operating expenses increased to ₱5,396 million for the period, up 22.1% or ₱975 million from the prior period's ₱4,421 million. The increase is traced mainly to expansion-related expenses, salary rate adjustments and the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*. Depreciation and amortization recorded the highest increase as a result of the continuous addition of the company-owned store buildings and the re-classification of part of rent expense to depreciation. Consequently, rent expense dropped by 63.9% or ₱588 million.

The company adopted the new accounting standard for leases, PFRS 16 starting January 1, 2019, which involved the recognition of the company's qualified operating leases as lease assets with the corresponding lease liability in the balance sheet. As a result, qualified lease-related expenses previously classified as rent expense are reflected in the income statement as depreciation/amortization of the lease asset and interest expense on the lease liability.

*Interest Expense*

Interest expense for the years ended December 31, 2019 and 2018 amounted to ₱300 million and ₱2 million, respectively. The ₱298 million increase represents interest charged on lease liability recognized for the period in relation to the adoption of PFRS 16 by the Company, starting January 1, 2019.

*Other income (Charges)*

Other income (charges) for the year ended December 31, 2019 totaled ₱463 million, up 28.7% or ₱103 million from the ₱359 million recorded in 2018. Other income consists of: 1) Rent and net other income from trade and other suppliers amounting to ₱311 million, up 88.7% or ₱146 million from 2018 representing net charges for the lease of bill boards, gondola lights, end caps, etc. and their share of various operational and promotional/marketing expenses and other non-merchandise sales related income; 2) Interest income of ₱151 million which decreased from the prior year's balance of ₱195 million as the IPO proceeds continue to be deployed for expansion purposes.

*Earnings Before Interest and Tax (EBIT) / Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)*

EBITDA for the year ended December 31, 2019 reached ₱4,225 million, or 17.3% of net sales. EBITDA for the year ended December 31, 2018 is reported at ₱2,512 million, or 11.9% of net sales.

EBIT for the year 2019 is ₱3,091 million or 12.6% of net sales, while for the year 2018 amounted to ₱2,347 million, or 11.2% of net sales, respectively.

The significant hike in EBITDA, particularly is due mainly to the change in accounting standards. It should be noted that ₱721 million of the depreciation and amortization expense and the total interest expense of ₱300 million as at December 31, 2019 are re-classified rent related expense due to the adoption of PFRS 16 for the treatment of operating leases by the Company.

*Income Tax Expense (Benefit)*

The Company's income tax expense increase by 16.1% or ₱114 million to end at ₱818 million, versus ₱704 million incurred during 2018 in view of higher taxable income.

*Financial Condition*

*Assets*

WDI's total assets grew by 49.9% or ₱8,735 million from ₱17,502 million balance as at December 31, 2018 to close at ₱26,237 million as at December 31, 2019. The increase was due mainly to the recognition of right of use assets (PFRS 16), additional inventories and capital expenditures related to store network expansion.

*Current Assets*

Aggregate cash and cash equivalents including short-term investments decreased by ₱764 million or 26.9% from ₱2,842 million at the close of 2018 to ₱2,079 million by end 2019, traceable primarily due to payment of inventories and construction liabilities.

Trade and other receivables totaled ₱440 million as at December 31, 2019, 43.5% or ₱133 million higher than the ₱307 million balance as at December 31, 2018. The increase was mainly due to increase in credit sales.

Merchandise inventories totaling ₱9,518 million make up the bulk of current assets, accounting for 63.4% of total current assets as at December 31, 2019. This represents a 29.8% or ₱2,186 million jump over the ending 2018 balance of ₱7,331 million to support the requirements of the new store openings and increased contribution of in-house and exclusive products.

*Noncurrent assets*

The Company's noncurrent assets reached ₱11,215 million, 75.8% or ₱4,836 million higher than the ₱6,379 million balance as at December 31, 2018 in view mainly of the adoption of PFRS 16, which requires lessees to recognize right of use assets and lease liabilities and the continued construction of new company-owned store buildings partly offset by the re-classification of financial assets at FVOIC to current assets.

*Liabilities*

Current liabilities amounted to ₱7,236 million as at year end 2019, up 73.5% or ₱3,065 million from the ₱4,171 million balance as at December 31, 2018. The increased was due mainly to the recognition of the current portion of lease liabilities and increased trade and other payables.

Non-current liabilities totaled ₱4,339 million, significantly higher by ₱4,221 million from the December 31, 2018 balance of ₱118 million. The increase was mainly due to the adoption of PFRS 16 which requires lessees to recognize right of use assets and lease liabilities.

Total liabilities amounted to ₱11,576 million as at December 31, 2019, ₱7,286 million or 169.8% higher than the balance of ₱4,290 million at the end of 2018.

*Equity*

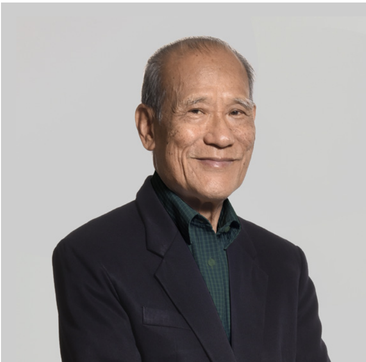
Total equity amounted to ₱14,662 million, comprised of capital stock of ₱4,100 million, additional paid-in capital of ₱5,374 million, retained earnings of ₱5,125 million, and other comprehensive income (loss) of ₱63 million as at December 31, 2019. Total equity as at December 31, 2018, meanwhile totaled ₱13,212 million. The 11.0% rise in the equity balance is primarily due to net income earned for the period of ₱2,125 million partly offset by the payment of dividends.

*Key Financial Performance Indicators*

| Key Performance Indicators | 2019 | 2018 |
|---|---|---|
| Sales | 24,476,094,604 | 21,041,433,928 |
| EBIT[1] | 3,091,466,921 | 2,347,488,128 |
| EBITDA[2] | 4,224,642,081 | 2,512,340,109 |
| EBIT Margin[3] | 12.63% | 11.16% |
| Current Ratio[4] | 2.08 | 2.67 |
| Debt to Equity Ratio[5] | 0.79 | 0.32 |
| Interest Coverage Ratio[6] | 10.29 | 1,000.93 |

1. *Income before tax add interest expense*
2. *Income before tax add interest expense and depreciation and amortization*
3. *EBIT / Net Sales*
4. *Current Assets / Current Liabilities*
5. *Total Liabilities / Total Equity*
6. *EBIT/ Interest Expense*

# BOARD OF DIRECTORS



## Bertram B. Lim, 82

Independent Director, Chairman

Bertram B. Lim is the Chairman of the Company. He is also the Chairman of the United Neon Advertising, Inc., the largest outdoor advertising company in the Philippines and the Chairman of the Center for Community Transformation, a Christian non-government organization, ministering to the poor, with half a million beneficiaries. He is the Board Treasurer of the Trinity University/St. Luke's Health Sciences Consortium and a Bestselling Author.

## Lorraine Belo–Cincochan, 40

Director, President and Chief Executive Officer

Lorraine Belo-Cincochan is a Director, President and the Chief Executive Officer of Wilcon Depot, Inc. She has held various positions in the Wilcon business starting out as a trainee under her father who was then president of Wilcon. In 2000, she headed the company's IT department that resulted in the digital transformation of Wilcon's key processes. From 2003 to 2005, she was assigned to manage the daily operations of the first ever large format Wilcon Depot branch as a Manager-trainee where she gained real world experience in retail operations. She was then appointed as Executive Vice President for Operations in 2005 and in 2006 became the Company's Executive Financial Officer, holding the position until March, 2016. In 2018, she was recognized as one of the 2018 Forbes Asia Emergent Women Honorees. Ms. Belo-Cincochan graduated from the University of the Philippines, Diliman in 1999 with a Bachelor's degree in Creative Writing. She also took an intensive Mandarin language course in Beijing.

She takes an active role in the Philippine chapter of the Entrepreneur's Organization where she co-chairs the Mentorship Program. Her advocacy is in developing and growing leadership through mentoring where entrepreneurs can rise up and make an impact in their companies and ultimately, their communities.

## Mark Andrew Y. Belo, 37

Director, Treasurer

Mark Andrew Y. Belo is a Director and Treasurer of the Company and the President and Chief Executive Officer of WC from March 2016 to the present. He served as the Chief Financial Officer of the Company from 2016 to March 2019. Under WC, he was Assistant Vice-President for Business Development from 2015 to March 2016 and Executive Project Management Head from January 2013 to March 2015. He was also assigned in various positions under Wilcon Builders Supply, Inc. from July 2004 to August 2007. He graduated from the University of Asia & the Pacific in 2004 with a bachelor's degree in Industrial Economics.

## Careen Y. Belo, 36

Director, Chief Product Officer

Careen Y. Belo is a Director, Chief Product Officer, Chief Risk Officer and Chief Information Officer of the Company. She is concurrently a Director of WC, the Executive Vice President for Sales and Product Development of Coral-Agri Venture Farm Inc., Executive Officer of Crocodylus Porosus Phil Inc. and President of The Meatplace Inc. She held various positions in the business having been a Business Development Manager from 2004 to 2007 of WC, Marketing and Sales Assistant from 2007 to 2014 and Executive Financial Audit Manager from 2014 to March, 2016. Ms. Belo obtained her Bachelor of Science in Management from the University of Asia and the Pacific in 2005.

## Ricardo S. Pascua, 71

Independent Director

Ricardo S. Pascua is an Independent Director of the Company since September 2016. He was Vice Chairman of the Board and President and CEO of Metro Pacific Corporation from January 2000 until his retirement in December 2001, a position he held also from January 1993 to July 1995. In between, he was Vice Chairman and CEO of Fort Bonifacio Development Corporation. He was concurrently an Executive Director of First Pacific Company Ltd. from 1982 to 2001 and as such served in the boards of companies such as Smart Communications, Inc., United Commercial Bank in San Francisco, California, First Pacific Bank in Hong Kong and 1st eBank in Manila. Mr. Pascua started his career in Bancom Development Corporation as Asst. Vice President in 1972 and was assigned in Bancom International Ltd. in Hong Kong as Senior Manager in 1975. Currently, Mr. Pascua serves as an independent director in various corporations and foundations. He is likewise involved in several businesses as Chairman of the Board of Caelum Developers Inc., Facilities & Property Management Technologies, Inc., Ascension Phildevelopers, Inc.; Chairman of the Executive Committee of Phoenix Land Inc. and a Director in Boulevard Holdings, Inc., Central Luzon Doctor's Hospital, Costa de Madera Corp. and Quicksilver Satcom Ventures, Inc.; and the President of Bancom II Consultants, Inc. Mr. Pascua has a Master of Business Management from Asian Institute of Management obtained in 1971 and he finished his bachelor's degree majoring in Economics (Cum Laude) from the Ateneo de Manila University in 1969.

## Rolando S. Narciso, 73

Independent Director

Rolando S. Narciso is an Independent Director of the Company since September 2016. He was formerly a Director and Officer of New Kanlaon Construction, Inc. from 2004 to 2014. He was President and Chief Operating Officer of Steel Corporation of the Philippines from 1998 to 2004 and President and Chief Executive Officer of Royal Asia Multi-Properties, Inc. from 1996 to 1997. Before the National Steel Corporation was privatized, Mr. Narciso was its President and Chief Operating Officer from 1989 to 1995 and concurrently from 1989 was a Director of Refractories Corp. of the Phils. And Semirara Coal Corp. up to 1994; and Integrated Air Corp. up to 1993. From 1974 to 1988, he held various positions in National Steel and other subsidiaries of the National Development Company. He also held various positions in the Esso Group of Companies from 1967 to 1974. He is a member of professional organizations such as the Financial Executives, Inc. and the Management Association of the Philippines. He obtained his Master in Business Management and Bachelor of Science in Business Administration degrees from the Ateneo de Manila University in 1967 and 1965, respectively.

## Delfin "Jing" L .Warren, 69

Independent Director

Delfin "Jing" L. Warren, is an Independent Director of the Company since May 2017. He is the founder, main principal, and current Chairman of the 1ISA Group, a leading loyalty management company in the country. He was the former CEO of PT Darya-Varia Laboratoria, a major publicly listed pharmaceutical company in Indonesia under the First Pacific Group. He also held various senior positions in prestigious companies such as First Pacific Commodities Holdings, Ltd., The Hibernia Bank of San Francisco, PT Indo Ayala Leasing (Indonesia), and Bancom Philippine Holdings, Inc. He is a licensed Chemical Engineer and he obtained his Bachelor of Science in Chemical Engineering degree at De La Salle College, Manila in 1971. He was a consistent dean's lister and a recipient of Jose Rizal Scholarship.

# OFFICERS

## William T. Belo, 74
Founder, Chairman Emeritus

**William T. Belo** is the Chairman Emeritus of the Company. He is the founder of the Wilcon business and brand. He was Chairman and/or President of all Wilcon companies established and/or acquired from 1977 to 2016 including the parent, WC. Currently, he is involved in other business undertakings and serves as Director of Markeenlo Realty Inc., Lomarkeen Realty Inc.; the President of Coral-Agri Venture Farm Inc., Coral Farms, WAJ Realty Development Inc.; and Treasurer of Crocodylus Porosus Philippines Inc. He also serves as the Chairman of Wilcon Builders Foundation Inc. He won the 2013 MVP Bossing Award, a distinction given to outstanding entrepreneurs of the country. In 2018, he was recognized as an Outstanding Thomasian Engineer, awarded as one of the People of the Year by People Asia and Patriarch of Home Building Retail by the Philippine Retailers Association. In 2019, he received the UST Engineering Alumni Association Inc. Presidential Award and The Manila Times Man of the Year of the Asia Leaders Award. Mr. Belo graduated from the University of Sto. Tomas in 1968 with a Bachelor of Science degree in Electronics and Communications Engineering.

## Rosemarie Bosch–Ong, 61
Senior Executive Vice President
and Chief Operating Officer

**Rosemarie Bosch-Ong** is the Senior Executive Vice President and Chief Operating Officer of the Company. She held this position since 2007 initially under WC, immediately prior, she was Executive Vice President for Sales and Marketing, which she held from 1988 to 2007. She started out in the business as a Purchasing Manager under WBSI from 1983 to 1988. She is also the President of the Wilcon Builders Foundation Inc., which she has headed since 2008. She is the President of Philippine Retailers Association, a former Treasurer of the Philippine Association of National Advertisers (PANA) Foundation and a former Director of the Philippine Constructors Association. Ms. Bosch-Ong has a Master's degree in Business Administration from De La Salle University obtained in 2010 and she graduated from the University of the East in 1986 with a Bachelor's Degree in Economics.

**Lorraine Belo–Cincochan, 40**
Director, President and Chief Executive Officer

**Mark Andrew Y. Belo, 37**
Director, Treasurer

**Careen Y. Belo, 36**
Director, Chief Product Officer

**Atty. Arthur R. Ponsaran, 76**
Corporate Secretary

**Atty. Sheila P. Pasicolan–Camerino, 33**
Assistant Vice President - Corporate Lawyer
Assistant Corporate Secretary

**Grace A. Tiong, 46**
Vice President - Human Resources
Compliance Officer

**Eden M. Godino, 43**
Vice President - Product Development

**Michael D. Tiong, 46**
Vice President - Global Sourcing

**Mary Jean G. Alger, 49**
Vice President - Investor Relations

**Lauro D.G. Francisco, 54**
Chief Audit Executive


# WILCON HIGHLIGHTS 2019

# STORE OPENINGS

Wilcon Depot Panacan, Davao City

Wilcon Depot San Isidro, Antipolo City

Wilcon Depot Sta. Barbara, Iloilo


Wilcon Depot Sto. Tomas, Batangas

Wilcon Depot Opol, Misamis Oriental

Wilcon Depot Iguig, Cagayan

# AWARD

Wilcon Depot Wins International Award for Customer Excellence

Wilcon Depot has won the International Award for Excellence in Customer Service from the Federation of Asia-Pacific Retailers Association (FAPRA).

FAPRA awards recognize companies, associations, and individuals for outstanding achievements in the retail industry in five categories – most innovative retail concept, best marketing campaign, green retailer, best effort in retail employee training, and customer service excellence. The awarding was held in conjunction with the 19th Asia Pacific Retailers Conference and Exhibition (APRCE) & International Goods Fair, one of the retail industry's biggest regional events, last September 5-7, 2019, in Chongqing China.

This international recognition in Customer Service Excellence awarded to Wilcon Depot is a testament of Filipinos' globally competitive and excellent customer-focused attributes. Wilcon Depot is committed to staying true to its mission to help Filipinos build, improve, and refine their homes for a sustainable and comfortable life.


# EXHIBITS


## WORLDBEX 2019

Wilcon Depot showcased its premium local and international product lines at the Asia's biggest and most attended construction show – the 24th Philippine World Building and Construction Exposition (WORLDBEX) at World Trade Center, Pasay, Metro Manila on March 13-17, 2019.


## 45$^{TH}$ UAP CONEX AND NATCON

Wilcon Depot joined the 45th UAP National Convention (NATCON) and its coinciding event, UAP Construction Exposition (CONEX) last April 11-13, 2019 held at the SMX Convention Center in Pasay.


## PHILBEX CEBU

Wilcon Depot brought its extensive top-grade local and international products at the largest and most comprehensive building and construction trade show that happened on September 12-15, 2019 at SM City Cebu Trade Hall, Cebu City organized by the Philippine Building and Construction Exposition (PHILBEX).

## HUGIS ATBP EXHIBIT

Wilcon Depot participated in the Philippine School of Interior Design (PSID) for the HUGIS ATBP: Homes Using Geometrically Inspired Spaces For Alternative Types of Built Places exhibit that showcased home inspiration from geometric shapes focusing on materials that are eco-friendly, sustainable, natural, and indigenous. The exhibit was held on October 1-31, 2019 at the 5F Greenfield Tower, Greenfield District in Mandaluyong City.


## PHILCONSTRUCT

Wilcon Depot exhibited its wide array of home building products in the PHILCONSTRUCT: 30th Philippine International Construction Equipment, Building Materials, Interior & Exterior Products Exhibition and Technology Forum staged at the SMX Convention Center, Pasay City on November 7-10, 2019.


## NRCE

Wilcon joined the 26th National Retail Conference & Stores Asia Expo, the country's longest and biggest retail conference and exhibition, organized by Philippine Retailers Association held on August 15-16, 2019 at SMX Convention Center, Pasay City.

## STORE ASIA EXPO

Wilcon Depot showcased its high-quality and trusted home products at the Stores Asia Expo 2019.

# MARKETING CAMPAIGNS


Wilcon Online Shop Launching


Wilcon Win Your Dream Ride Promo


Wilcon Loyalty Rewards Promo

# PARTNERSHIP & COLLABORATIONS

Wilcon Depot supports its long-time industry partner, Green Architecture Advocacy Philippines (Green AP), in celebrating their anniversary through the 16th Green Forum with the theme “Sustainability for All: A Decade and Beyond” at the Summit Halls, Philippine International Convention Center (PICC) Complex, Pasay City on August 30 and 31, 2019.

Green AP engages all professions and business leaders from other industries and the general public to study and adopt sustainable practices in design, construction, operations, and maintenance. As it constantly supports architects and other professionals in the building industry, Green AP and Wilcon’s partnership aims to find new ways to improve life in the Philippines.

Wilcon Depot supports Green AP’s 16th Green Forum


# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

The Company ensures and confirms compliance with its Revised Manual on Corporate Governance (RMCG) for the year 2019. On August 7, 2019 the Company adopted a Policy on Material Related Party Transactions in compliance with SEC Memorandum Circular No. 10 series of 2019 and accordingly amended its Related Party Transactions Committee Charter.

