COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	3	1	5	8	7	7

COMPANY NAME

METRO RETAIL STORES GROUP, INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

VICSAL BUILDING, CORNER OF C.D. SENO AND W.O. SENO STREETS, GUIZO, NORTH RECLAMATION AREA, MANDAUE CITY, CEBU

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@metroretail.com.ph	**(032) 236-8390**	**N/A**

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
20	**First Friday of May**	**December 31**

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Joselito G. Orense	**joel.orense@metroretail.com.ph**	**(032) 236-7793**	**N/A**

CONTACT PERSON's ADDRESS

Vicsal bldg., Corner of C.D.Seno & W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City, Cebu

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

Securities and Exchange Commission
Electronic Records Management Division
11 APR 10 2018
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS
I C T D

SEC FORM 17-A, *AS AMENDED*

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended .... **31 December 2017**

2. SEC Identification Number .... **CS200315877** 3. BIR Tax Identification No. **226-527-915**

4. Exact name of issuer as specified in its charter ....**METRO RETAIL STORES GROUP, INC.**

5. **Cebu , Philippines** 6. (SEC Use Only)
Province, Country or other jurisdiction of incorporation or organization
Industry Classification Code:

7. **Vicsal Building, corner of C.D. Seno and W.O. Seno Sts. Guizo, North Reclamation Area, Mandaue City, Cebu 6014**
Address of principal office Postal Code

8. **(032) 236-8390**
Issuer's telephone number, including area code

9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock 3,429,375,000	

11. Are any or all of these securities listed on a Stock Exchange.

Yes [X] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

The Philippine Stock Exchange Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [X] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [X]   No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in “Annex B”).

Shares Held by Non-Affiliates as of December 31, 2017	**Market Value per Share as of February 9, 2018**	**Total Market Value**
897,190,200	3.50	3,140,165,700

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission. **Not applicable**

Yes [ ]   No [ ]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

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PART I BUSINESS AND GENERAL INFORMATION

Item 1 Business

(A) Business Development

We are one of the leading retail companies in the Philippines and in the Visayas, which is one of the fastest-growing geographic regions in the Philippines. We opened our first store in Cebu City in 1982 and have steadily grown to become a market leader in the Visayas. After focusing on steady growth during the first two decades of our operations, we started to open stores outside of the Visayas, beginning with the opening of our department store and supermarket in Legazpi City in 2001, followed by the opening of our department store and supermarket in Lucena City in 2003 and by the opening of our department store and supermarket at Metro Market! Market! at the Bonifacio Global City in Taguig in Metro Manila in 2004.

As of end of 2017, we had a total of eleven (11) stores in Metro Manila and twelve (12) stores in other parts of Luzon with a total net selling space of approximately 117,639 sqm.

In addition, we have a total of 29 stores in the Visayas, with a total net selling space of approximately 111,351 sqm. This brings our total store count in the Philippines to fifty-two (52), with a total net selling space of 228,989 sqm.

(B) Business of Issuer

1. Description of registrant

a. Principal products and Services

The Company operates through the following retail formats and are located in strategic locations in densely populated cities or municipalities:

Supermarket

Our supermarket business is operated under two brand names “Metro Supermarket” and “Metro Fresh N Easy,” which we refer to collectively herein as “Metro Supermarket.” The Metro Fresh N Easy brand name is used for our smaller scale supermarkets serving as neighborhood stores.

Metro Supermarket opened its first supermarket, Gaisano Metro Department Store and Supermarket, in Cebu City in 1982 and currently operates 26 supermarkets in the Visayas, Metro Manila, and the rest of Luzon. As of end of 2017, Metro Supermarket had a total net selling space of approximately 44,647 sqm and an average net selling space of 1,717 sqm.

Department store

We started our retail business with the opening of Gaisano Metro Department Store and Supermarket in Colon, Cebu City in 1982. Our department stores are now operated under the “Metro Department Store” brand name.

As of 2017, we had 12 department stores in 10 cities throughout the country, with a total net selling space of 127,138 sqm and an average net selling space per store of 10,595 sqm.