*Board Composition*

The Board is composed of seven (7) directors, elected by the Company's stockholders on 17 June 2019, and shall hold office for one (1) year and until their successors are elected and qualified in accordance with the Company's By-Laws. The Board is composed of directors with collective working knowledge, experience or expertise that is relevant to the Company's industry. The Board has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

The Board is composed of the following:

| Name | Directorship | Age | Date of First Election | No. of Years as Director |
|---|---|---|---|---|
| Bertram B. Lim | Chairman/ Independent Director | 82 | 22 May 2017 | 2 |
| Ricardo S. Pascua | Independent Director | 71 | 13 September 2016 | 3 |
| Rolando S. Narciso | Independent Director | 73 | 13 September 2016 | 3 |
| Delfin L. Warren | Independent Director | 69 | 22 May 2017 | 2 |
| Lorraine Belo-Cincochan | Executive Director | 40 | 30 March 2016 | 3 |
| Mark Andrew Y. Belo | Executive Director | 37 | 30 March 2016 | 3 |
| Careen Y. Belo | Executive Director | 36 | 30 March 2016 | 3 |

The Board oversees the development of and approves the Company's business objective and strategy, and monitors their implementation, in order to sustain the Company's long-term viability and strength.

The Board Members act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and all shareholders.

*Board Attendance*

The Board of Directors had twenty-three (23) meetings held in 2019. The attendance of the members of the Board was duly reported to the SEC and made available on the Company's website. On 6 November 2019, the non-executive directors had a separate meeting with the external auditor and chief audit executive without any executive present and no significant issues or matters had been discussed.

*Board Performance Assessment*

On 24 February 2020, the members of the Board conducted an annual board performance assessment. The objectives of the assessment are to evaluate and obtain inputs about the performance of the Board, its members and committees during the last twelve months – January 1, 2019 to December 31, 2019.

*Board Training*

On 17 June 2019, the members of the Board as well as officers of the Company attended a corporate governance seminar, entitled "Modernizing Policies for Effective Governance" conducted by the Center for Training and Development, Inc. This 4-hour annual CG training covered the following topics:

- Corporate Governance Updates
- Data Privacy Law
- Strengthening Internal Control
- Succession Planning

*Board Diversity*

The Company has a Board Diversity Policy because it believes that a diverse Board better understands its customer base and the environment that the business operates in. This promotes different perspectives and ideas and mitigates groupthink to achieve optimal decision-making. Board diversity may refer to distinctions in age, ethnicity, culture, skills, competence, knowledge, gender, among other things.

The Company is committed to the following principles:

- Recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at Board level as an essential element in the attainment of its strategic objectives and maintaining a prudent corporate governance.

- All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge, and candidates will be considered against objective criteria, which the Board as a whole requires to be effective.

*Board Independence*

The Board is composed of four (4) independent directors. The chairman is also an independent director. The independent directors of the Company possess all the qualifications and none of the disqualification of a regular director. They are independent of the Management, substantial shareholdings and material relations whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgement.

*Board Committees*

To address specific tasks and responsibilities and ensure optimal performance of the Board, the Board had organized seven (7) committees, namely the Executive Committee, the Corporate Governance Committee, the Audit Committee, the Board Risk Oversight Committee, Related Party Transactions Committee, Nomination Committee and the Compensation Committee. The members of the Committees are appointed by the Board annually.

*Executive Committee*

The Executive Committee is composed of five (5) members of which the Chairman of the Board is the ex-officio Chairman, and the President is the ex-officio Vice Chairman, and three (3) other members elected/designated by the Board.

For 2019, the Executive Committee is composed of the following members:

| | |
|---|---|
| Chairman | Bertram B. Lim |
| Vice Chairman | Lorraine Belo-Cincochan |
| Members | Mark Andrew Y. Belo<br>Careen Y. Belo<br>Delfin L. Warren |

*Audit Committee*

The Audit Committee's primary function is to enhance the Board's oversight capability over the Company's financial reporting, internal control system, internal and external audit processes and compliance with applicable laws and regulations. It is composed of three (3) independent directors. The chairman of the Audit Committee is an independent director. The members have adequate understanding and competence of the Company's financial management systems and environment particularly, in the areas of accounting, audit and finance.

The Audit Committee had four (4) meetings in 2019 particularly on March 6, May 8, August 7 and November 6, 2019 with 100% attendance in all meetings.

*Board Risk Oversight Committee*

The Board Risk Oversight Committee (BROC) shall be responsible for the oversight of the Company's Enterprise Risk Management system to ensure its functionality and effectiveness. It is composed of three (3) independent directors. The chairman of the Board Risk Oversight Committee is an independent director. The members of the committee have adequate and competent understanding and experience on risk management principles and practices, in addition to thorough knowledge of the Company's Business and industry in which it operates.

*Related Party Transactions Committee*

The Related Party Transactions Committee shall have the primary function of reviewing all material related party transactions (RPT). It is composed of three (3) independent directors. The chairman of the Related Party Transactions Committee is an independent director.

For 2019, the Audit Committee, Board Risk Oversight Committee and Related Party Transaction Committee are composed of the following members:

| | |
|---|---|
| Chairman | Ricardo S. Pascua |
| Members | Rolando S. Narciso<br>Delfin L. Warren |

*Corporate Governance Committee*

The Corporate Governance Committee is composed of three (3) independent directors, including the Chairman. The Committee is tasked to assist the Board in the performance of its corporate governance responsibilities. The Committee had two (2) meetings in 2019.

*Nomination Committee*

The Nomination Committee shall assist the Board in fulfilling its corporate governance and compliance responsibilities. The Committee is composed of three (3) independent directors, including the Chairman. It shall promulgate the guidelines and criteria to govern the conduct of the nomination. The same shall be properly disclosed. The Company is allowed to engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors. The Nomination Committee had their meeting twice this year.

*Remuneration and Compensation Committee*

The Remuneration and Compensation Committee is composed of three (3) independent directors, including the Chairman. The Remuneration and Compensation Committee ensures that the compensation policies and practices are consistent with the corporate culture, strategy and business environment under which the Company operates. Recommend a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's key executives to enable the directors and officers to run the Company and evaluate and recommend to the Board incentives and other equity-based plans designed to attract and retain qualified and competent individuals.

For 2019, the Corporate Governance Committee, Nomination Committee and Remuneration Committee are composed of the following members:

| | |
|---|---|
| Chairman | Rolando S. Narciso |
| Members | Delfin L. Warren<br>Ricardo S. Pascua |

*Board Remuneration*

All directors attending physically in a committee meeting shall receive a per diem of Twelve Thousand Five Hundred Pesos (₱12,500.00), per meeting and Twenty Five Thousand Pesos (₱25,000.00) per Board meeting.

2019 COMPANY POLICY

*Material Related Party Transaction Policy*

On August 7, 2019, the Company adopted a Policy on Material Related Party Transactions in compliance with SEC Memorandum Circular No. 10, series of 2019 on the Rules on Material Related Party Transactions for Publicly Listed Companies effective April 27, 2019.

The policy defines and sets out the roles, responsibilities and authority of the Board in reviewing, evaluating and approving material related party transactions. The policy also includes the rules and procedures that shall guide the Board, the Related Party Transactions Committee and Senior Management in the performance of their functions.

## 2019 REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

The following activities were undertaken by the Audit Committee in 2019 in fulfillment of its primary duties and responsibilities and were reported to the Board:

*Financial Reporting*

- Reviewed the quarterly financial reports and unaudited financial statements prior to endorsement to the Board for its approval.
- Reviewed the interim annual financial statements and consequently the audited annual financial statements (during the first quarter of the succeeding year 2020) including Management's significant judgments and accounting estimates & adjustments.

*Internal and External Audit Processes*

- Reviewed the external auditor's report on the Company's audited 2019 financial statements and internal control observations and endorsed these to the Board for approval.
- Reviewed Company Management's endorsement to reappoint RT&Co. as external auditor for 2019 based on its performance and proposed audit fees, for concurrence by the Board and approval by the stockholders in the Annual Stockholders' Meeting.
- Reviewed and approved the 2019 interim and year-end External Audit Plan by RT&Co. that includes the audit team, scope of work & deliverables, audit approach, and the key risk areas.
- Reviewed the external auditor's updates on its audit of the Company's 2019 financial statements.
- Noted the Internal Audit Head's annual attestation on organizational independence, objectivity, and absence of conflict of interest.
- Reviewed and approved the 2019 Internal Audit Plan and Budget, including Internal Audit's co-sourcing agreements with third party service providers.
- Reviewed, discussed and evaluated Internal Audit's 2018 and 2019 quarterly and year-end accomplishment reports and audit findings, including the status of Company Management's actions to Internal Audit observations and recommendations.
- Conducted executive session separately with the external auditor and the Internal Audit Head (without the presence of any executive directors or members or representatives of Company Management).

*Internal Control and Risk Management Processes*

- Reviewed reports and updates on the Company's enterprise risk management.
- Evaluated the overall effectiveness of internal control system and risk management in the Company, based on the reasonable assurance provided by Senior Management, Internal Audit/ Chief Audit Executive, and the External Auditor. The Committee is generally satisfied with the systems, processes, and safeguards in place in the Company.

*Compliance with Laws and Regulations*

- Noted the representation by the Company's Compliance Officer and Senior Management of the absence of significant breach of laws and regulations or involvement in any governmental, legal or arbitration proceedings that may have a material effect on the Company's business, financial position or profitability, as contained and disclosed in the Company's SEC Form 17-A 2019 Annual Report filed on February 28, 2020.


# AUDITED FINANCIAL STATEMENTS

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
WILCON DEPOT, INC.
Doing Business under the Name and Style of
WILCON DEPOT and WILCON HOME ESSENTIALS
No. 90 E. Rodriguez Jr. Avenue
Brgy. Ugong Norte, Quezon City

*Opinion*

We have audited the accompanying financial statements of WILCON DEPOT, INC. Doing Business under the Name and Style of WILCON DEPOT and WILCON HOME ESSENTIALS (the Company), a subsidiary of WILCON CORPORATION Doing Business under the Name and Style of WILCON CITY CENTER, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2019, 2018 and 2017, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019, 2018 and 2017, in accordance with Philippine Financial Reporting Standards (PFRS).

*Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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*Accounting for the Complete Recording and Valuation of Merchandise Inventories*

Merchandise inventories, net of allowance for inventory write down and losses, amounted to ₱9,517.5 million as at December 31, 2019. The accounting for the complete recording and valuation of merchandise inventories are significant to our audit because merchandise inventories represent 36% of the total assets. Moreover, the Company also maintains around 48,406 stock keeping units (SKU) as at December 31, 2019. Due to the significant number of SKU, establishing the existence and completeness and determining the proper valuation of merchandise inventories requires an extensive monitoring and high degree of judgment and estimation.

Our procedures included, among others, the observation of the conduct of the inventory count, test of inventory summarization, review of intervening transactions from date of inventory count to financial reporting date, review and test of inventory costing and the determination of the lower of cost or net realizable value.

Necessary disclosures are included in Note 3, *Significant Accounting Judgments, Estimates and Assumptions,* and Note 8, *Merchandise Inventories*.

*Accounting for Recognition and Measurement of Right-of-Use (ROU) Assets and Lease Liabilities*

The Company adopted PFRS 16, *Leases,* on January 1, 2019 which resulted to the recognition of ROU assets and lease liabilities amounting to ₱2,470.3 million and ₱2,559.4 million, respectively. As at December 31, 2019, ROU assets and lease liabilities amounted to ₱5,260.5 million and ₱5,486.5 million respectively. Amortization on ROU assets and interest expense on lease liabilities amounted to ₱721.3 million and ₱300.4 million, respectively, in 2019.

The Company's adoption of PFRS 16 is significant to our audit because the resulting ROU assets and lease liabilities represent 20% of the total assets and 47% of the total liabilities, respectively. A significant data extraction exercise was undertaken to summarize relevant terms and conditions of the lease agreements. Moreover, the adoption of PFRS 16 involves the exercise of significant management judgment and estimate which include, among others, (a) assessing whether a contract contains a lease; (b) determining the lease term; and (c) determining the appropriate discount rate.

Our procedures include, among others, review of design and implementation of key controls pertaining to leases, review of existing agreements to assess whether an arrangement contains a lease to be included in the adoption of PFRS 16 and assessing the compliance of the Company with the key requirements of PFRS 16, including the required disclosures in the financial statements. We performed an assessment of the significant management judgment and estimates used in determining the ROU assets and lease liabilities through review of the significant provisions of the lease agreements. We also assessed the reliability of the data used in the computation of the ROU assets and lease liabilities through inspection of the source document. We also assessed the reasonableness of incremental borrowing rates used if it approximates the rate that the Company would have to pay to borrow funds for similar asset with similar term and security. On a test basis, we also performed recalculation of the ROU assets and lease liabilities and assessed reasonableness of amortization on ROU assets and interest expense on lease liabilities.

Necessary disclosures are included in Note 2, *Summary of Significant Accounting Policies,* Note 3, *Significant Accounting Judgments, Estimates and Assumptions,* and Note 11, *Lease Commitments.*

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*Accounting for the Use of the Proceeds from the Initial Public Offering (IPO)*

The shares of stock of the Company were listed with the Philippine Stock Exchange, Inc. on March 31, 2017. The proceeds from the Initial Public Offering (IPO) amounted to ₱6,749.3 million, net of transaction costs incidental to the IPO amounting to ₱289.9 million. The accounting for the use of the proceeds is significant to our audit because the unused proceeds amounting to ₱1,400.7 million as at December 31, 2019 represent 5% of the total assets. Moreover, the Company is required to adhere to the use of the proceeds pursuant to the Offering Circular.

Our procedures include, among others, obtain confirmation from banks and test the nature and validate the underlying documents of the actual disbursements of the proceeds.

Necessary disclosures are included in Note 4, *Initial Public Offering,* and Note 14, *Equity*.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified in the foregoing when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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*Auditors' Responsibilities for the Audit of Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore considered the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**REYES TACANDONG & CO.**

Haydee M. Reyes

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2019
Valid until October 20, 2022
PTR No. 8116475
Issued January 6, 2020, Makati City

February 24, 2020
Makati City, Metro Manila

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## WILCON DEPOT, INC.
## Doing Business under the Name and Style of
## WILCON DEPOT and WILCON HOME ESSENTIALS
### (A Subsidiary of WILCON CORPORATION
### Doing Business under the Name and Style of WILCON CITY CENTER)

## STATEMENTS OF FINANCIAL POSITION

| | Note | December 31 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | **₱1,462,042,311** | ₱2,842,073,524 |
| Short-term investments | 6 | **616,490,311** | – |
| Investment in retail treasury bond | 6 | **2,253,523,133** | – |
| Trade and other receivables | 7 | **439,901,662** | 306,601,219 |
| Merchandise inventories | 8 | **9,517,537,128** | 7,331,056,540 |
| Other current assets | 9 | **732,935,532** | 643,670,234 |
| Total Current Assets | | **15,022,430,077** | 11,123,401,517 |
| **Noncurrent Assets** | | | |
| Investment in retail treasury bond | 6 | **–** | 2,906,721,106 |
| Property and equipment | 10 | **4,981,367,129** | 2,767,160,840 |
| Right-of-use assets | 11 | **5,260,470,198** | – |
| Net deferred tax assets | 19 | **333,740,211** | 137,519,693 |
| Other noncurrent assets | 12 | **639,043,835** | 567,378,597 |
| Total Noncurrent Assets | | **11,214,621,373** | 6,378,780,236 |
| | | **₱26,237,051,450** | ₱17,502,181,753 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 13 | **₱5,530,142,228** | ₱4,001,096,864 |
| Current portion of lease liabilities | 11 | **1,423,074,043** | – |
| Income tax payable | | **283,254,451** | 170,167,805 |
| Total Current Liabilities | | **7,236,470,722** | 4,171,264,669 |
| **Noncurrent Liabilities** | | | |
| Long-term debt | 14 | **20,000** | 20,000 |
| Lease liabilities - net of current portion | 11 | **4,063,408,162** | – |
| Net retirement liability | 15 | **275,650,904** | 118,427,835 |
| Total Noncurrent Liabilities | | **4,339,079,066** | 118,447,835 |
| Total Liabilities | | **11,575,549,788** | 4,289,712,504 |
| **Equity** | | | |
| Capital stock | 16 | **4,099,724,116** | 4,099,724,116 |
| Additional paid-in capital | | **5,373,738,427** | 5,373,738,427 |
| Other comprehensive income | | **63,275,338** | 82,902,070 |
| Retained earnings | | **5,124,763,781** | 3,656,104,636 |
| Total Equity | | **14,661,501,662** | 13,212,469,249 |
| | | **₱26,237,051,450** | ₱17,502,181,753 |

*See accompanying Notes to Financial Statements.*

Securities and Exchange Commission
Electronic Records Management Division
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**WILCON DEPOT, INC.**
**Doing Business under the Name and Style of**
**WILCON DEPOT and WILCON HOME ESSENTIALS**
**(A Subsidiary of WILCON CORPORATION**
**Doing Business under the Name and Style of WILCON CITY CENTER)**

## STATEMENTS OF COMPREHENSIVE INCOME

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | | Years Ended December 31 | |
| **NET SALES** | | **₱24,476,094,604** | ₱21,041,433,928 | ₱17,747,580,107 |
| **COST OF SALES** | 8 | **(16,300,223,396)** | (14,438,334,301) | (12,481,667,970) |
| **GROSS INCOME** | | **8,175,871,208** | 6,603,099,627 | 5,265,912,137 |
| **OPERATING EXPENSES** | 17 | **(5,395,669,570)** | (4,420,552,891) | (3,595,688,634) |
| **INTEREST EXPENSE** | 14 | **(300,371,698)** | (2,345,308) | (21,793,510) |
| **OTHER INCOME** - Net | 18 | **462,750,174** | 359,472,440 | 185,345,816 |
| **INCOME BEFORE INCOME TAX** | | **2,942,580,114** | 2,539,673,868 | 1,833,775,809 |
| **INCOME TAX EXPENSE (BENEFIT)** | 19 | | | |
| Current | | **964,287,588** | 725,998,406 | 459,519,649 |
| Deferred | | **(146,322,479)** | (21,736,924) | (11,158,692) |
| | | **817,965,109** | 704,261,482 | 448,360,957 |
| **NET INCOME** | | **2,124,615,005** | 1,835,412,386 | 1,385,414,852 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| *Item not to be reclassified to profit or loss -* | | | | |
| Remeasurement gain (loss) on retirement liability, net of deferred income tax | 15 | **(116,428,759)** | (3,333) | 185,824,622 |
| *Item to be reclassified to profit or loss -* | | | | |
| Unrealized gain (loss) on fair value changes of investment in retail treasury bond | 6 | **96,802,027** | (90,225,514) | (3,053,380) |
| | | **(19,626,732)** | (90,228,847) | 182,771,242 |
| **TOTAL COMPREHENSIVE INCOME** | | **₱2,104,988,273** | ₱1,745,183,539 | ₱1,568,186,094 |
| **BASIC AND DILUTIVE EARNINGS PER SHARE** | 22 | **₱0.52** | ₱0.45 | ₱0.37 |

*See accompanying Notes to Financial Statements.*

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
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**WILCON DEPOT, INC.**
**Doing Business under the Name and Style of**
**WILCON DEPOT and WILCON HOME ESSENTIALS**
**(A Subsidiary of WILCON CORPORATION**
**Doing Business under the Name and Style of WILCON CITY CENTER)**

## STATEMENTS OF CHANGES IN EQUITY

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | Years Ended December 31 | | |
| **CAPITAL STOCK** | 16 | | | |
| Balance at beginning of year | | **₱4,099,724,116** | ₱4,099,724,116 | ₱2,705,817,916 |
| Issuances | | **–** | – | 1,393,906,200 |
| Balance at end of year | | **4,099,724,116** | 4,099,724,116 | 4,099,724,116 |
| **ADDITIONAL PAID-IN CAPITAL** | | **5,373,738,427** | 5,373,738,427 | 5,373,738,427 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| **Cumulative Remeasurement Gain on Retirement Liability** | 15 | | | |
| Balance at beginning of year | | **176,180,964** | 176,184,297 | (9,640,325) |
| Remeasurement gain (loss), net of deferred income tax | | **(116,428,759)** | (3,333) | 185,824,622 |
| Balance at end of year | | **59,752,205** | 176,180,964 | 176,184,297 |
| **Cumulative Unrealized Gain (Loss) on Fair Value Changes of Investment in Retail Treasury Bond** | | | | |
| Balance at beginning of year | | **(93,278,894)** | (3,053,380) | – |
| Unrealized gain (loss) | 6 | **96,802,027** | (90,225,514) | (3,053,380) |
| Balance at end of year | | **3,523,133** | (93,278,894) | (3,053,380) |
| | | **63,275,338** | 82,902,070 | 173,130,917 |
| **RETAINED EARNINGS** | | | | |
| Balance at beginning of year | | **3,656,104,636** | 2,271,661,903 | 886,247,051 |
| Net income | | **2,124,615,005** | 1,835,412,386 | 1,385,414,852 |
| Cash dividends | 16 | **(655,955,860)** | (450,969,653) | – |
| Balance at end of year | | **5,124,763,781** | 3,656,104,636 | 2,271,661,903 |
| | | **₱14,661,501,662** | ₱13,212,469,249 | ₱11,918,255,363 |

*See accompanying Notes to Financial Statements.*

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## STATEMENTS OF CASH FLOWS

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | | Years Ended December 31 | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | | **₱2,942,580,114** | ₱2,539,673,868 | ₱1,833,775,809 |
| Adjustments for: | | | | |
| Depreciation and amortization | 10 | **1,133,175,160** | 164,851,981 | 104,325,305 |
| Interest expense | 14 | **300,371,698** | 2,345,308 | 21,793,510 |
| Interest income | 5 | **(151,484,892)** | (194,531,047) | (115,788,780) |
| Provision (reversal of allowance) for inventory write-down and losses | 8 | **(33,337,395)** | – | 29,175,121 |
| Retirement benefits | 15 | **23,088,535** | 23,521,289 | 34,017,328 |
| Provision (reversal of allowance) for expected credit losses on receivables | 7 | **11,768,506** | 26,254,535 | (3,726,780) |
| Gain on sale of investment in retail treasury bond | 6 | **(1,611,403)** | – | – |
| Direct write-off of receivables | | **–** | 50,149 | – |
| Offer expenses | | **–** | – | 18,316,120 |
| Operating income before working capital changes | | **4,224,550,323** | 2,562,166,083 | 1,921,887,633 |
| Decrease (increase) in: | | | | |
| Merchandise inventories | | **(2,153,143,193)** | (362,912,433) | (421,475,327) |
| Other current assets | | **(202,453,628)** | (86,408,752) | 159,564,677 |
| Trade and other receivables | | **(150,757,101)** | (30,882,622) | (91,433,713) |
| Other noncurrent assets | | **(40,558,137)** | 106,217,615 | 79,607,812 |
| Increase (decrease) in trade and other payables | | **1,677,224,400** | 510,014,364 | (150,953,004) |
| Net cash generated from operations | | **3,354,862,664** | 2,698,194,255 | 1,497,198,078 |
| Income tax paid | | **(802,776,612)** | (581,608,431) | (534,725,739) |
| Contributions to retirement plan | 15 | **(32,192,264)** | (37,633,926) | (28,399,857) |
| Retirement benefits paid | 15 | **(1,584,356)** | (1,753,646) | (105,420) |
| Interest received from cash in banks | | **1,365,854** | 1,426,985 | 2,448,451 |
| Net cash provided by operating activities | | **2,519,675,286** | 2,078,625,237 | 936,415,513 |
| | | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to: | | | | |
| Property and equipment | 10 | **(2,618,466,105)** | (2,065,776,777) | (619,269,798) |
| Computer software | 12 | **(30,334,944)** | (31,904,348) | (30,465,688) |
| Investment in retail treasury bond | | **–** | – | (3,000,000,000) |
| Net proceeds from sale of investment in retail treasury bond | 6 | **751,611,403** | – | – |
| Decrease (increase) in: | | | | |
| Short-term investments | | **(616,490,311)** | 600,580,715 | (600,580,715) |
| Advances to contractors | | **(63,242,424)** | (99,519,131) | (145,102,313) |
| Interest received from investments | | **157,391,546** | 200,238,033 | 79,069,358 |
| Net cash used in investing activities | | **(2,419,530,835)** | (1,396,381,508) | (4,316,349,156) |

(Forward)

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | Years Ended December 31 | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments of: | | | | |
| Lease liabilities | 11 | **(₱824,218,626)** | ₱– | ₱– |
| Cash dividends | 16 | **(655,955,860)** | (450,969,653) | – |
| Interest on long-term debt | 14 | **(1,178)** | (2,574,163) | (21,292,833) |
| Long-term debt | 14 | **–** | (403,441,539) | (722,820,513) |
| Short-term debt | | **–** | – | (445,000,000) |
| Proceeds from: | | | | |
| Issuances of capital stock | 16 | **–** | – | 6,749,328,507 |
| Availments of long-term borrowings | | **–** | – | 198,461,539 |
| Net cash provided by (used in) financing activities | | **(1,480,175,664)** | (856,985,355) | 5,758,676,700 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(1,380,031,213)** | (174,741,626) | 2,378,743,057 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **2,842,073,524** | 3,016,815,150 | 638,072,093 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 5 | **₱1,462,042,311** | ₱2,842,073,524 | ₱3,016,815,150 |
| **NONCASH INFORMATION** | | | | |
| Recognition of lease liabilities | | **₱6,010,330,247** | ₱– | ₱– |
| Recognition of right-of-use assets | | **5,981,801,377** | – | – |
| Retirement plan assets transferred from Parent Company | | **–** | – | 22,084,182 |

*See accompanying Notes to Financial Statements.*

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LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
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**WILCON DEPOT, INC.**
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**(A Subsidiary of WILCON CORPORATION**
**Doing Business under the Name and Style of WILCON CITY CENTER)**

# NOTES TO FINANCIAL STATEMENTS

## 1. Corporate Information

WILCON DEPOT, INC. Doing Business under the Name and Style of WILCON DEPOT and WILCON HOME ESSENTIALS (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on December 17, 2015. The Company is engaged in buying and selling of all kinds of goods, commodities, wares and merchandise at wholesale and retail.

The Company is a subsidiary of WILCON CORPORATION Doing Business under the Name and Style of WILCON CITY CENTER (the Parent Company), a holding company incorporated in the Philippines. The Parent Company is primarily engaged in acquiring and investing stock or securities of government agencies or public or private corporation, and in personal property of all kinds. The ultimate parent company is LIAM ROS HOLDINGS INC., a holding company incorporated in the Philippines.

On March 31, 2017, the 1,393,906,200 common shares of the Company were listed in the Philippine Stock Exchange (PSE) at an offer price of ₱5.05 a share. Net proceeds from the IPO amounted to ₱6,749.3 million, net of offer expenses of ₱289.9 million (see Notes 4 and 16).

The registered office address of the Company is at No. 90 E. Rodriguez Jr. Avenue, Brgy. Ugong Norte, Quezon City.

The financial statements of the Company as at and for the years ended December 31, 2019, 2018 and 2017 were approved and authorized for issue by the Board of Directors (BOD) on February 24, 2020, as reviewed and recommended for approval by the Audit Committee on the same date.

## 2. Summary of Significant Accounting Policies

### <u>Basis of Preparation and Statement of Compliance</u>

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including the SEC provisions.

The significant accounting policies used in the preparation of the financial statements have been consistently applied to all the years presented, unless otherwise stated.

### Measurement Bases

The financial statements have been presented in Philippine Peso, which is the functional currency of the Company. All amounts are in absolute values, unless otherwise stated.

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The financial statements of the Company have been prepared on the historical cost basis of accounting, except for investment in retail treasury bond (RTB) that is measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and change in fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active market for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in the foregoing.

Further information about the assumptions made in measuring fair value is included in the following notes:

- Note 6, *Investments*
- Note 24, *Fair Value of Financial Instruments*

**Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS effective January 1, 2019.

- PFRS 16, *Leases*

  PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives,* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a lease accounting model under which all major leases are recognized on-balance sheet similar to the accounting for finance leases under PAS 17. The new accounting standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, the lessee should recognize a liability and an asset representing the right to use the underlying asset during the lease term. The lessee is required to recognize the interest on the lease liability and to amortize the right-of-use (ROU) asset.

The lease liability should be reviewed when there are changes in the lease term and other events affecting the lease, such as future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability should be recognized as an adjustment to the ROU asset.

Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor should continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

Prior to the adoption of PFRS 16, the Company classified leases as operating leases under PAS 17. These pertain to land, buildings, retail and office units, transportation equipment and computer software used for its operations. The lease of transportation equipment is considered as short-term lease and excluded from the adoption of PFRS 16.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. ROU assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17.

- Applied PFRS 16 only to lease agreements that were previously identified as leases applying PAS 17 at the date of initial application.

- Applied the exemption not to recognize ROU assets and lease liabilities for leases with less than 12 months of lease term as at transition.

The accounting policies applicable to the Company as a lessor are not different from those under PAS 17. As such, PFRS 16 has no impact for leases where the Company acts as a lessor.

*Impact on Transition*
On transition to PFRS 16, the Company adopted PFRS 16 using the modified retrospective approach. Under this approach, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The difference of ₱166.4 million resulting to the straight-line basis of accounting under PAS 17 was recognized as part of ROU assets. Accordingly, no adjustment on beginning retained earnings and the comparative information presented in 2018 financial statements have not been restated.

The impact on transition as at January 1, 2019 is summarized below:

| | Note | Increase (Decrease) |
|---|---|---|
| Lease liabilities | 11 | ₱2,559,379,229 |
| ROU assets | 11 | 2,470,336,375 |
| Accrued rent | 11 | (143,928,956) |
| Advance rent | 11 | (54,886,102) |

When measuring lease liabilities for leases that have been classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The Company has applied incremental borrowing rate ranging from 5.59% to 7.28%, depending on the remaining lease term.

The reconciliation of operating lease commitments as at December 31, 2018 discounted using the incremental borrowing rate as at January 1, 2019 and the lease liabilities recognized as at January 1, 2019 follows.

| | |
|---|---|
| Operating lease commitments as at December 31, 2018 as disclosed under PAS 17 | ₱2,768,112,586 |
| Recognition exemption for leases with less than 12 months of term at transition | (331,775,281) |
| Discounted using the incremental borrowing rate at January 1, 2019 | 123,041,924 |
| Lease liabilities recognized as at January 1, 2019 | ₱2,559,379,229 |

*Impact for 2019*

As a result of initial adoption of PFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognized ROU assets amounting to ₱5,260.5 million and lease liabilities amounting to ₱5,486.5 million as at December 31, 2019 (see Note 11).

Also, the Company recognized amortization on ROU assets and interest expense on lease liabilities, instead of rent expense, amounting to ₱721.3 million and ₱300.4 million, respectively, in 2019 (see Note 11).

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the "solely payments of principal and interest" criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

Under prevailing circumstances, the adoption of the foregoing amended PFRS, except for PFRS 16, did not have a material effect on the financial statements of the Company. Additional disclosures were included in the financial statements, as applicable.

**Amended PFRS Issued but Not yet Effective**
Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2019 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual period beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the financial statements of the Company. Additional disclosures will be included in the financial statements, as applicable.

**Financial Instruments**

*Date of Recognition.* The Company recognizes a financial assets or liabilities in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument.

*Initial Recognition and Measurement.* Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The initial measurement of all financial instruments, except for financial instruments classified as fair value through profit or loss (FVPL), includes transaction cost.

*"Day 1" Difference.* Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when inputs become observable or when instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing a "Day 1" difference amount.

**Financial Assets**

In the case of regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Classification.* The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVPL and (c) financial assets at fair value through other comprehensive income (financial asset at FVOCI). The classification of financial asset largely depends on the Company's business model and its contractual cash flow characteristics.

As at December 31, 2019 and 2018, the Company does not have financial assets measured at FVPL.

*Financial Assets at Amortized Cost.* A financial asset should be measured at amortized cost if both of the following conditions are met:

- the financial asset is held with a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting year. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the cash and cash equivalents, short-term investments, trade and other receivables (excluding advances to suppliers, and officers and employees), container deposits (presented as part of "Other current assets"), security and electricity deposits and refundable cash bonds (presented as part of "Other noncurrent assets") are included under this category.

Cash and cash equivalents, include cash on hand, cash in banks and money market placements. Money market placements are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

*Financial Assets at FVOCI*. Financial assets at FVOCI which pertain to debt instrument, is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instrument measured at FVOCI are recognized directly in profit or loss. Changes in the fair value of these instruments are recognized in other comprehensive income and accumulated in equity. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

As at December 31, 2019 and 2018, this category includes investment in RTB.

*Impairment*. The Company recognizes an allowance for expected credit loss (ECL) for all debt instruments not measured at FVPL. Expected credit loss is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Company has applied the simplified approach in measuring ECL. Simplified approach requires that ECL should always be based on the lifetime expected credit losses.

The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money, where appropriate.

For debt instruments at FVOCI and other financial instruments measured at amortized cost, the ECL is based on the 12-month expected credit loss, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

*Reclassification*. The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in other comprehensive income, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the financial asset using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss should be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

*Derecognition.* A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Company could be required to repay.

**Financial Liabilities**

*Classification.* The Company classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

As at December 31, 2019 and 2018, the Company does not have financial liabilities measured at FVPL.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2019 and 2018, the long-term debt, lease liabilities and trade and other payables (excluding statutory liabilities, unredeemed gift certificates and unearned revenue) are included in this category.

*Derecognition.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

**Classification of Financial Instrument between Liability and Equity**
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

**Offsetting of Financial Instruments**
Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Merchandise Inventories**
Merchandise inventories are valued at the lower of cost and net realizable value (NRV). Cost, which includes all costs directly attributable to acquisition such as purchase price and freight-in, is determined using the moving average method. NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to complete the sale.

When inventories are sold, the carrying amount of those inventories is recognized to profit or loss in the year when the related revenue is recognized.

When the NRV of inventories is lower than the cost, a write-down is charged to cost of sales at the year in which it occurred. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

**Other Current Assets**
Other current assets mainly consist of deferred input value-added tax (VAT), materials and supplies, prepaid expenses, input VAT, and container deposits.

*Deferred Input VAT*. Deferred input VAT represents the unamortized amount of input VAT on capital goods and input VAT on consigned goods already sold, wherein the suppliers' invoices are received subsequently. Deferred input VAT that are expected to be claimed against output VAT for no more than 12 months after the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

*Materials and Supplies*. Supplies are carried at cost and are recognized as expense upon consummation.

*Prepaid Expenses*. Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate expense accounts in profit or loss when incurred. Prepaid expenses that are expected to be realized for no more than 12 months after the financial reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

*VAT*. Revenue, expenses and assets are recognized, net of the amount of VAT, except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority; or
- receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from the taxation authority is included as part of "Other current assets" account in the statement of financial position.

**Property and Equipment**
Property and equipment, excluding construction in progress, are stated at cost less accumulated depreciation, amortization and any impairment in value.

The initial cost of property and equipment comprises of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the asset has been put into operations, such as repairs and maintenance, are normally recognized as expense in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Construction in progress represents structures under construction and is stated at cost. Cost includes costs of construction, labor and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization are computed using the straight-line basis over the estimated useful lives of the assets as follows:

| Asset Type | Number of Years |
|---|---|
| Buildings and improvements | 20 or term of lease, whichever is shorter |
| Furniture and equipment | 5 |
| Leasehold improvements | 5 or term of lease, whichever is shorter |
| Transportation equipment | 5 |

The estimated useful lives and depreciation and amortization are reviewed and adjusted, if appropriate, at each reporting date to ensure that such years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

In 2019, the Company changed the estimated useful lives of buildings and leasehold improvements covered with lease agreements with related parties and third parties on land, buildings and retail and office units from 20 years to 15 years and from five to three years, respectively, to align with the lease terms for land, buildings and retail and office units of 15 years and three years (as amended for certain lease agreements).

Fully depreciated assets are retained in the accounts until these are no longer being used and no further depreciation and amortization are credited or charged to profit or loss.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (measured as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the item is derecognized.

<u>**Other Noncurrent Assets**</u>

Other noncurrent assets comprise of advances to contractors, security deposits, computer software, electricity deposits, advance rent and refundable cash bonds. Other noncurrent assets, except advance rent and computer software, qualify as financial assets and are disclosed under financial instruments.

*Advances to Contractors.* Advances to contractors represent advance payments made in relation to purchase of materials and services for the construction of stores and are carried at cost less any impairment in value. These will be applied against future billings.

*Computer Software.* Computer software acquired is measured on initial recognition at cost. Subsequent to initial recognition, computer software is carried at cost less accumulated amortization and any impairment losses. Internally generated computer software, excluding development costs, is not capitalized and expenditure is charged against profit or loss in the year in which the expenditure is incurred.

Computer software is amortized over the economic useful life of eight years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from disposition of computer software measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss in the period when the asset is derecognized.

*Advance Rent.* Advance rent as at December 31, 2018 represents advance payments made in relation to the lease agreements entered into by the Company and are carried at cost less any impairment in value. This will be applied at the end of the lease term.

**Impairment of Nonfinancial Assets**

At each reporting date, nonfinancial assets are reviewed to determine whether there is any indication that those assets may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset (or group of related assets) is estimated and compared with its carrying amount. An asset's (or group of assets') recoverable amount is the higher of an asset's fair value less cost to sell and its value in use, and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior year. A reversal of an impairment loss is recognized immediately in profit or loss.

**Equity**

*Capital Stock and Additional Paid-in Capital.* Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax. The excess of proceeds from the issuance of shares over the par value of shares is credited to additional paid-in capital.

*Other Comprehensive Income (Loss).* Other comprehensive income (loss) comprise items of income and expenses (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) includes cumulative unrealized gain (loss) on fair value changes of investment in RTB and cumulative remeasurement gain (loss) on retirement liability.

*Retained Earnings.* Retained earnings represent the cumulative balance of net income or loss, dividend distributions, correction of prior year errors, effects of changes in accounting policy and other capital adjustments.

*Dividend Distribution.* Dividend distribution to the Company's stockholders is recognized as a liability and deducted from equity in the year in which the dividends are declared as approved by the Company's BOD. Dividends that are approved after the reporting year are dealt with as an event after the reporting year.

**Revenue Recognition**

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company performs its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company assesses the revenue arrangements to determine if it is acting as a principal or as an agent. The Company assessed that it acts as principal in all of its revenue sources.

Revenue within the scope of PFRS 15 is recognized as follows:

*Net Sales.* Revenue is recognized when the control of the goods is transferred to the buyer, which is normally upon delivery or pick up of goods, and measured at the fair value of the consideration received or receivable, net of returns, trade discounts and unearned revenue from loyalty program.

The award credits from the loyalty program are identifiable component of sale transactions in which these are granted. The fair value of the consideration received or receivable in respect to the sale is allocated between the award credits and the other components of the sale. The Company recognizes the consideration received allocated to award credits as sale when award credits are redeemed and it fulfills its obligations to supply the award credits. The amount of revenue recognized is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number that are expected to be redeemed. Any unredeemed award credits as at reporting date are recognized as unearned revenue included under "Trade and other payables" account in the statement of financial position.

*Other Income.* Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability and that can be measured reliably.

Revenue outside scope of PFRS 15 is recognized as follows:

*Interest Income.* Revenue is recognized as the interest accrues, taking into account the effective yield of the asset, net of final tax.

*Rent Income.* Revenue arising from rent of property is recognized on a straight-line basis over the lease term.

**Cost and Expense Recognition**

Costs and expenses are recognized in profit or loss when the related goods are sold, utilization of services or at the date the costs and expenses are incurred.