Hypermarket

Our hypermarket retail format is operated under the name “Super Metro.” Our hypermarkets are a hybrid between our supermarkets and department stores, providing a broad assortment of basic everyday products at value prices. A cornerstone of our plans for future expansion, we opened our first hypermarket in 2011 and we currently operate 14 hypermarkets in 12 cities throughout the country with a total net selling space of 57,205 sqm and an average net selling space of 4,086 sqm. Our hypermarkets are supported by the same distribution centers as our supermarkets and department stores.

Target Market

Metro Supermarket primarily targets low to middle-income consumers who live within walking distance of its stores and those who use personal or public transport to shop. Metro Supermarket offers suitable car parking facilities to accommodate customers who travel to stores by car and also locates its stores in areas close to main transportation hubs. Its customers include individuals, institutional customers and resellers. Metro Supermarket offers negotiated discount prices to institutional customers, such as schools and businesses that make bulk purchases for special occasions. Metro Supermarket also sells to resellers, including small to medium sari-sari stores, restaurants, bakeries, convenience and drug stores. We are not dependent on any single customer in our supermarket business.

Metro Department Store targets customers who live within walking distance of its stores and those who use personal or public transport to shop. Metro Department Store offers suitable car parking facilities to accommodate customers who travel to stores by car and also locates its stores in areas close to main transportation hubs. Metro Department Store primarily targets lower- to middle-income consumers and strategically adjusts its product mix within different stores to account for variances in local income levels and customer demographics. We are not dependent on any single customer in our department store business.

Due to the nature of its operations, Super Metro hypermarkets target end consumers, including retail customers and wholesalers, in locations beyond the reach of typical modern supermarkets and department stores. Therefore, Super Metro seeks to ensure that its stores are centrally located in its target regions. Super Metro targets primarily middle-income and upper lower-income retail customers. Super Metro hypermarkets also sell to resellers, including small to medium sari-sari stores, restaurants, bakeries, convenience and drug stores. We are not dependent on any single customer in our hypermarket business.

Metro Rewards Card – In 2006, the Company launched the Metro Rewards Card (MRC), a loyalty card allowing its members to redeem accrued points across all stores and all formats. The MRC is a powerful tool in knowing and increasing loyalty among our customers.

Foreign Sales

The Company has no record of foreign sales as it is not exporting any of its merchandise abroad.

b. Distribution methods

We have a total of 9 warehouses nationwide (3 in Luzon and 6 in Cebu) which serve as a storage and cross docking facility for department store and supermarket items. All the warehouses are currently in-house managed. Each warehouse is equipped with racking, material handling equipment, and enabled by ORACLE warehouse management system. Our processes are compliant with Good Warehouse and Distribution Practices. Our people are professionals certified to run the facility. We also provide other services such as piece picking, kitting and assembly as requested by merchandising and store operations. Our operations are safe and compliant with the best practices on warehousing and distribution.

We have company-owned fleet of delivery trucks servicing the stores, designed to cover 60% of our fleet capacity nationwide. Our in-house trucks are GPS enabled. The balance 40% of our fleet requirements is covered by third party truck providers.

We use major shipping lines to transport products from one warehouse to another between Luzon and Visayas.

Our key strategic initiatives are as follows in order to:

1. Support our aggressive network expansion, we will put in place one Distribution Center (“DC”) in Luzon to cover all Luzon stores and one DC in Cebu to cover Visayas stores. The go-live of these DC’s will be dependent on the land conversion, warehouse construction and necessary fittings installations. The DC will cover both storage and cross docking operations for dry, chilled, cold and fresh operations;

2. Support our outright model and rise of direct importation, we will obtain all necessary regulatory licenses and permits to import, warehouse, transport and distribute our foreign goods assortment via the import company that we use. Furthermore we will demonstrate improved velocity in terms of releasing from the Bureau of Customs, warehouse receipt and distribution of these imported items to the stores;

3. Support our aggressive introduction of private brands and labels, we will obtain all necessary regulatory licenses and permits to procure, warehouse, transport and distribute via MRSGI;