*Operating Expenses.* Operating expenses constitute cost of administering the business and cost incurred to sell and market the goods. These include advertising and freight and handling, among others. Operating expenses are expensed as incurred.

*Interest Expense.* Expense is recognized as the interest accrues, taking into account the effective yield of the asset.

**Employee Benefits**

*Short-term Employee Benefits.* The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. A liability is also recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Company recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent year.

The net retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly.

The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

**Leases**

*The Company as a Lessee.*

*ROU Assets*. ROU assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs

The ROU assets are measured subsequently at cost less amortization and any impairment losses. Additionally, the cost is subsequently adjusted for any remeasurement of the lease liabilities resulting from reassessments or lease modifications.

*Lease Liabilities*. Lease liabilities are measured at the present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

After the initial recognition, the measurement of a lease liability is affected by:

- accruing interest on the lease liability
- lease payments made
- remeasurements reflecting any reassessment or lease modifications

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise an extension or termination option.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis of accounting as rent expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

*The Company as a Lessor.*
Leases where a significant portion of the risks and reward of ownership over the asset are retained by the lessor, are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis of accounting over the period of the lease.

*Policies prior to January 1, 2019.* The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement.
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially Included In the lease term.
c. There is a change in the determination of whether fulfillment is dependent on a specified asset.
d. There is substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and reward of ownership over the asset are retained by the lessor, are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

**<u>Income Taxes</u>**

*Current Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at end of the reporting year.

*Deferred Tax.* Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the end of reporting year.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

**Earnings per Share**
The Company presents basic and diluted earnings per share. Basic earnings per share are calculated by dividing the net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated in the same manner, adjusted for the effects of all dilutive potential common shares.

The Company has no dilutive potential common shares.

**Related Party Relationship and Transactions**
Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

**Segment Reporting**
Operating segments are components of the Company: (a) that engage in business activities from which this may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Company; (b) whose operating results are regularly reviewed by the Company's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Company has only one reportable operating segment, which is the trading business. The Company has only one geographical segment as all of its assets are located in the Philippines. The Company operates and derives all its revenue from domestic operations.

**Provisions**
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

**Contingencies**

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

**Events after the Reporting Date**

Events after the reporting date that provide additional information about the Company's financial position at the end of the reporting year (adjusting events) are reflected in the financial statements when material. Events after the reporting date that are non-adjusting events are disclosed in the notes to financial statements when material.

## 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires the Company to exercise judgment, make estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments and estimates are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from these estimates, and as such estimates will be adjusted accordingly when the effects become determinable.

**Judgments**

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

*Determining the Operating Segments.* Determination of operating segments is based on the information about components of the Company that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Company's chief operating decision maker, which is defined to be the Company's BOD, in order to allocate resources to the segment and assess its performance. The Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) the assets of the segment are 10% or more of the combined assets of all operating segments.

The Company has only one reportable operating segment which is the trading business and one geographical segment as all of the assets are located in the Philippines. The Company operates and derives all its revenue from domestic operations. Thus, no further disclosures of operating and geographical segments are necessary.

*Determining Classification of Financial Assets.* Classification of financial assets depends on the results of the business model test and sole payment of principal and interest (SPPI) test performed by the Company.

The Company exercises judgment in determining the business model to be used in managing its financial instruments to achieve its business objectives. Below are the key factors considered by the Company in its business model assessment:

- Specific business objectives in holding the financial assets,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Company also determines whether the contractual terms of debt instruments classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

*Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates.* The Company, as a lessee, has various lease agreements with related parties and third parties for land, buildings, retail and office units, computer software and transportation equipment. Until December 31, 2018, the Company accounts for these lease agreements as operating leases. Rent expense on operating leases amounted to ₱919.9 million and ₱780.7 million in 2018 and 2017, respectively (see Note 11).

The Company has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Starting January 1, 2019, all the existing leases of the Company, except for short-term lease on transportation equipment and leases on land and buildings with less than 12 months term at transition, qualified as leases under PFRS 16.

Lease liabilities and ROU assets were recognized for the remaining lease agreements. Payments of lease liabilities are allocated over the principal liability and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of liability for each year. The ROU assets are amortized over the lease term on a straight-line basis.

The leases on land, buildings, retail and office units and computer software are renewable upon mutual agreement by both parties (as amended for certain lease agreements) to be covered by a separate and new lease agreement. Accordingly, the renewal option was not considered in the lease term for purposes of the adoption of PFRS 16.

Significant management judgment was likewise exercised by the Company in determining the discount rate, whether implicit rate, if readily available or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranges from 5.59% to 7.28% which is the incremental borrowing rates as obtained from the banks.

Reassessments are made on a continuing basis whether changes should be reflected on the amount of lease liabilities due to circumstances affecting lease payments and discount rates.

Rent expense on short-term lease on transportation equipment and leases on land and buildings with less than 12 months term at transition amounted to ₱331.8 million in 2019 (see Note 11). Interest expense on lease liabilities and amortization on ROU assets amounted to ₱300.4 million and ₱721.3 million, respectively, in 2019 (see Note 11).

As at December 31, 2019, ROU assets and lease liabilities amounted to ₱5,260.5 million and ₱5.486.5 million, respectively (see Note 11).

The Company, as a lessor, has existing lease agreements on commercial spaces, gondola lightings, facade billboards, window displays and street banners. The Company has determined that the significant risks and benefits of ownership over the leased properties remain with the Company. Accordingly, the Company accounts for the lease agreements as operating leases.

Rent income amounted to ₱30.4 million, ₱20.1 million and ₱17.3 million in 2019, 2018 and 2017, respectively (see Note 11).

*Evaluating Contingencies*. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities or claims under these lawsuits will not have a material effect on the financial statements.

**Estimates and Assumptions**

The key estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the financial statements. Actual results could differ from those estimates. Presented below are the relevant significant estimates performed by management in preparing the financial statements.

*Determining Fair Value of Investment in RTB.* The Company carries the financial asset at fair value, which requires the use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect other comprehensive income.

Unrealized gain (loss) on fair value changes of investment in RTB recognized in other comprehensive income amounted to ₱96.8 million, (₱90.2) million, and (₱3.1) million in 2019, 2018 and 2017, respectively (see Note 6). The carrying amount of Investment in RTB amounted to ₱2,253.5 million and ₱2,906.7 million as at December 31, 2019 and 2018, respectively (see Note 6).

Fair values of financial assets and liabilities are presented in Note 24 to the financial statements.

*Assessing Impairment of Trade and Other Receivables.* Starting 2018, the Company adopted the simplified approach in measuring ECL based on lifetime expected credit losses on its trade receivables. The Company has established a provision matrix that uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

Net provision for expected credit losses recognized in 2019 and 2018 amounted to ₱11.8 million and ₱26.1 million, respectively (see Note 7).

Prior to 2018, allowance for impairment losses on trade and other receivables is made for specific and groups of accounts, where objective evidence of impairment exists, in accordance with PAS 39, *Financial Instruments: Recognition and Measurement.* The Company evaluates these accounts based on available facts and circumstances affecting its collectability.

Net reversal of allowance for impairment losses on receivables amounted to ₱3.7 million in 2017 (see Note 7).

The carrying amount of trade and other receivables (excluding advances to suppliers and officers and employees) amounted to ₱383.0 million and ₱237.3 million as at December 31, 2019 and 2018, respectively (see Note 7). Allowance for expected credit losses amounted to ₱75.2 million and ₱63.4 million as at December 31, 2019 and 2018, respectively (see Note 7).

*Assessing Estimated Impairment Losses on Other Financial Assets at Amortized Cost.* In assessing expected credit losses for other financial asset at amortized cost, the Company uses historical credit loss experience adjusted for forward-looking factors, as appropriate. The Company, except for refundable cash bonds, has no history of actual losses.

No provision for expected credit losses on other financial assets at amortized cost were recognized in 2019, 2018 and 2017.

The carrying amounts of other financial assets at amortized cost follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Security deposits | 12 | **₱141,734,449** | ₱103,587,631 |
| Electricity deposits | 12 | **47,922,896** | 47,818,940 |
| Container deposits | 9 | **8,010,715** | 8,010,715 |
| | | **₱197,668,060** | ₱159,417,286 |

Other financial assets at amortized cost also include refundable cash bonds, amounting to ₱83.4 million, which the Company assessed to be unrecoverable. Accordingly, refundable cash bonds were fully provided with allowance for expected credit losses as at December 31, 2019 and 2018 (see Note 12).

*Determining NRV of Merchandise Inventories.* The Company recognizes inventory write down and losses whenever NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The adequacy of allowance for inventory write-down and losses is reviewed periodically to reflect the accurate valuation in the financial statements.

The carrying amount of merchandise inventories amounted to ₱9,517.5 million and ₱7,331.1 million as at December 31, 2019 and 2018, respectively (see Note 8). Net reversal and provision of allowance for inventory write-down and losses amounted to ₱33.3 million and ₱29.2 million in 2019 and 2017, respectively (see Note 8). Allowance for inventory write-down and losses amounted to ₱97.5 million and ₱130.8 million as at December 31, 2019 and 2018, respectively (see Note 8).

*Estimating Useful Lives of Property and Equipment and Computer Software.* The Company estimates the useful lives of property and equipment and computer software based on the years over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In 2019, the Company changed the estimated useful lives of buildings and leasehold improvements covered with lease agreements with related parties and third parties on land, buildings and retail and office units from 20 years to 15 years and from five to three years, respectively, to align with the lease terms for land, buildings and retail and office units of 15 years and three years (as amended for certain lease agreements). The change in estimate is effective January 1, 2019. The effect of the change in estimated useful lives of buildings and leasehold improvements resulted to an increase in depreciation and amortization by ₱50.0 million for the year ended December 31, 2019.

There is no change in estimated useful lives of other items of property and equipment and computer software in 2018 and 2017. The carrying amount of depreciable property and equipment and computer software follows:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Property and equipment* | 10 | **₱4,227,821,977** | ₱2,383,379,880 |
| Computer software | 12 | **86,282,472** | 63,531,693 |
| | | **₱4,314,104,449** | ₱2,446,911,573 |

****Excluding construction in progress amounting to ₱753.5 million and ₱383.8 million as at December 31, 2019 and 2018, respectively.***

*Assessing Impairment of Nonfinancial Assets.* The Company assesses any impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying value of assets or group of assets may not be recoverable. Factors that the Company considered in deciding when to perform impairment review includes the following among others:

- significant under-performance of a business in relation to expectations;
- significant negative industry or economic trends; and
- significant changes or planned changes in the use of the assets.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction. Recoverable amount represents the value in use, determined as the present value of estimated future cash flow expected to be generated from the continued use of the assets.

The estimated cash flow is projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the asset. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash generating unit to which the assets belong.

There were no indications that the carrying value of nonfinancial assets may be impaired. Accordingly, no impairment loss was recognized in 2019, 2018 and 2017.

The carrying values of nonfinancial assets assessed for possible impairment are presented below:

| | Note | 2019 | 2018 |
|---|---|---|---|
| ROU assets | 11 | **₱5,260,470,198** | ₱– |
| Property and equipment | 10 | **4,981,367,129** | 2,767,160,840 |
| Input VAT (including deferred input VAT) | 9,12 | **496,684,081** | 469,136,073 |
| Computer software | 12 | **86,282,472** | 63,531,693 |
| | | **₱10,328,119,799** | ₱2,830,692,533 |

*Determining Retirement Liability.* The determination of the obligation and cost of retirement benefits is dependent on the assumptions determined by management and used by the actuary in calculating such amounts. These assumptions are described in Note 15 to the financial statements and include, among others, discount rate and salary increase rate. Actual results that differ from the Company's assumptions are accumulated and recognized in other comprehensive income, therefore, generally affect the recognized expense and recorded obligation in such future periods.

Net retirement liability amounted to ₱275.7 million and ₱118.4 million as at December 31, 2019 and 2018, respectively (see Note 15).

*Assessing Realizability of Deferred Tax Assets.* The Company reviews the carrying amount of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets (gross) amounted to ₱338.2 million and ₱165.3 million as at December 31, 2019 and 2018, respectively (see Note 19).

## 4. Initial Public Offering

On March 31, 2017, the 1,393,906,200 common shares of the Company were listed in the PSE at an offer price of ₱5.05 a share. Net proceeds from the IPO amounted to ₱6,749.3 million, net of offer expenses of ₱289.9 million (see Notes 1 and 16).

Portion of the net proceeds from the IPO were used to settle short-term and long-term loans, construct store for the Company's network expansion and pay general corporate expenses.

The unapplied proceeds from the IPO amounted to ₱1,400.7 million and ₱3,573.1 million as at December 31, 2019 and 2018, respectively, and are maintained in various current and savings accounts, cash equivalents and investment in RTB.

Details are as follows:

| | 2019 | 2018 |
|---|---|---|
| Investment in RTB (at face value) | **₱2,250,000,000** | ₱3,000,000,000 |
| Advances from various regular bank accounts | **(886,703,388)** | – |
| Cash and cash equivalents | **37,372,360** | 573,063,018 |
| | **₱1,400,668,972** | ₱3,573,063,018 |

The fair value of investment in RTB as at December 31, 2019 and 2018 amounted to ₱2,253.5 million and ₱2,906.7 million, respectively (see Note 6).

Advances from various regular bank accounts shall be reimbursed upon maturity of the investment in RTB.

The unapplied proceeds will be used for the store network expansion project of the Company, which are expected to be completed by 2020.

## 5. Cash and Cash Equivalents

This account consists of:

| | 2019 | 2018 |
|---|---|---|
| Cash on hand | **₱8,779,283** | ₱8,794,295 |
| Cash in banks | **1,453,263,028** | 777,279,229 |
| Cash equivalents | **–** | 2,056,000,000 |
| | **₱1,462,042,311** | ₱2,842,073,524 |

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents represent money market placements with interest ranging from 4.00% to 4.25% and 2.0% to 7.50% in 2019 and 2018, respectively, and have a maturity of 15 to 90 days. As at December 31, 2019, the Company has no cash equivalents.

Details of interest income are as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Investment in RTB | 6 | **₱95,565,569** | ₱99,450,000 | ₱77,566,667 |
| Cash and cash equivalents | | **53,760,451** | 93,347,153 | 34,341,398 |
| Short-term investments | 6 | **2,158,872** | 1,733,894 | 3,880,715 |
| | 18 | **₱151,484,892** | ₱194,531,047 | ₱115,788,780 |

## 6. Investments

Short-term Investments

Short-term investments amounting to ₱616.5 million as at December 31, 2019 represent money market placements, which bears interest of 4.00%. Interest income earned from short-term investments amounted to ₱2.2 million, ₱1.7 million and ₱3.9 million in 2019, 2018 and 2017, respectively (see Note 5).

Investment in RTB

As at December 31, 2019 and 2018, investment in RTB amounting to ₱2,253.5 million and ₱2,906.7 million, respectively, is classified as financial asset at FVOCI. The investment bears an annual interest of 4.25% and will mature on April 11, 2020. Accordingly, the investment is classified as current asset as at December 31, 2019.

In August and December 2019, the Company sold portions of the investment in RTB totalling to ₱750.0 million for consideration aggregating to ₱751.6 million. Gain on sale amounted ₱1.6 million.

Interest income from investment in RTB amounted to ₱95.6 million, ₱99.5 million and ₱77.6 million in 2019, 2018 and 2017, respectively (see Note 5).

Unrealized gain (loss) on fair value changes of investment in RTB amounted to ₱96.8 million, (₱90.2) million and (₱3.1) million in 2019, 2018 and 2017, respectively. The fair value measurement for investment in RTB as at December 31, 2019 has been categorized as level 2.

## 7. Trade and Other Receivables

Details of this account are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade: | | | |
| Third parties | | **₱366,209,326** | ₱234,981,128 |
| Related parties | 21 | **1,589,088** | 786,933 |
| Advances to suppliers | | **44,311,064** | 60,763,706 |
| Accrued interest | | **19,864,492** | 27,137,000 |
| Advances to officers and employees | | **12,630,795** | 8,508,102 |
| Rent receivables | 11 | **6,055,351** | 3,713,225 |
| Others | | **64,459,448** | 34,160,521 |
| | | **515,119,564** | 370,050,615 |
| Allowance for expected credit losses | | **(75,217,902)** | (63,449,396) |
| | | **₱439,901,662** | ₱306,601,219 |

Trade receivables are unsecured, noninterest-bearing and have credit terms of 30 to 60 days.

Advances to suppliers pertain to advance payments on purchases of trade and nontrade goods and services.

Accrued interest pertains to interest receivable on the Company's cash and cash equivalents, short-term investments and investment in RTB.

Advances to officers and employees are noninterest-bearing advances and are normally settled through salary deduction. This account also includes cash advances to employees and officers for store operations which are for liquidation.

Rent receivables, which are collectible within one year, include receivables from the lease of gondola lightings, facade billboards, window displays and street banners.

Others mainly pertain to marketing support granted by suppliers.

Movements of allowance for expected credit losses on receivables are as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Balance at beginning of year | **₱63,449,396** | ₱37,382,126 | ₱45,834,378 |
| Provision | **11,768,506** | 30,505,826 | 7,502,533 |
| Reversal | **–** | (4,251,291) | (11,229,313) |
| Write-off | **–** | (187,265) | (4,725,472) |
| Balance at end of year | **₱75,217,902** | ₱63,449,396 | ₱37,382,126 |

## 8. Merchandise Inventories

Merchandise inventories are stated at cost and NRV. Details are as follows:

| | 2019 | 2018 |
|---|---|---|
| At cost | **₱9,449,683,308** | ₱7,019,261,107 |
| At NRV | **67,853,820** | 311,795,433 |
| | **₱9,517,537,128** | ₱7,331,056,540 |

Merchandise inventories pertain to goods being traded under the normal course of business, which include construction supplies, bathroom and kitchen supplies and equipment and furniture among others, sold on wholesale and retail basis.

The cost of merchandise inventories stated at NRV amounted to ₱165.3 million and ₱442.6 million as at December 31, 2019 and 2018, respectively.

Movements of allowance for inventory write-down and losses are as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Beginning of year | **₱130,826,546** | ₱130,826,546 | ₱101,651,425 |
| Reversal | **(33,337,395)** | – | – |
| Provision | **–** | – | 29,175,121 |
| Balance at end of year | **₱97,489,151** | ₱130,826,546 | ₱130,826,546 |

Inventories charged to cost of sales amounted to ₱16,300.2 million, ₱14,438.3 million, and ₱12,481.7 million in 2019, 2018 and 2017, respectively, including any provision or reversal of allowance for inventory write-down and losses.

## 9. Other Current Assets

Details of this account are as follows:

| | 2019 | 2018 |
|---|---|---|
| Current deferred input VAT | **₱391,159,640** | ₱175,886,317 |
| Materials and supplies | **159,906,892** | 103,832,889 |
| Prepaid expenses | **123,573,994** | 115,623,344 |
| Input VAT | **50,284,291** | 240,316,969 |
| Container deposits | **8,010,715** | 8,010,715 |
| | **₱732,935,532** | ₱643,670,234 |

Deferred input VAT pertains to unamortized portion of input VAT on property and equipment and consigned goods already sold.

Materials and supplies pertain to consumable construction materials, office supplies and uniforms.

Prepaid expenses pertain to payment of insurance, advertising, membership dues, rent and taxes by the Company which are being amortized over a year.

Container deposits pertain to monetary deposits for containers used for imported goods.

## 10. Property and Equipment

Details and movements of this account are as follows:

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Buildings and Improvements | Furniture and Equipment | Leasehold Improvements | Transportation Equipment | Construction in Progress | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱1,843,096,812 | ₱704,127,389 | ₱121,409,402 | ₱36,078,694 | ₱383,780,960 | ₱3,088,493,257 |
| Additions | – | 293,363,348 | 1,941,856 | 5,607,323 | 2,317,553,578 | 2,618,466,105 |
| Reclassification | 1,420,654,296 | 169,974,014 | 357,161,076 | – | (1,947,789,386) | – |
| Balance at end of year | 3,263,751,108 | 1,167,464,751 | 480,512,334 | 41,686,017 | 753,545,152 | 5,706,959,362 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | 47,962,174 | 240,786,447 | 24,978,726 | 7,605,070 | – | 321,332,417 |
| Depreciation and amortization | 169,953,265 | 163,968,166 | 62,481,525 | 7,856,860 | – | 404,259,816 |
| Balance at end of year | 217,915,439 | 404,754,613 | 87,460,251 | 15,461,930 | – | 725,592,233 |
| **Carrying Value** | ₱3,045,835,669 | ₱762,710,138 | ₱393,052,083 | ₱26,224,087 | ₱753,545,152 | ₱4,981,367,129 |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Building and improvements | Furniture and Equipment | Leasehold Improvements | Transportation Equipment | Construction in Progress | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | ₱290,356,213 | ₱460,440,664 | ₱22,309,192 | ₱16,873,492 | ₱233,579,936 | ₱1,023,559,497 |
| Additions | – | 243,686,725 | 58,823,462 | 19,205,202 | 1,744,061,388 | 2,065,776,777 |
| Disposal | (843,017) | – | – | – | – | (843,017) |
| Reclassification | 1,553,583,616 | – | 40,276,748 | – | (1,593,860,364) | – |
| Balance at end of year | 1,843,096,812 | 704,127,389 | 121,409,402 | 36,078,694 | 383,780,960 | 3,088,493,257 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balance at beginning of year | 10,031,862 | 140,543,866 | 10,641,838 | 2,281,229 | – | 163,498,795 |
| Depreciation and amortization | 38,773,329 | 100,242,581 | 14,336,888 | 5,323,841 | – | 158,676,639 |
| Disposal | (843,017) | – | – | – | – | (843,017) |
| Balance at end of year | 47,962,174 | 240,786,447 | 24,978,726 | 7,605,070 | – | 321,332,417 |
| **Carrying Value** | ₱1,795,134,638 | ₱463,340,942 | ₱96,430,676 | ₱28,473,624 | ₱383,780,960 | ₱2,767,160,840 |

Construction in progress pertains to costs incurred for constructing new stores in various strategic locations within the Philippines and are expected to be completed in 2020.

Depreciation and amortization are summarized below:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| ROU assets | 11 | **₱721,331,179** | ₱– | ₱– |
| Property and equipment | | **404,259,816** | 158,676,639 | 101,106,995 |
| Computer software | 12 | **7,584,165** | 6,175,342 | 3,218,310 |
| | 17 | **₱1,133,175,160** | ₱164,851,981 | ₱104,325,305 |

## 11. Lease Commitments

*The Company as a Lessee*

The Company has various lease agreements with related parties and third parties for the use of land, buildings, retail and office units, transportation equipment and computer software for a period of one to 15 years. These leases are renewable upon mutual agreement by both parties (as amended for certain lease agreements) to be covered by a separate and new lease agreement. The annual rent is subject to escalation of 5%.

Security deposits amounted to ₱141.7 million and ₱103.6 million as at December 31, 2019 and 2018, respectively (see Note 12). Advance rent amounted to ₱54.9 million as at December 31, 2018 (see Note 12). Accrued rent as at December 31, 2018 amounted to ₱143.9 million. Upon the adoption of PFRS 16, the advance rent and accrued rent were reclassified as part of ROU assets.

Amounts recognized in profit and loss:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Amortization on ROU assets | 10 | **₱721,331,179** | ₱– | ₱– |
| Rent expense | 17 | **331,775,281** | 919,910,158 | 780,737,052 |
| Interest on lease liabilities | 14 | **300,370,584** | – | – |
| | | **₱1,353,477,044** | ₱919,910,158 | ₱780,737,052 |

Rent expense in 2019 pertains to short-term lease on transportation equipment and leases on land and buildings with less than 12 months term at transition.

Movements in the ROU assets as at December 31, 2019 are presented below:

| | Note | Land | Land and Buildings | Buildings | Retail and Office Units | Computer Software | Total |
|---|---|---|---|---|---|---|---|
| Balances as at January 1, 2019 | 2 | ₱2,051,625,685 | ₱337,213,138 | ₱32,754,890 | ₱48,742,662 | ₱– | ₱2,470,336,375 |
| Additions | | 1,428,503,560 | 1,729,634,116 | 314,413,262 | – | 38,914,064 | 3,511,465,002 |
| Amortization | 10 | (212,640,047) | (406,764,729) | (50,251,887) | (34,379,377) | (17,295,139) | (721,331,179) |
| Balances as at end of year | 2 | ₱3,267,489,198 | ₱1,660,082,525 | ₱296,916,265 | ₱14,363,286 | ₱21,618,925 | ₱5,260,470,198 |

Movements in the lease liabilities as at December 31, 2019 are presented below:

| | Note | |
|---|---|---|
| Balance as at January 1, 2019 (upon adoption of PFRS 16) | 2 | ₱2,559,379,229 |
| Additions | | 3,450,951,018 |
| Payments | | (824,218,626) |
| Interest expense | | 300,370,584 |
| | 2 | 5,486,482,205 |
| Current portion | | 1,423,074,043 |
| Noncurrent portion | | ₱4,063,408,162 |

Total cash outflows for the payment of lease liabilities amounted to ₱824.2 million in 2019.

As at December 31, 2018, the future minimum lease payments under non-cancellable leases are as follows:

| | |
|---|---|
| Less than one year | ₱532,328,641 |
| Between one and five years | 849,830,332 |
| More than five years | 1,028,895,858 |
| Balance at end of year | ₱2,411,054,831 |

*The Company as a Lessor*
The Company has existing lease agreements on commercial spaces, gondola lightings, facade billboards, window displays and street banners with lease terms of less than a year. The leases are renewable upon mutual agreement by the parties.

Rent income amounted to ₱30.4 million, ₱20.1 million and ₱17.3 million in 2019, 2018 and 2017, respectively (see Note 18). Rent receivables amounted to ₱6.1 million and ₱3.7 million as at December 31, 2019 and 2018, respectively (see Note 7).

## 12. Other Noncurrent Assets

Details of this account are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Advances to contractors | | **₱307,863,868** | ₱244,621,444 |
| Security deposits | 11 | **141,734,449** | 103,587,631 |
| Computer software | | **86,282,472** | 63,531,693 |
| Noncurrent deferred input VAT | | **55,240,150** | 52,932,787 |
| Electricity deposits | | **47,922,896** | 47,818,940 |
| Advance rent | 11 | **-** | 54,886,102 |
| | | **₱639,043,835** | ₱567,378,597 |

Advances to contractors pertain to payments for purchase of materials and services for the constructions of assets to be classified as property and equipment. The advances will be applied against the future billings of the contractors. The balance as at December 31, 2018 was reclassified from advances to suppliers to conform with the 2019 financial statement presentation. There is no impact on the financial position and financial performance of the Company.

Movements of computer software are as follow:

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cost** | | | |
| Balance at beginning of year | | ₱73,355,365 | ₱41,451,017 |
| Additions | | 30,334,944 | 31,904,348 |
| Balance at end of year | | 103,690,309 | 73,355,365 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | 9,823,672 | 3,648,330 |
| Amortization | 10 | 7,584,165 | 6,175,342 |
| Balance at end of year | | 17,407,837 | 9,823,672 |
| **Carrying Amount** | | ₱86,282,472 | ₱63,531,693 |

Electricity deposits pertain to noninterest-bearing refundable deposits to various electric companies. These are to be refunded upon termination of the contract.

The Company has refundable cash bonds amounting to ₱83.4 million. These refer to payments made to the Bureau of Customs (BOC) for the release of imported goods purchased by the Parent Company with no established and published values covering importations as required in Republic Act No. 8181, *Transaction Value Act*. The amount of cash bonds to be paid by the Parent Company is determined by the BOC. The amount is refundable once the correct dutiable value or values for the importation have been established. As at December 31, 2019 and 2018, the refund of cash bonds is still pending with the BOC. Consequently, this has been fully provided with allowance.

## 13. Trade and Other Payables

Details of this account are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade: | | | |
| Third parties | | ₱4,437,057,093 | ₱2,629,936,351 |
| Related parties | 21 | 145,381,226 | 141,177,998 |
| Nontrade: | | | |
| Third parties | | 346,644,283 | 526,656,476 |
| Related parties | 21 | 6,808,036 | 694,404 |
| Advances from customers | | 244,015,413 | 280,983,544 |
| Accrued expenses: | | | |
| Outside services | | 101,888,443 | 39,498,906 |
| Utilities | | 27,639,785 | 9,561,143 |
| Salaries and wages | | 27,420,742 | 90,432,195 |
| Others | | 13,999,561 | 24,378,865 |
| Rent | | – | 104,857,248 |
| Trucking services | | – | 1,342,880 |
| Others | | 179,287,646 | 151,576,854 |
| | | ₱5,530,142,228 | ₱4,001,096,864 |

Trade payables and accrued expenses are generally settled in varying periods depending on arrangement with suppliers, normally within 30 to 90 days.

Nontrade payables pertain to unpaid advertising and promotions, rent, utilities, construction and transportation and travel, which are payable in the succeeding month

Advances from customers pertain to payments and deposits made by the customers, which are to be applied against future purchases.

Others pertain to unearned revenue on loyalty program, unredeemed gift certificates, salaries payable, withholding taxes and statutory obligations.

## 14. Long-term Debt

Long-term debt amounting to ₱20,000 represent loans maturing in August 2021 and bears interest ranging from 2.25% to 6.0% in 2019 and 2018.

Details of interest expense follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Lease liabilities | 11 | **₱300,370,584** | ₱– | ₱– |
| Long-term debt | | **1,114** | 2,345,308 | 15,168,951 |
| Short-term debt | | **–** | – | 6,624,559 |
| | | **₱300,371,698** | ₱2,345,308 | ₱21,793,510 |

As at December 31, 2019 and 2018, certain loans of the Company are collateralized by the Parent Company's property and equipment and investment properties aggregating ₱564.0 million (see Note 21).

The maturities of the long-term debt as at December 31, 2019 are in two years. The Company paid in advance long-term debt amounting to ₱248.4 million in 2018.

Changes in the liabilities arising from financing activities are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Long-term Debt** | **Accrued Interest** | Long-term Debt | Accrued Interest |
| Balance at beginning of year | **₱20,000** | **₱35** | ₱403,461,539 | ₱228,890 |
| Payments | **–** | **(1,178)** | (403,441,539) | (2,574,163) |
| Interest expense | **–** | **1,114** | – | 2,345,308 |
| Balance at end of year | **₱20,000** | **(₱29)** | ₱20,000 | ₱35 |

There are no noncash transactions arising from these liabilities.

## 15. Retirement Plan

The Company is a participant of the Wilcon Depot Multiemployer Retirement Plan together with the Parent Company and another related party. The plan is non-contributory and provides a retirement benefit equal to 100% of Plan Salary for every year of credited service.

The plan is exposed to interest rate risks and changes in the life expectancy of qualified employees but is not exposed to significant concentrations of risk on the plan assets.

Actuarial valuations are made periodically to update the retirement benefit liabilities and the amount of contributions. The latest actuarial valuation report was dated as at December 31, 2019.

Details of retirement benefits recognized in profit or loss are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Current service cost | **₱15,323,307** | ₱16,989,341 | ₱15,913,503 |
| Interest expense | **15,068,537** | 10,435,646 | 19,277,579 |
| Interest income | **(7,303,309)** | (3,903,698) | (1,173,754) |
| | **₱23,088,535** | ₱23,521,289 | ₱34,017,328 |

The cumulative remeasurement gain recognized in other comprehensive income follows:

| | **2019** | | |
|---|---|---|---|
| | **Cumulative Remeasurement Gain** | **Deferred Tax (see Note 19)** | **Net** |
| Balance at beginning of year | **₱251,687,091** | **(₱75,506,127)** | **₱176,180,964** |
| Remeasurement loss | **(166,326,798)** | **49,898,039** | **(116,428,759)** |
| Balance at end of year | **₱85,360,293** | **(₱25,608,088)** | **₱59,752,205** |

| | 2018 | | |
|---|---|---|---|
| | Cumulative Remeasurement Gain | Deferred Tax (see Note 19) | Net |
| Balance at beginning of year | ₱251,691,852 | (₱75,507,555) | ₱176,184,297 |
| Remeasurement loss | (4,761) | 1,428 | (3,333) |
| Balance at end of year | ₱251,687,091 | (₱75,506,127) | ₱176,180,964 |

The amounts of net retirement liability recognized in the statements of financial position are as follows:

| | **2019** | 2018 |
|---|---|---|
| Present value of define benefit obligation | **₱397,557,876** | ₱200,113,371 |
| Fair value of plan assets | **(121,906,972)** | (81,685,536) |
| | **₱275,650,904** | ₱118,427,835 |

The changes in the present value of the defined benefit obligation are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **₱200,113,371** | ₱183,081,500 |
| Remeasurement (gain) loss: | | |
| Changes in financial assumptions | **105,304,194** | (55,044,671) |
| Changes in demographic assumptions | **(13,660,769)** | 7,671,509 |
| Experience | **76,993,592** | 38,733,692 |
| Current service cost | **15,323,307** | 16,989,341 |
| Interest expense | **15,068,537** | 10,435,646 |
| Benefits paid | **(1,584,356)** | (1,753,646) |
| Balance at end of year | **₱397,557,876** | ₱200,113,371 |

The changes in the fair value of plan assets are presented below:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **₱81,685,536** | ₱50,545,789 |
| Contributions | **32,192,264** | 37,633,926 |
| Interest income | **7,303,309** | 3,903,698 |
| Remeasurement gain (loss) | **2,310,219** | (8,644,231) |
| Benefits paid | **(1,584,356)** | (1,753,646) |
| Balance at end of year | **₱121,906,972** | ₱81,685,536 |

Details of plan assets are as follows:

| | |
|---|---|
| Unit investment trust funds | 99.99% |
| Others | 0.01% |
| | 100.00% |

The principal actuarial assumptions used to determine the retirement liability are as follows:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **5.22%** | 7.53% |
| Annual salary increase rate | **4.00%** | 4.00% |

Sensitivity analysis on retirement liabilities is as follows:

| | Basis Points | Amount |
|---|---|---|
| Discount rate | +100 | (₱51,572,343) |
| | -100 | 63,344,032 |
| Salary rate | +100 | 63,491,149 |
| | -100 | (52,573,369) |
| Turnover rate | – | 120,333,261 |

As at December 31, 2019, the expected future benefits payments are as follows:

| Year | Amount |
|---|---|
| 2020 | ₱55,137,709 |
| 2021 | 8,452,300 |
| 2022 | 14,328,739 |
| 2023 | 5,122,153 |
| 2024 | 9,792,966 |
| 2025 to 2029 | 80,812,027 |
| | ₱173,645,894 |

## 16. Equity

Details of capital stock as at December 31, 2019 and 2018 are as follow:

| | Number of Shares | Amount |
|---|---|---|
| Authorized - at ₱1 a share | 5,000,000,000 | ₱5,000,000,000 |
| Issued and outstanding | 4,099,724,116 | ₱4,099,724,116 |

On March 31, 2017, the 1,393,906,200 common shares of the Company were listed in the PSE at an offer price of ₱5.05 a share (see Notes 1 and 4). Net proceeds from the IPO amounted to ₱6,749.3 million, net of offer expenses of ₱289.9 million. Net additional paid-in capital amounted to ₱5,373.7 million.

As at December 31, 2019 and 2018, the Company has 4,099,724,116 listed shares.

On May 9, 2018, the Company's BOD approved the declaration of a regular cash dividend of ₱0.08 per share and a special cash dividend of ₱0.03 per share, or a total of ₱0.11 per share equivalent to ₱451.0 million to stockholders on record date of May 24, 2018 and payment date of June 8, 2018.

On March 6, 2019, the Company's BOD approved the declaration of a regular cash dividend of ₱0.11 per share and a special cash dividend of ₱0.05 per share, or a total of ₱0.16 per share equivalent to ₱656.0 million to stockholders on record date of March 12, 2019 and payment date of April 16, 2019.

## 17. Operating Expenses

Details of this account are as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Depreciation and amortization | 10 | **₱1,133,175,160** | ₱164,851,981 | ₱104,325,305 |
| Salaries, wages and employee benefits | | **1,025,194,474** | 830,904,777 | 643,369,575 |
| Outsourced services | | **937,715,238** | 769,736,714 | 711,320,626 |
| Trucking services | | **546,354,505** | 473,945,501 | 351,607,772 |
| Utilities | | **514,837,851** | 436,646,588 | 331,922,472 |
| Rent | 11 | **331,775,281** | 919,910,158 | 780,737,052 |
| Taxes and licenses | | **239,927,975** | 181,280,353 | 162,320,458 |
| Credit card charges | | **199,916,867** | 173,251,280 | 149,839,772 |
| Advertising and promotions | | **114,447,468** | 104,360,976 | 100,806,258 |
| Repairs and maintenance | | **95,844,359** | 86,825,007 | 56,257,962 |
| Supplies | | **94,899,773** | 117,998,573 | 86,810,376 |
| Postage, telephone and telegraph | | **35,185,183** | 30,639,159 | 27,983,000 |
| Transportation and travel | | **27,032,030** | 17,636,609 | 17,309,280 |
| Donations and contributions | | **16,836,326** | 11,318,431 | 22,600,054 |
| Others | | **82,527,080** | 101,246,784 | 48,478,672 |
| | | **₱5,395,669,570** | ₱4,420,552,891 | ₱3,595,688,634 |

Other expenses include professional fees, director's fees, fuel and oil, net provision for impairment losses on receivables and other operating costs.

## 18. Other Income

Details of this account are as follow:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Interest | 5 | **₱151,484,892** | ₱194,531,047 | ₱115,788,780 |
| Rent | 11 | **30,408,931** | 20,147,518 | 17,311,963 |
| Others - net | | **280,856,351** | 144,793,875 | 52,245,073 |
| | | **₱462,750,174** | ₱359,472,440 | ₱185,345,816 |

Interest income arises from investment in retail treasury bond, short-term investments and cash in banks.

Rent income pertains to lease of gondola lightings, facade billboards, window displays and street banners.

Other include amount charged to and from the suppliers for the use of billboards and signages, office supplies, marketing support for new stores from the suppliers and other reimbursable costs. It also includes amounts charged to customers such as delivery fees and other charges.

## 19. Income Tax

The current income tax expense represents regular corporate income tax.

The reconciliation between income tax expense at statutory tax rate and as presented in the statements of comprehensive income is as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Income tax expense at statutory rate | **₱882,774,034** | ₱761,902,160 | ₱550,132,743 |
| Income tax effects of: | | | |
| Interest income already subjected to final tax | **(45,445,468)** | (58,359,314) | (34,736,634) |
| Offer and other deductible expenses | **(24,647,390)** | – | (80,198,460) |
| Nondeductible expenses | **5,283,933** | 718,636 | 6,538,053 |
| Derecognition of deferred tax asset resulting from retirement plan assets transferred from Parent Company | **–** | – | 6,625,255 |
| | **₱817,965,109** | ₱704,261,482 | ₱448,360,957 |

Net deferred tax assets relate to the tax effect of the temporary differences as follows:

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Net lease rental payments | **₱104,722,881** | ₱– |
| Retirement liability | **85,153,278** | 35,528,351 |
| Advance rent | **48,730,906** | – |
| Allowance for inventory write-down and losses | **29,246,745** | 39,247,964 |
| Allowance for impairment of refundable cash bonds | **25,022,980** | 25,022,980 |
| Unearned revenue from loyalty program | **22,638,569** | 17,633,245 |
| Allowance for impairment losses on receivables | **22,621,551** | 19,090,999 |
| Unrealized foreign exchange loss | **64,165** | – |
| Accrued rent on straight-line basis | **–** | 28,788,008 |
| | **338,201,075** | 165,311,547 |
| Deferred tax liabilities: | | |
| Prepaid taxes | **(4,460,864)** | (4,460,864) |
| Advance rent | **–** | (23,324,851) |
| Unrealized foreign exchange gain | **–** | (6,139) |
| | **(4,460,864)** | (27,791,854) |
| | **₱333,740,211** | ₱137,519,693 |

The presentation of net deferred tax assets (liabilities) are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Through profit or loss | | **₱359,348,299** | ₱213,025,820 |
| Through other comprehensive income | 15 | **(25,608,088)** | (75,506,127) |
| | | **₱333,740,211** | ₱137,519,693 |

## 20. Commitments and Contingencies

Agreements with Importing Suppliers

Purchases from certain importing suppliers are subject to rebates based on certain percentage of sales from goods purchased. Rebates from importing suppliers amounted ₱106.2 million in 2018.

Contingencies

The Company is a party to certain lawsuits or claims from the normal course of business. The Company and its legal counsel believe that any eventual liabilities under these lawsuits or claims will not have a material effect on the financial statements.

Accordingly, no provision for probable losses arising from legal contingencies was recognized in the financial statements as at December 31, 2019, 2018, and 2017.

## 21. Related Party Transactions and Balances

The Company has an approval policy on material Related Party Transactions (RPT) wherein all individual material RPT shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the independent directors voting to approve the material RPT. In case that a majority of the independent director's vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock.

The Company, in the normal course of business, has various transactions and balances with its related parties, as described below.

| Related Party | Year | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties |
|---|---|---|---|---|---|
| Parent Company | **2019** | **₱586,410** | **₱801,765,333** | **₱218,990,105** | **₱1,721,366** |
| | 2018 | 1,481,307 | 522,392,993 | 112,001,511 | 10,657,818 |
| | 2017 | 9,262,833 | 468,272,214 | 108,366,402 | 72,847,581 |
| Entities under Common Control | **2019** | **17,023,715** | **1,298,103,203** | **114,456,988** | **151,805,162** |
| | 2018 | 27,614,291 | 1,062,592,864 | 85,009,911 | 225,799,020 |
| | 2017 | 27,553,319 | 977,712,798 | 108,298,232 | 96,290,971 |
| Stockholders | **2019** | **530,625** | **19,528,996** | **8,786,372** | **10,031** |
| | 2018 | 1,628,245 | 16,111,462 | 1,800,315 | – |
| | 2017 | 1,776,012 | 14,347,525 | 633,515 | – |
| | **2019** | **₱18,140,750** | **₱2,119,397,532** | **₱342,233,465** | **₱153,536,559** |
| | 2018 | 30,723,843 | 1,601,097,319 | 198,811,737 | 236,456,838 |
| | 2017 | 38,592,164 | 1,460,332,537 | 217,298,149 | 169,138,552 |

Amounts owed by related parties consist mainly of trade and other receivables amounting to ₱25.8 million and ₱17.5 million as at December 31, 2019 and 2018, respectively (see Note 7) and security deposits and advance rent (included as part of "Other current assets" or "Other noncurrent assets") aggregating ₱316.4 million and ₱181.3 million as at December 31, 2019 and 2018, respectively. No impairment loss was recognized on trade and other receivables and security deposits in 2019, 2018 and 2017.

Amounts owed to related parties consist of trade and other payables aggregating ₱153.5 million and ₱236.5 million as at December 31, 2019 and 2018, respectively (see Note 13). The amounts owed to related party do not include future rentals amounting to ₱5,100.6 million (see Note 11).

The following are the significant related party transactions of the Company:

a. Purchases and sales of goods and services with Parent Company and entities under common control.

   Purchases of goods and services from related parties aggregated ₱750.7 million, ₱749.7 million and ₱757.2 million in 2019, 2018 and 2017, respectively.

   Sale of goods and services to related parties aggregated ₱18.1 million, ₱30.7 million and ₱38.6 million in 2019, 2018 and 2017, respectively.

b. Cash advances for working capital requirement and reimbursement of certain expenses mainly pertain to power and electricity, water, postage, telephone and telegraph. Reimbursement of certain expenses from related parties amounted to ₱113.8 million, ₱59.5 million and ₱65.3 million in 2019, 2018 and 2017, respectively.

c. Lease agreements with the Parent Company and related parties for the use of land, buildings, computer software for a period of one to 15 years (see Note 11).

   Lease liabilities and interest expense on lease liabilities from lease agreements with related parties amounted ₱5,100.6 million as at December 31, 2019 and ₱297.0 million in 2019, respectively.

   Rent expense from related parties amounted to ₱245.7 million, ₱791.9 million and ₱637.8 million in 2019, 2018 and 2017, respectively.

   Total lease payments, including payments on lease liabilities, amounted to ₱966.7 million and ₱692.0 million in 2019 and 2018, respectively.

d. As at December 31, 2019 and 2018, certain loans of the Company are collateralized by the Parent Company's property and equipment and investment properties aggregating ₱564.0 million (see Note 14).

Compensation of key management personnel by benefit type, are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Short-term employee benefits | **₱107,854,466** | ₱67,640,177 | ₱47,849,537 |
| Retirement benefits | **2,984,865** | 2,234,912 | 3,077,046 |
| | **₱110,839,331** | ₱69,875,089 | ₱50,926,583 |

## 22. Earnings per Share

Basic and dilutive earnings per share were computed as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Net income | **₱2,124,615,005** | ₱1,835,412,386 | ₱1,385,414,852 |
| Divided by the weighted average number of outstanding shares | **4,099,724,116** | 4,099,724,116 | 3,751,247,566 |
| | **₱0.52** | ₱0.45 | ₱0.37 |

## 23. Financial Risk Management Objectives and Policies

The Company's financial instruments consist of cash and cash equivalents, short-term investments, trade and other receivables (excluding advances to suppliers and officers and employees), trade and other payables (excluding statutory liabilities, unredeemed gift certificates and unearned revenue), Investment in RTB, security, electricity and container deposits, refundable cash bonds, lease liabilities and long-term debt. The main purpose of these financial instruments is to fund the Company's operations.

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial market.

The main financial risks arising from the financial instruments are credit risk, liquidity risk and interest rate risk. The BOD regularly reviews and approves the appropriate policies for managing these financial risks, as summarized below.

*Credit Risk.* Credit risk is the risk that the Company will incur a loss because its counterparties fail to discharge their contractual obligations. Receivables are monitored on an on-going basis with the result that the Company's exposure to possible losses is not significant.

Maximum credit risk is equal to the gross amount of these instruments as follows:

| | 2019 | 2018 |
|---|---|---|
| Cash in banks and cash equivalents | ₱1,453,263,028 | ₱2,833,279,229 |
| Short-term investments | 616,490,311 | – |
| Investment in RTB | 2,253,523,133 | 2,906,721,106 |
| Trade and other receivables* | 458,177,705 | 300,778,807 |
| Container deposits | 8,010,715 | 8,010,715 |
| Security deposits | 141,734,449 | 103,587,631 |
| Electricity deposits | 47,922,896 | 47,818,940 |
| Refundable cash bonds | 83,409,934 | 83,409,934 |
| | ₱5,062,532,171 | ₱6,283,606,362 |

**Excluding advances to suppliers and officers and employees aggregating ₱56.9 million and ₱69.3 million as at December 31, 2019 and 2018, respectively.*

The Company does not have major concentration of credit risk.

The table below summarizes the Company's financial assets based on aging:

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | Past Due but not Impaired: Less than One Year | Past Due but not Impaired: One Year and Over | Past Due and Impaired | Total |
| Cash in banks and cash equivalents | ₱1,453,263,028 | ₱– | ₱– | ₱– | ₱1,453,263,028 |
| Short-term investments | 616,490,311 | – | – | – | 616,490,311 |
| Investment in RTB | 2,253,523,133 | – | – | – | 2,253,523,133 |
| Trade and other receivables* | 362,041,731 | 31,412,838 | 40,216,513 | 24,506,623 | 458,177,705 |
| Container deposits | 8,010,715 | – | – | – | 8,010,715 |
| Security deposits | 141,734,449 | – | – | – | 141,734,449 |
| Electricity deposits | 47,922,896 | – | – | – | 47,922,896 |
| Refundable cash bonds | – | – | – | 83,409,934 | 83,409,934 |
| | ₱4,882,986,263 | ₱31,412,838 | ₱40,216,513 | ₱107,916,557 | ₱5,062,532,171 |

**Excluding advances to suppliers and officers and employees aggregating ₱56.9 million.*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | Past Due but not Impaired: Less than One Year | Past Due but not Impaired: One Year and Over | Past Due and Impaired | Total |
| Cash in banks and cash equivalents | ₱2,833,279,229 | ₱– | ₱– | ₱– | ₱2,833,279,229 |
| Investment in RTB | 2,906,721,106 | – | – | – | 2,906,721,106 |
| Trade and other receivables* | 122,918,146 | 47,860,173 | 66,551,092 | 63,449,396 | 300,778,807 |
| Container deposits | 8,010,715 | – | – | – | 8,010,715 |
| Security deposits | 103,587,631 | – | – | – | 103,587,631 |
| Electricity deposits | 47,818,940 | – | – | – | 47,818,940 |
| Refundable cash bonds | – | – | – | 83,409,934 | 83,409,934 |
| | ₱6,022,335,767 | ₱47,860,173 | ₱66,551,092 | ₱146,859,330 | ₱6,283,606,362 |

**Excluding advances to suppliers and officers and employees aggregating ₱69.3 million.*

"Past due but not impaired" are items with history of frequent defaults, nevertheless, the amounts are still collectible.

*Liquidity Risk.* Liquidity risk is the risk that the Company will not be able to settle its obligations when these falls due. The Company monitors and maintains a level of cash deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

| | 2019 | | | | |
|---|---|---|---|---|---|
| | On Demand | Within Three Months | More than Three Months to One Year | More than One Year but Less than Five Years | Total |
| Trade and other payables* | ₱– | ₱5,060,531,825 | ₱325,464,794 | ₱6,927,012 | ₱5,392,923,631 |
| Lease liabilities | – | 355,768,511 | 1,067,305,532 | 4,063,408,162 | 5,486,482,205 |
| Long-term debt | – | – | – | 20,000 | 20,000 |
| | ₱– | ₱5,416,300,336 | ₱1,392,770,326 | ₱4,070,355,174 | ₱10,879,425,836 |

**Excluding statutory liabilities, unredeemed gift certificates and unearned revenue aggregating ₱137.2 million.*

| | 2018 | | | | |
|---|---|---|---|---|---|
| | On Demand | Within Three Months | More than Three Months to One Year | More than One Year but Less than Five Years | Total |
| Trade and other payables* | ₱– | ₱3,851,161,810 | ₱45,603,626 | ₱– | ₱3,896,765,436 |
| Long-term debt | – | – | – | 20,000 | 20,000 |
| | ₱– | ₱3,851,161,810 | ₱45,603,626 | ₱20,000 | ₱3,896,785,436 |

**Excluding statutory liabilities, unredeemed gift certificates and unearned revenue aggregating ₱104.3 million.*

As at December 31, 2019 and 2018, Company's cash and cash equivalents aggregate ₱1,462.0 million and ₱2,842.1 million, respectively. The Company's cash and cash equivalents resulting from the net cash flows are sufficient to cover payments due on its financial liabilities and the cost of all firm orders due in the next financial year.

*Interest Rate Risk.* Interest rate risk pertains to the fluctuations in interest of cash in banks and cash equivalent, short-term investments and investment in RTB. The interest rates on these assets are disclosed in Notes 5 and 6. The Company regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take.

The primary measure of the Company's interest rate risk is the duration of its financial assets. It quantifies the effect of changes in interest rates in the value of fixed income securities. The longer the duration, the more sensitive it should be to changes in interest rates.

The following table illustrates the sensitivity of the Company's profit or loss to a reasonably possible change in the interest rates of its cash in banks and cash equivalents, short-term investments and investment in RTB with all other variables held constant.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | +/-% | Effect on Profit or Loss | +/-% | Effect on Profit or Loss |
| Investment in RTB | 0.05% | ₱40,877 | 0.03% | ₱43,633 |
| Short-term investments | 0.05% | 11,420 | – | – |
| Cash equivalents | – | – | 0.30% | 376,127 |

The changes in interest rates used in the analysis of cash equivalents, short-term investments and investment in RTB are based on the average volatility in interest rates of the said investments in the past 12 months.

**Capital Management**
The Company monitors its debt-to-equity ratio.

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The debt-to-equity ratio is as follows:

| | 2019 | 2018 |
|---|---|---|
| Total debt | **₱11,575,549,788** | ₱4,289,712,504 |
| Total equity | **14,661,501,662** | 13,212,469,249 |
| Debt-to-equity ratio | **0.79:1** | 0.32:1 |

Equity includes capital stock, additional paid-in capital, other comprehensive income and retained earnings.

## 24. Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of the financial instruments:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **₱1,462,042,311** | **₱1,462,042,311** | ₱2,842,073,524 | ₱2,842,073,524 |
| Short-term investments | **616,490,311** | **616,490,311** | – | – |
| Investment in RTB | **2,253,523,133** | **2,253,523,133** | 2,906,721,106 | 2,906,721,106 |
| Trade and other receivables* | **382,959,803** | **382,959,803** | 237,329,411 | 237,329,411 |
| Container deposits | **8,010,715** | **8,010,715** | 8,010,715 | 8,010,715 |
| Security deposits | **141,734,449** | **118,383,955** | 103,587,631 | 88,338,771 |
| Electricity deposits | **47,922,896** | **47,922,896** | 47,818,940 | 47,818,940 |
| | **₱4,912,683,618** | **₱4,889,333,124** | ₱6,145,541,327 | ₱6,130,292,467 |
| **Financial Liabilities** | | | | |
| Trade and other payables** | **₱5,392,923,631** | **₱5,392,923,631** | ₱3,896,765,436 | ₱3,896,765,436 |
| Lease liabilities | **5,486,482,205** | **5,486,482,205** | – | – |
| Long-term debt | **20,000** | **20,000** | 20,000 | 20,000 |
| | **₱10,879,425,836** | **₱10,879,425,836** | ₱3,896,785,436 | ₱3,896,785,436 |

**Excluding advances to suppliers and officers and employees aggregating ₱56.9 million and ₱69.3 million as at December 31, 2019 and 2018, respectively.*
***Excluding statutory liabilities, unredeemed gift certificates and unearned revenue aggregating ₱137.2 million and ₱104.3 million as at December 31, 2019 and, 2018, respectively.*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivables, Container Deposits, Refundable Cash Bonds, and Trade and Other Payables*. The carrying amounts of cash and cash equivalents, short-term investments, trade and other receivables, container deposits, refundable cash bonds, and trade and other payables approximate their fair values primarily due to the relatively short-term maturity of these financial instruments. Container deposits are under Level 2 of the fair value measurements hierarchy for financial instruments.

*Investment in RTB.* The fair value of investment in RTB is estimated by reference to quoted bid price in an active market at the end of the reporting year and is categorized as Level 2.

*Security Deposits.* Fair values of security deposits are based on the present value of the expected future cash flows. These are categorized under Level 2 of the fair value measurements hierarchy for financial instruments.

*Electricity Deposits*. Management estimates that the carrying amount of the electricity deposits approximate their fair values. These are categorized under Level 2 of the fair value measurements hierarchy for financial instruments.

*Lease Liabilities.* The carrying amount of lease liabilities approximate its fair value because the initial recognition of lease liability is based on the discounted value of lease rentals and expected payments at the end of the lease.

*Long-term Debt.* The carrying amount of long-term debt approximates its fair value because the interest rate that it carries approximates the interest rate for comparable instrument in the market. In 2019 and 2018, there were no transfers among Level 1, Level 2 and Level 3 fair value measurements.


# 2019 SUSTAINABILITY REPORT

# BUILDING BIG IDEAS *Better*

## FOR PEOPLE & THE PLANET

WILCON

## 2019 Sustainability Report

Sustainability is built into the business of Wilcon. We have been in the industry for 42 years, growing from a humble 60-square-meter shop into the Philippines' leading home improvement and construction supplies retailer. We achieved this because we understand that a sustainable and comfortable life is the dream of every Filipino family, and we made it our mission to support this aspiration.

With growth and development, dreams and aspirations get bigger. We are committed to contributing the best expertise, knowledge, resources, and skills to promote stronger, safer, and more sustainable homes and buildings for everyone as their lives improve through the long-lasting quality products and solutions we provide. We understand that as Wilcon continues to expand, we must manage our resources responsibly while sharing this growth with our different stakeholders, internal and external, and make sure these partnerships create value for everyone. Over these four decades, we have promoted the growth of our business and in effect cultivated the development and success of our employees within the company.

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

15 LIFE ON LAND

| **Company Information**<br>Company details | |
|---|---|
| Name of Organization | Wilcon Depot (PSE: WLCON) |
| Location of Headquarters | No. 90 E. Rodriguez Jr. Avenue, Ugong Norte, Quezon City |
| Location of Operations | See list of locations in Appendix A |
| Report Boundary: Legal entities included in this report | Wilcon Depot, Inc. |
| Business Model<br>Source: https://edge.pse.com.ph/companyInformation/form.do?cmpy_id=665 | 2 retail formats – the depot store format and the home essentials store format, which are known under the trade names "Wilcon Depot" and "Wilcon Home Essentials", respectively. |
| Reporting Period | 31 December 2019 |
| Highest Ranking Person for this report | Lorraine Belo-Cincochan, President - CEO |

# UNDERSTANDING OUR SUSTAINABILITY CONTEXT AND IMPACTS

The Securities and Exchange Commission's sustainability reporting requirement among publicly listed companies is an opportunity for Wilcon to take stock of everything that we have done to deliver on our commitment and find ways to build our big ideas better. In 2019, we undertook a rigorous two-month materiality process, which now allows us to focus our energies and resources on a sustainability agenda that is strategic to the business, promotes its growth, manages impacts and minimizes risks, and contributes to sustainable development.

To identify those topics most relevant to Wilcon out of a universe of sustainability issues identified in the research, we analyzed them vis-à-vis the results of stakeholder engagement on Wilcon's overall strategic priorities, existing programs and initiatives, and investor queries regarding Wilcon's environmental, social and governance (ESG) agenda. The results of this analysis were presented to the senior management team for their inputs, validation, refinement, and final approval in December 2019. Further insights were provided by the CEO and COO in January 2020.

Step 1
Identify global issues, trends, risks affecting sustainability

Step 2
Understand ESG issues at the sector level

Step 3
Engage with stakeholders for relevance and prioritization

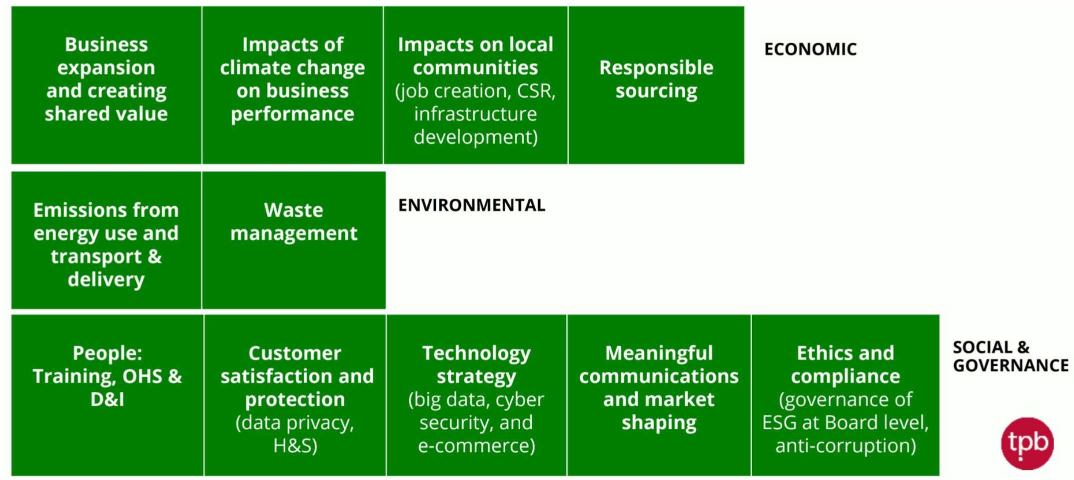
Step 4
Identify Wilcon's material sustainability topics

Being an industry leader, we wanted to have a more comprehensive view of the sustainability pressures and drivers that shape our business. To ensure this, we conducted a four-step materiality process that covered:

A desktop review of key global drivers, trends and risks identified by international development organizations, multilateral agencies, global sustainability surveys, and sustainability ratings agencies, as well as sector-specific sustainability issues, including benchmarking against the performance of three sustainability leaders in retail and real estate; and

Nine sets of stakeholder interviews, covering internal (permanent employees from different departments of the business and members of senior leadership/C-suite) and external stakeholders (suppliers of varying business size and nature of operations) in terms of their relevant issues with, impacts of, and expectations from Wilcon.

# Our Material ESG Topics and Management Actions




Wilcon's assessment process resulted in the above list of sustainability topics that are material to the business and where we create the most impact. All these present Wilcon with opportunities for better and long-term value creation. Conversely, we understand that they may pose risks to the business if we do not monitor and manage our performance on these issues.

Thus, our materiality process provided us with the opportunity to identify the necessary management actions to begin to address the risks and take advantage of the opportunities they present. These are:

- Monitor and analyze markets and macro data to successfully anticipate changes and sufficiently respond to any development on these material topics, while continuing to provide more and varied choices to our customers;
- Provide company leaders and managers with more opportunities to be exposed to the external environment concerning material ESG impacts, and receive proper training to use the information and knowledge in their decision-making during planning and day-to-day operations;
- Provide adequate support to the human resources department to be able to continuously recruit, train, and deploy excellent personnel;
- Strengthen relationships with a strong core of suppliers that can be relied on to deliver up-to-date, relevant, and specifications-compliant products cost-effectively; and
- Provide sufficient lead time in our construction projects.

We look forward to improving our understanding and responses as we further embed sustainability into our strategy and operations. Thus we commit to the following next steps for a fuller picture of our sustainability journey ahead:

- Include other stakeholder groups using existing touch points (e.g., customer management system) and separate engagements for a 360-degree view of our impacts, risks, and opportunities in time for the next report in 2021;
- Establish a regular materiality review every 2 to 3 years under the governance of senior management; and
- Develop internal capacity to apply learnings from the materiality assessment in areas of our business and begin to measure our performance on these material topics.

# OUR MATERIAL ESG AND KEY FINDINGS

## MATERIAL ESG TOPICS

| | | | |
|---|---|---|---|
| BUSINESS EXPANSION | Wilcon's economic growth relies on its ability to open new stores in strategic locations. This growth needs to create value not only for its shareholders but also for its employees, business partners, customers, and communities where we operate. | -Cost of construction and development<br>-Lack of qualified employees<br>-Lack of available contractors or construction personnel<br>-Securing government approvals, permits and licenses in a timely manner<br>-Significant competition from other more established businesses in new markets | -Increased profitability through new markets<br>-Growing preference for sustainable products<br>-Operational efficiencies and better use of resources like materials, energy, fuel, and water |
| CLIMATE CHANGE | Wilcon has to demonstrate its resilience in the face of risks from climate change | -Impacts on physical assets (e.g., flooding or construction delays from extreme weather), construction schedule, workforce productivity, reputation, and customer behavior and shopping seasonality, which affect our financial performance | -Ability to offer superior, more durable, more sustainable products that can withstand harsh weather conditions<br>-Position Wilcon as a partner in building and rebuilding<br>-Shape the market and educate them on the benefits of sustainable products |
| LOCAL COMMUNITIES | Wilcon's expansion into key fast-growing cities in areas outside Metro Manila creates jobs and stimulates infrastructure development and economic activities in these areas. | -Cultural differences can hamper acceptance of the brand and working relationship between store management and locally hired personnel<br>-Lack of acceptance from the communities in new store locations | -Local employment spurring economic growth in emerging cities<br>-Be recognized as an inclusive brand by the community through appropriate and meaningful marketing |
| RESPONSIBLE SOURCING | Wilcon must ensure the quality, safety, and sustainability of the products and solutions it offers its customers. Addressing sustainability risks in products requires working with its suppliers in promoting a transparent, fair, and responsible supply chain. | -Non-availability of products that meet evolving customer preferences and Wilcon's quality standards<br>-Inaccurate forecasting of trends in customer behavior and preference and to respond to them in a timely manner<br>-Unmanaged or unchecked increases in price of more sustainable products and make them unaffordable | -Sustainability as a growing customer preference<br>-Offer products that are suitable and relevant to the market's taste<br>-Collaborations on innovations with suppliers to cast a wider sphere of positive impact |

**LEGEND**

STAKEHOLDER VIEW — ESG RISKS — ESG OPPORTUNITIES

# OUR MATERIAL ESG AND KEY FINDINGS

## MATERIAL ESG TOPICS

### EMISSIONS FROM ENERGY USE AND TRANSPORT AND DELIVERY

Wilcon's growth translates to more impacts on the environment, specifically emissions resulting from greater energy use and consumption of fuel for transport and delivery of products, while relying on external providers.

-Non-availability of feasible/ reasonably-priced/financially
-sensible fossil-fuel substitutes

-Cost of technology, know-how and execution of efficiency promoting logistical processes and programs

-Use alternative power and fuel sources that are cost-effective in the long run

-Reduce carbon footprint

### WASTE MANAGEMENT

Wilcon must be able to manage the waste it generates as it grows, specifically how it contributes to packaging waste, pollution, and toxicity.

-Accelerated price increase of new technology that will improve waste management efficiency that will be prohibitive to use by businesses

-Human resource skills available at reasonable cost to implement

-Foster product innovation using waste as possible raw material


# OUR MATERIAL ESG AND KEY FINDINGS

## MATERIAL ESG TOPICS

| | | | |
|---|---|---|---|
| PEOPLE DEVELOPMENT | Wilcon must ensure the development and empowerment of its employees by providing them opportunities for professional growth and economic well-being and protecting their rights in the workplace, including occupational health and safety. | -Availability of trainable and skilled human resource<br>-Cost of training<br>-Cost of new technology | -Become the preferred employer for the incoming generation of workforce |
| CUSTOMER SATISFACTION AND PROTECTION | As customer preferences and buying patterns evolve, Wilcon must be able to continue to deliver superior quality products and solutions while providing excellent and reliable service. | -Reputational damage from threats to customer wellness and safety | -Leverage Wilcon's positioning for high quality customer shopping experience as differentiator |
| TECHNOLOGY STRATEGY | With big data shaping the growth of retail, Wilcon needs to ensure its ability to optimize its information technology systems to make operations more efficient and reach more customers while remaining proactive against potential systems failures and breaches of security. | -Reputational damage from data breaches and system failures<br>-Lags and operational delays from data breaches and system failures | -Market expansion without need to put up brick & mortar stores, decreasing capital outlay<br>-Requires less energy to operate and generates less waste<br>-Addresses possible shortfall in capable manpower |
| MEANINGFUL COMMUNICATION AND MARKET SHAPING | As industry leader, Wilcon is in a position to shape the industry and the market towards the adoption of more sustainable products, services, and business practices. | -Resistance from consumers to see value for money in sustainable products and services | -Address unmet needs through sustainable products and services<br>-Enter new customer segments |
| ETHICS AND COMPLIANCE | Increasing ESG regulation and greater expectations for business to contribute to sustainable development while ensuring value creation and long-term resilience require responsible leadership and adoption of sustainability at the Board level | -Subject to fines for noncompliance to future regulations on ESG governance | -Establish a governance structure and management approach towards sustainability<br>-Ability to better respond to investor queries |

# ECONOMIC DATA

| **Economic Performance**<br>Direct economic value generated and distributed ((in Php) | |
|---|---|
| Direct economic value generated (Revenue) | 24,938,844,778 |
| Direct economic value distributed | |
| Operating costs | 5,395,669,570 |
| B. Employee wages and benefits | 1,025,194,474 |
| C. Payments to suppliers, other operating costs | 24,860,597,137 |
| D. Dividends given to stockholders and interest payments to loan providers | 655,956,975 |
| E. Taxes given to government | 1,461,032,672 |
| F. Investments to community | 11,676,935 |

### Becoming the Preferred Partner: Our Management Approach

Wilcon's leadership in the home improvement and construction retail space is founded on its vision to become the preferred company in the industry for all its key stakeholders. We do this by differentiating our business, our product offerings, and our services through excellence, trustworthiness, and reliability.

We understand that we are in the business of offering innovative solutions. Thus we have a strong and exclusive lineup of quality, value-priced in-house brands, as well as renowned international and local brands that meet our customers' evolving needs. By being attuned and responsive to the accelerating changes in customer behavior and retail trends, we have revolutionized the home improvement and construction supply industry in the Philippines, taking it beyond "hardware-store" types to well-designed retail spaces and customer-centric business practices that enhance the customer shopping experience.

| No. 1 | 57 | 425 | 730,458 |
|---|---|---|---|
| Home improvement/ construction retail space | Stores nationwide | Suppliers | Members of Wilcon's loyalty & rewards program |

| **Three-year Growth Strategy (2017 - 2019) and Goals** | Baseline (2017) | 2018 | 2019 |
|---|---|---|---|
| Expand store network in fast growing cities, solidify presence in existing markets | 41 | 51 | 57 |
| Focus on continuous expansion of in-house exclusive brands | 44.6% | 46.9% | 49.5% |
| Continuous increase in comparable/same store sales | 6.0% | 8.0% | 5.2% |
| Consistent double digit net sales growth rate | 11.2% | 18.6% | 16.3% |

### Working with Sustainable Suppliers

Wilcon's business success is built on our continuing capacity to source and sell the appropriate mix of products that meet our stringent quality standards and satisfy customers' preferences. To help deliver our mission of sustainable homes and buildings, Wilcon proactively supports suppliers that have a sustainability agenda or sustainable products in their portfolio and promotes those that offer more eco-solutions to our customers in our marketing activities. We have dedicated store shelves for green products and regularly train our salespeople to help our customers select home improvement and construction supply solutions that deliver environment-friendly benefits, which has become a customer priority.

During our materiality assessment, we engaged with a diverse range of international and local suppliers of different sizes. We did this to begin the conversation on a sustainable procurement program to understand its potential impacts on them and develop an approach that will manage transition and create value for both Wilcon and its partners. We look forward to reporting on this material aspect of our operations in greater detail in our next report.


**Highlight: Committing to Responsible Business**

Our ability to deliver our financial growth target depends on responsible and ethical business practices. Corporate governance protects shareholder value and promotes transparency and accountability at the highest level of our business. They also protect our leadership position in the sector. In this light, the company has revised its Manual on Corporate Governance in accordance the SEC's mandate to submit a new manual in accordance with its Code of Corporate Governance for Publicly Listed Companies.

Similarly, we have a Code of Business Conduct and Ethics that guides Wilcon's directors, officers, and employees when dealing with our various stakeholders throughout the business. We have a zero-tolerance approach to bribery and corruption as reflected in our Anti-Bribery and Anti-Corruption Policy, which outlines in clear detail what constitutes bribery and corruption, how to raise concerns, monitoring and review systems including internal controls by the review committee, and the administration of penalties. The policy applies to all Wilcon employees and relevant third parties in all areas where we operate.

Wilcon also has a Related Party Transactions Charter and Committee to review and ensure proper oversight of all our material related-party transactions (RPT), which we define as RPTs that amount to 10% or higher of the company's total assets based on its latest audited financial statement. The committee promotes fairness, transparency, and independent reviews and audits, and ensures against conflicts of interest and misappropriation of resources, among others, to protect the long-term interest of our shareholders and the reputation of the company. The Committee consists of three independent directors and conducts an annual review of its performance.

| Environment Performance | |
|---|---|
| **Energy consumption within the organization (in kWh)** | |
| Energy consumption (renewable sources) | 1,514,227.66 |
| Energy consumption (electricity) | 54,709,692.84 |
| **Energy reduction of energy consumption (in kWh)** | |
| Energy reduction (electricity) | 1,514, 227.66 |
| **Air emission disclosures (in Tonnes $CO_2e$)** | |
| Scope 1 GHG emissions | 912.01 |
| Scope 2 GHG emissions | 38,964.24 |
| Total GHG emission | 39,876.24 |
| **Water consumption within the organization (in CBM)** | |
| Water withdrawal | 162,057 |
| Water consumption | 162,057 |
| Water recycled and reused | 0.00 |
| **Solid and hazardous waste generated (in kg)** | |
| Recyclable (papers & scraps) | 5,040 |
| Landfilled | Not collected in 2019 |
| Hazardous waste generated | 3,780 |
| Hazardous waste transported | Not collected in 2019 |
| **Environmental compliance** | |
| Monetary fines for non-compliance (Php) | 285,000 |
| No. of monetary sanctions for non-compliance | 0 |
| No. of cases resolved through dispute resolution mechanism | 0 |

Did you know?
Wilcon designed their buildings to maximize natural light, only turning on lights in the afternoon.

39,876.24

GHG Emission

Shift towards renewables: solar energy

Target: almost half of energy mix to come from solar

**Improving Environmental Performance: Our Management Approach**

Wilcon recognizes our growth and expansion targets translate to more impacts on the environment, specifically in terms of resource use, waste generation, and emissions from construction, operations and logistics. We have updated our mission and vision so that we can begin the process of developing an enterprise-wide environmental policy and formalizing the strategic environmental initiatives we have been undertaking over the years. This allows us to establish a baseline, begin monitoring and evaluating our performance, and eventually adopt and report on science-based targets.

Energy consumption and the resultant emissions from our operations are at the core of our environmental practices, with a strong focus on the use of renewable energy and battery technology in our branches nationwide. Partnerships with sustainable suppliers and market shaping are also critical steps to take so that we expand the reach of our impacts beyond the branches and enable more sustainable living for our customers.

Through a more deliberate environment agenda, we look forward to improving efficiencies in our operations for productivity and cost savings, taking advantage of opportunities in innovations in packaging and resource use, while addressing actual and potential negative impacts of our operations on our immediate environments and the planet. We commit to reporting further developments on this, including the training and development of employees as well as the governance of this important aspect of our business in the next report.

# ENVIRONMENT DATA

### Shaping the Market Towards Green Solutions

Customers are becoming more conscious about the impacts of their lifestyles. Wilcon has been steadily expanding the green products it offers on its shelves to address this demand. The following are some of the sustainability features we highlight to make it easy for our customers to build and live better for the planet.


- Water-saving fixtures: low flow, dual flush
- Energy-efficient lighting: lower consumption, more light, longer life
- Clean-air paint products: less polluting, no unpleasant smell
- Circular economy: wood from renewable forests, recycled materials

We also sponsor, participate in, and mount various events in partnership with architects and interior designers to promote sustainable solutions in construction and home improvement. These events allow us to share the latest trends, best practices, and innovative solutions on sustainable design and construction. We engage with these industry professionals regularly because they help promote and contribute to environment-friendly, low-impact living, not only among their clients but a broader public. A shift in customer consciousness also means that people look to architects and designers as experts who are able to translate their desire for a more sustainable life into an actual blueprint or plan. In line with this thrust, we supported the following events in 2019:

Green Architecture Advocacy Philippines' 16th Green Forum where GreenAP engaged business leaders and professionals from relevant industries as well as the general public to study and adopt sustainable practices in design, construction, operations, and maintenance;

Philippine School for Interior Design's HUGIS ATBP (Homes Using Geometrically Inspired Spaces for Alternative Types of Built Places) Exhibition, which showcased interior design solutions for alternative housing such as the use of materials that are eco-friendly, sustainable, natural, and indigenous; and

Philippine Institute of Interior Designers' Asia Interior Design Institute Association International Students Workshop, which gathered Asian interior design students and country professional representatives in a workshop that focused on solutions that challenge global, social, environmental and cultural status quos.

### Highlight: Working on Waste

We generate minimal waste in our stores and partner with local government units for the sorting of any solid waste materials we generate. We also have partner facilities to treat our hazardous waste such as broken bulbs and other waste like used oils. We have a take-back program with several suppliers so that they can recycle or repurpose inventory that do not meet our quality standards or get inadvertently damaged and rejected to prevent them from ending up in our landfills.

- Broken tiles are recycled as raw materials
- Rejected cement boards are sent back and turned into recycled input
- Paints are reprocessed to prevent obsolescence



### Highlight: Greening Our Branches

Our stores, because of their big formats, have intense energy requirements. To promote greater cost savings while minimizing our carbon footprint, Wilcon has started to roll out solar power solutions in 2016, including renewable energy into the energy mix of all our branches. We also use high-volume low-speed fans to minimize the use of air-conditioning while still making the branches comfortable for our customers and our staff. At the same time, our stores are designed to bring in as much natural light as possible and use forklifts that run on batteries rather than diesel. Below are the highlights of several in-store initiatives that make our operations more environment-friendly.

- 100% of branches to include solar power by 2023
- 5 branches with solar power systems
- 27 branches for installation of solar power systems by 2020

## Employee Data

| Employee data | Female | Male |
|---|---|---|
| Employees by gender | 1266 | 1426 |
| **Employee benefits (% who availed)** | **Female** | **Male** |
| SSS | 13.48% | 17.02% |
| PhilHealth | 1.15% | 0.63% |
| Pag-ibig | 15.02% | 20.01% |
| Parental leaves: | | |
| Maternity / Paternity Leave | 7.64% | 12.08 |
| Solo Parent | 96.43% | 3.57% |
| Magna Carta | 0.36% | |
| Vacation leaves | 39.28% | 46.98% |
| Sick leaves | 6.02% | 4.57% |
| Medical benefits (aside from PhilHealth) | 21.33 | 19.75 |
| Housing assistance (aside from Pag-ibig) | 0.00% | 0.00% |
| Retirement fund (aside from SSS) | 0.00% | 0.08% |
| Further education support | 0.00% | 0.00% |
| Company stocks option | 0.00% | 0.00% |
| Telecommuting | 0.00% | 0.00% |
| Flexible-working hours | 67.53% | 32.47% |
| **Employee training and development** | **Female** | **Male** |
| Total training hours provided | 80 | 56 |
| Ave. training hours provided | 11.42 | 11.2 |
| **Labor Management Relations** | | |
| % of employees covered in CBA | | 29% |
| Number of consultations conducted with employees concerning employee-related policies | | 4 |

**47%** Female employee

**53%** Male employee

**50:50** Female:Male Employee in Key Management Positions

8 DECENT WORK AND ECONOMIC GROWTH

**Developing Our People: Our Management Approach**

In this period of continuous expansion and ambitious targets, Wilcon is committed to creating an environment that respects the dignity of our employees, cultivates their knowledge and talent, and empowers them to be the best they can be through continuous career and development opportunities available to everyone year-round. We have a strong recruitment, selection, training, and deployment program with targets and metrics to address the pool of talent needed for our growth, including outsourced floor staff and promo-merchandisers at the stores.

Central to our vision for our employees is our compensation and benefits program and Work Life Integration Program, both of which protect and promote our employees' advancement, productivity, fair treatment, physical and mental health, safety, and well-being. Apart from statutory benefits, we also provide company-initiated benefits that are not required by law such as allowances and subsidies, different types of insurance as well as incentives. We do this because it is management's responsibility to ensure duty of care and dignity of person, and maintain a culture of compassion all throughout our operations.

Because we are a large company with a network of 57 branches nationwide as of 2019, it is important for employee development and well-being to be cascaded to all levels. Empowerment is key, especially down the line, and our Human Resources department works with operations managers at the branch level who are regularly trained in human resources principles and practices, where they have the power to make decisions on matters and/or grievances concerning the staff, customers, and suppliers, as well as incidents concerning occupational health and safety and ethical practices. We have voice mechanisms that allow for daily communication between individuals and across different functions, including a whistleblower policy and grievance mechanisms for our labor unions.

# SOCIAL DATA

| Workplace conditions, labor standards, and human rights | Female | Male |
|---|---|---|
| Safe Man-Hours | 136 | 205 |
| No. of work-related injuries* | 7 | 56 |
| No. of work-related fatalities | 0 | 0 |
| No. of work related ill-health | 0 | 0 |
| No. of safety drills | 392 | |
| **Labor Laws and Human Rights** | | |
| No. of legal actions or employee grievances involving forced or child labor | 0 | |
| Forced labor (y/n) | Y | |
| Child labor (y/n) | Y | |
| Human rights (y/n) | Y | |
| **Supply Chain Management** | **Does Wilcon consider the following when accrediting suppliers** | |
| Environmental Performance | Y | |
| Forced labor | Y | |
| Child labor | Y | |
| Human rights | Y | |
| Bribery and corruption | Y | |

*Minor injuries requiring basic first aid treatment only. 0 hospitalized or confined incidences

| 5.83% | 54% | 0 |
|---|---|---|
| Attrition | Covered by OHSAS | Employees from IP |

Did you know?

100% of store leadership and 95% enterprise-wide of management of Wilcon grew organically from the ranks.

### Highlight: Prioritizing Health and Safety

Wilcon invests in creating safe stores and working spaces. We understand that home improvement and construction supplies stores, with their large and bulky moveable items, machine-powered lifts, and constant foot traffic, can pose safety risks on our floor staff and customers. The following initiatives help us minimize hazards and prevent injuries at the branches:

A health and safety governance structure consisting of occupational health and safety officers and pollution officers;
Safety assessment for product displays and regular checkup on equipment and stocks for safety and maintenance;
Use of caution ropes and signages for warning zones;
Procedures for immediate action should accidents occur and incident reporting;
Personal protective equipment when constructing and installing solar panels; and
Review and requirement of safety policies among contractors.

At the corporate level, we have trained first aiders and a company doctor who is available for daily and monthly checkups. Our company's occupational health and safety manual is based on the Department of Labor and Employment's requirements. To minimize the stresses on our employees associated with the heavy traffic in the metropolis, we now offer a compressed workweek with flexible working hours. We also have a private lactation area for breastfeeding mothers in the workplace.



**Highlight: Learning Continuous Improvement**

Continuous training is available to all employees to provide them the opportunity to lead and excel in the workplace and remain enthusiastic about delivering superior solutions. We are proud of the fact that 100% of store leadership and 95% enterprise-wide of management grew organically from the ranks.

We identify and develop high-potential employees into future company leaders through structured training programs on leadership and management, soft and technical skills, sales, marketing, customer service skills, and the core values that are important to Wilcon. We have functional on-the-job learning as well as formal training sessions, including 23 technical training modules that our employees can access anytime using our e-learning platform.

We understand that labor contracting is a key risk in the fast-paced and competitive retail sector, as such we do not use contractual labor in our business. We do have outsourced manpower such as independent contractors hired on a per-need basis and promo-merchandisers, whom we include in our strategic training activities so that they are able to grow and upgrade their skills during their assignment at Wilcon, improving their chances at better job opportunities. These include regular meetings and talks with security and staff on the floor, education sessions on how to market products in collaboration with suppliers, and product orientations that focus not only on the features but also the benefits so that they can emphasize our products' value for money, especially those with environment-friendly features.

| Customer Management | |
|---|---|
| **Customer Satisfaction** | **Score** |
| Customer Survey | n/a |
| **Health & Safety** | **Quantity** |
| No. of substantiated complaints on products or services health and safety | 14 |
| No. of complaints addressed | 14 |
| **Marketing & Labeling** | **Quantity** |
| No. of substantiated complaints on marketing & labelling | 3 |
| No. of complaints addressed | 3 |
| **Customer Privacy** | **Quantity** |
| No. of substantiated complaints on customer privacy | 0 |
| No. of complaints addressed | 0 |
| No. of customers, users and account holders whose information is used for secondary purposes | 0 |
| **Data Security** | **Quantity** |
| No. of data breaches, including leaks, thefts and losses of data | 0 |

**Ensuring Customer Satisfaction and Service Excellence: Our Management Approach**

Customer behavior and preferences are shifting at an unprecedented pace, hastened by rapid technological innovations, growing environmental and social pressures, consolidation of competition, and increasing regulation. Our ability to maintain our status as industry leader and preferred partner depends on a strong commitment to deliver products and solutions of superior quality and provide excellent and reliable service to our customers consistently.

We have a strong track record of anticipating the needs of the market, and sourcing and developing products that meet these needs, allowing us to evolve over the past four decades. We were the first home improvement and construction supply store in the country to improve customer experience in our branches, departing from the traditional “hardware” type of stores and designing them to provide a comfortable atmosphere that enhances the shopping experience and to foster satisfaction and loyalty. Wilcon was also the first to proactively offer and highlight more sustainable products and solutions. In 2019, Wilcon launched its online shopping platform to cater to customer convenience and to provide a seamless shopping experience, integrating both our physical and digital presence. Such pioneering initiatives show that we are well-positioned to adapt to the changing times, and we expect this sustainability agenda to help us manage the transition better.

Innovation, customer satisfaction, and service excellence are the values that define our Customer Relationship Management (CRM) program. Our customers range from middle-income and high-income households to independent contractors and project developers. We have a CRM strategy with target , and monitoring and evaluation mechanisms. This includes a customer service platform available on our website, where customers can send queries, suggestions, comments or complaints.

Our recent rapid expansion nationwide demonstrates our ability to bring our products to different markets using innovative marketing strategies developed by an in-house marketing team. We have policies and procedures on advertising, marketing and communication that guide the campaigns and promotions of brands and products, our interactions with various media outlets, and collaborations with industry professionals, academe, and resource persons from relevant institutions. These policies and procedures seek to ensure integrity with every interaction. To further strengthen brand awareness and visibility as well as our reputation as pioneer and industry leader, we participate in national and regional exhibits and conventions on retail, construction, and home improvement.

# SOCIAL DATA

**Our Broad Range of Products: Fit For Every Need**

We have over 2000 brands and products across different product categories translating to 48,406 SKUs that make it easy and convenient for our customers to find their home improvement and construction needs under just one roof.




- Plumbing and sanitary wares (bath and shower mixers, bath fillers, faucets, shower, water systems, bathtubs, bidet, bowl, lavatory, pedestal, shower enclosure, urinal, water closet and other accessories)
- Hardware and tools products (door essentials, hand tools and hardware accessories, pipes, sundries, power tools and hand tools)
- Tiles/Flooring (locally made and imported tiles in various sizes and types such as ceramic, glass block, porcelain, and vinyl)
- Electrical and lighting (electrical accessories and supplies, lamps, wiring devices, LED and lights)
- Furniture, furnishings and houseware (furniture products found in the bedroom, dining, kitten, living room, office, and outdoor; decorative items, organizers, wall hang decors, curtains, and blinds)
- Paints (a wide range of paints for different surface types)
- Appliances (air coolers, air conditioners, electric fans, entertainment appliances, kitchen appliances, washing machine, and vacuum cleaner)
- Building materials (building decors and supplies, ceiling and wall, floor and roofing)

## Award-winning Customer Service

Our customers are well informed, know what they want, and prioritize speedy and convenient shopping and transactions. As such, we make sure our people on the floor are well trained and knowledgeable when it comes to all our products and services, including the latest design trends and consumer behavior so that they can be conversant, offering informed options and helping them find satisfactory solutions. We also work with our suppliers who extend customer support to help with installation and repairs.

To meet the increasing demand for faster, seamless, and more customer-oriented shopping, we use technology in various ways, allowing us to add value to the experience of our customers and industry partners. We have an online store for a selected range of products, mostly DIY items, decors, and basic household items with different payment options, a Wilcon Loyalty Mobile App that allows customers to earn, check, and convert points to rewards, and decentralized delivery centers for faster delivery and greater efficiency. We also offer Design Hub, a service available in all our depots, which allows customers to create 3D layouts of their desired interiors through a computer software along with a product list and cost estimates.

Across such platforms, we protect the data entrusted to us by our customers, backed by our policy on data privacy and information systems that manage and maintain all customer information (whether collected electronically and physically), and ensure that only authorized Wilcon personnel have access to these data.

For industry professionals, we have the ABCDE Lounge, launched in 2015, which Architects, Builders, Contractors, Designers, and Engineers can use to meet with their clients and fellow professionals, conceptualize design and construction projects, and save time by allowing them to immediately browse through Wilcon's extensive product catalog and compare their options with ease. The lounge is designed to be both comfortable, professional, and strategically located. At present the lounge can be found in 36 Wilcon branches and has received positive feedback from its users. We expect to increase the number of ABCDE Lounges to 45 by 2020.

Given these customer-centered initiatives, we were recognized by the Federation of Asia-Pacific Retailers Association (FAPRA) with the International Award for Excellence in Customer Service in 2019. An international body, FAPRA recognizes individuals, companies, and associations for their outstanding achievements in retail, specifically in five categories: most innovative retail concept, best marketing campaign, green retailer, best effort in retail employee training and customer service excellence.

### Relationship with the community

Wilcon extends financial assistance to Eastern Regional Organization: for Planning and Human Settlements (EAROPH) Philippines with their efforts to promote a better understanding of Human Settlements and encourage excellence in planning, development and management to improve the quality of life and sustainability of human settlements in their 2nd National Convention.



i-Love Foundation: *WDI donated 3 Million worth of Wilcon items and Gift Certificates*

Donation to St. John Bosco Church Restroom
*WDI and Grohe donated 110K worth of products for St. John Don Bosco Church for their restroom project*

Donation for Wilcon Foundation
*WDI donated PhP500K to Wilcon Foundation during 5th Wilcon Cup*

Truck Donation
*WDI donated a Truck to Quezon City Hall DPOS compound*

**Highlight: Improving Local Communities**

As a home improvement and construction supplies retailer, our entry into provincial centers nationwide can mean that the local economies in these areas are primed for greater activity, which can indirectly lead to more infrastructure and more job opportunities. Our stakeholders agree that our expansion has the potential to decentralize growth and development and bring it outside the traditional urban centers.

At the same time, our stakeholders shared with us the growing need for more skilled workers in construction, which can have an impact on our ability to expand and fulfill our target number of branches. Similarly, any manpower shortage that our suppliers experience can impact on their ability to deliver products that we need for our catalog.

Currently Wilcon channels its community development programs through the Wilcon Builders' Foundation to help address the decreasing availability of skilled construction workforce. We have a technical school in Montalban with three strategic programs accredited by the government's Technical Education and Skills Development Authority (TESDA), specifically on masonry, carpentry, and electrical installation and maintenance. Because we target indigent communities, we offer scholarships that require no bonds and then provide them with opportunities for on-the-job training with our suppliers. In 2019, 92% of our 373 graduates received TESDA certification and 69% are already employed.

"I feel very blessed to have a decent job with a well-known company," said Orly Recosana, who was able to receive free training in 2018 and was later absorbed by Wilcon because he demonstrated hard work, discipline, values, and an eagerness to learn. Prior to taking Wilcon's training course, Orly would be in and out of jobs back in Ormoc, Leyte. Other technical-vocational graduates find work in leading corporations like Mark Gyver Bulatao who is now a technician with a telecommunications service provider.

# Appendix A: List of operations location

| | Branch Name | Branch | Location |
|---|---|---|---|
| 1 | ALABANG | D01 | 8003 REAL ST., ALABANG ZAPOTE RD., ALMANZA UNO, LAS PIÑAS CITY |
| 2 | BALINTAWAK | D02 | 1274 EDSA A. SAMSON, QUEZON CITY |
| 3 | LIBIS | D03 | 90 E. RODRIGUEZ JR. AVE., BRGY. UGONG NORTE, DISTRICT 3, QUEZON CITY |
| 4 | MAKATI | D05 | 2212 CHINO ROCES AVE., SAN LORENZO, MAKATI CITY |
| 5 | QUIRINO | D06 | L119 C-1 MINDANAO AVE., TALIPAPA, QUEZON CITY |
| 6 | FILINVEST | D07 | L1 B29 ALABANG ZAPOTE RD. COR. BRIDGEWAY AVE., FILINVEST COPORATE CITY, ALABANG, MUNTINLUPA CITY |
| 7 | MEXICO | D08 | GAPAN-OLONGAPO ROAD, LAGUNDI, MEXICO, PAMPANGA |
| 8 | SUCAT | D09 | DR. A. SANTOS AVENUE, SAN DIONISIO, PARAÑAQUE CITY |
| 9 | FAIRVIEW | D10 | 16 COMMONWEALTH AVE., BRGY. COMMONWEALTH, QUEZON CITY |
| 10 | TARLAC | D11 | MC ARTHUR HIGHWAY, SAN RAFAEL, TARLAC CITY |
| 11 | DAU | D12 | MC ARTHUR HI-WAY, DAU, MABALACAT, PAMPANGA |
| 12 | SAN FERNANDO | D15 | FREEWAY STRIP OLONGAPO-GAPAN ROAD, DOLORES CITY OF SAN FERNANDO, PAMPANGA |
| 13 | CALAMBA | D16 | NATIONAL ROAD, BRGY. HALANG, CALAMBA CITY, LAGUNA |
| 14 | BATANGAS | D17 | LOT 2687-A DIVERSION ROAD, ALANGILAN, BATANGAS CITY |
| 15 | TAYTAY | D18 | MANILA EAST ROAD, BRGY. SAN JUAN, TAYTAY, RIZAL |
| 16 | ANTIPOLO | D19 | MARCOS HIGHWAY, BRGY. MAYAMOT, ANTIPOLO CITY, RIZAL |
| 17 | BALIUAG | D20 | KM. 48 DRT HIGHWAY, BRGY. TARCAN, BALIWAG, BULACAN |
| 18 | DASMARIÑAS | D21 | GOVERNOR'S DRIVE, PALIPARAN 1, DASMARIÑAS CITY, CAVITE |
| 19 | LAOAG | D22 | AIRPORT ROAD, BRGY. 50, BUTTONG, LAOAG CITY |
| 20 | MANDAUE | D23 | U.N. AVENUE, UMAPAD, MANDAUE CITY, CEBU |
| 21 | TALISAY | D24 | LOT 2359, LAWA-AN II, TALISAY CITY, CEBU |
| 22 | KAWIT | D25 | CENTENNIAL ROAD, MAGDALO, PUTOL, KAWIT, CAVITE |
| 23 | VALENZUELA | D26 | 292 MC ARTHUR HI-WAY, DALANDANAN, VALENZUELA CITY |
| 24 | SAN PABLO | D27 | DOÑA MARIA VILLAGE PHASE 2, BRGY. BAGONG BAYAN, SAN PABLO CITY, LAGUNA |
| 25 | VILLASIS | D28 | NATIONAL HIGHWAY, BRGY. BACAG, VILLASIS, PANGASINAN |
| 26 | QUEZON AVE. | D29 | 24 QUEZON AVE., LOURDES, QUEZON CITY |
| 27 | DAVAO | D30 | MC ARTHUR HIGHWAY, MATINA, DAVAO CITY |
| 28 | IT HUB | D31 | PASONG TAMO EXTENSION, BRGY. BANGKAL, MAKATI CITY |
| 29 | MOLINO | D32 | BACOOR BOULEVARD, BRGY. MAMBOG IV, CITY OF BACOOR |
| 30 | STA. ROSA | D33 | TAGAYTAY ROAD, BRGY. PULONG, STA. CRUZ, STA. ROSA, LAGUNA |
| 31 | CDO | D34 | ZONE 5 , BRGY. CUGMAN, CAGAYAN DE ORO CITY |
| 32 | BACOLOD | D35 | MATAB-ANG TALISAY CITY, NEGROS OCCIDENTAL |
| 33 | BUTUAN | D36 | BRGY. BAAN, KM. 3, BUTUAN CITY |
| 34 | CABANATUAN | D37 | LOT 2040-C-3-B & Lot 2040-C-4, SUMACAB ESTE, MAHARLIKA HIGHWAY, PUROK 6, SUMACAB ESTE, CABANATUAN CITY |
| 35 | ILOILO | D38 | NORTH DIVERSION ROAD, BRGY. DUNGON-B, JARO, ILOILO CITY |

# Appendix A: List of operations location (cont.)

| | Branch Name | Branch | Location |
|---|---|---|---|
| 36 | TACLOBAN | D39 | PUROK SANTOL, BRGY 80 MARASBARAS, TACLOBAN CITY, LEYTE |
| 37 | SILANG | D40 | PUROK 9, BRGY. LALAAN II, SILANG, CAVITE CITY |
| 38 | ZAMBOANGA | D41 | LOT 2235C I-A BOALAN, ZAMBOANGA CITY |
| 39 | NAGA | D42 | BRGY. DEL ROSARIO, NAGA CITY |
| 40 | LIPA | D43 | BRGY. BUGTONG NA PULO, LIPA BATANGAS |
| 41 | PANACAN, DAVAO | D45 | BUNAWAN: BRGY. PANACAN VALLE VERDE, DAVAO CITY |
| 42 | TAYABAS | D46 | BRGY. ISABANG, TAYABAS QUEZON |
| 43 | GEN. SAN. | D47 | PALEN, BRGY. LABANGAL, GENERAL SANTOS CITY |
| 44 | PUERTO PRINCESA | D48 | BRGY. SICSICAN, PUERTO PRINCESA CITY, PALAWAN |
| 45 | GENERAL TRIAS | D49 | BRGY. SAN FRANCISCO, GENERAL TRIAS CITY, CAVITE |
| 46 | STA. BARBARA, ILOILO | D50 | LOT 506B BRGY. BOLONG OESTE, STA. BARBARA, ILOILO |
| 47 | OPOL, MISAMIS ORIENTAL | D51 | ZONE 2A BRGY. BARRA, OPOL, MISAMIS ORIENTAL |
| 48 | STO. TOMAS, BATANGAS | D52 | MAHARLIKA HIGHWAY, BRGY. STA. ANASTACIA, STO. TOMAS, BATANGAS |
| 49 | ANTIPOLO II | D53 | LOT 2-A BRGY. SAN ISIDRO CIRCUMFERENTIAL RD. ANTIPOLO CITY |
| 50 | IGUIG, CAGAYAN | D56 | BRGY. BAYO, IGUIG, CAGAYAN VALLEY RD. |
| 51 | ALIMALL | HO2 | LG003/LG004 LOWER GRD FLR. ALIMALL II, ARANETA CENTER, SOCORRO, D3, CUBAO, QUEZON CITY |
| 52 | WCC | HO3 | ANCHOR 1, 121 VISAYAS AVE., BAHAY TORO, QUEZON CITY |
| 53 | STA. MESA | HO5 | 425 PIÑA AVE., BRGY. 585 ZONE 057, SAMPALOC, MANILA |
| 54 | MINDANAO AVE. | HO6 | L-5 B-7 MINDANAO AVE., BAHAY TORO I, QUEZON CITY |
| 55 | MUÑOZ | HO7 | 1066 EDSA, BAHAY TORO, QUEZON CITY |
| 56 | PASAY | HO8 | 16 C JOSE ST. COR. EDSA, MALIBAY, PASAY CITY |
| 57 | ILOILO | HO9 | GROUND FLOOR UNIT A25-A26, FESTIVE WALK MALL, ILOILO BUSINESS PARK, MANDURRIAO , ILOILO CITY |

WILCON DEPOT

# 2019

ANNUAL REPORT