4. Support our campaign on End to End Supply Chain Food Safety promise to our consumers- we are going to put in place a food safety program from suppliers (Good Agricultural and

Manufacturing Practices), to warehouses & transport (Good Warehouse and Distribution Practices) unto our stores (Good Retail Practices) consistent with the internal standards of Code Alimentaire. We will continue to pass the HACCP (Hazard analysis and critical control points) surveillance audit for Metro Alabang and endeavor to obtain the appropriate HACCP accreditation for Metro Market Market and Metro Ayala;

5. Support our sales target through product availability, we will further demonstrate breakthrough performance with regards to our ability to service store orders on time, in full, right quality and no documentation errors. We will support our institutional customers with the fit-for-purpose distribution model that they will require;

6. Support our profit targets through putting in place productivity programs to be able to handle more products with lesser resources required, and drive cost saving initiatives in controllable operating expenses of the operations. Furthermore, we will ensure inventory record accuracy and minimize shrinkages in our operations.

c. New products and services

The Company has no new products or services outside of its core business of department store, hypermarket, supermarket and ancillary businesses (pharmacy, bakery, gourmet, food avenue, and leasing).

d. Competition

The Philippine food retail market has become increasingly competitive in recent years. We compete with both traditional stores and modern retail operators, including hypermarkets, supermarkets, convenience stores and local grocery stores, on the basis of location, shopping experience, presentation, price, supply chain and additional benefits such as loyalty programs. SM Retail, Robinsons Retail Group, Puregold Price Club and Rustan's Group of Companies are among the top supermarket competitors in terms of retail sales value. Each of these retail chains has an established presence in the Philippines and continues to open supermarkets in the same cities, and often in the same neighborhoods, where we have opened or intend to open our supermarkets. International brands such as Landers, with local partners operating stores in larger metro areas have recently begun to present a new source of competition.

We believe that Metro Supermarket's differentiators are our prices and our product assortment. We believe that we are able to provide all of the basic goods that our consumers expect while continuing to be competitive in pricing in every region that we operate in. Additionally, our strength in product assortment, particularly in nonfood products with higher margins, help us compete with other retailers of food products. We believe that our prices and assortment, coupled with a best-in-class customer shopping experience, set us apart from our competitors.

The Philippine department store industry is dominated by a few top operators. SM Retail, Robinsons Retail Group, Gaisano Grand and Gaisano Capital are among the top competitors in terms of retail sales value. Metro Department Store competes with major department store operators on the basis of location, product assortment, brand recognition, store image, presentation, price, understanding of market demand and value-added customer services. Each of the competing department store chains has an established presence in the Philippines and is continuing to open department stores in the same cities, and often the same neighborhoods, where Metro Department Store has opened or intends to open its department stores.

Super Metro competes primarily with traditional stores and other modern retail operators, including other hypermarkets, supermarkets, convenience stores and local grocery stores. Puregold Price Club, SM Retail, Rustan's Group of Companies, and Prince Warehouse Club are among the top hypermarket competitors in terms of retail sales value. These competitors, like Super Metro, are associated with larger brands that have an established presence in the Philippines.

We believe that Super Metro's key competitive strength is its ability to rely on our group's deep experience in providing retail services to the lower- to middle-income consumers. Cost saving measures implemented in our existing operations are easily transplanted to the Super Metro platform, enabling us to maintain our status as a price leader in the hypermarket market. Additionally, our focus on basic everyday necessities further reduces our costs by allowing us to source more products from fewer suppliers.

e. Suppliers

With over 1,700 regular suppliers in 2017, Metro Supermarket's supplier base is diversified between local suppliers such as Universal Robina Corporation and San Miguel Pure Foods Company, Inc. and multinational corporations such as Nestle Philippines Inc., and Proctor and Gamble. Metro Supermarket's top five suppliers together accounted for 22% of its net sales in 2017. For smaller local suppliers, Metro Supermarket seeks to partner with the best suppliers in each region in which it operates. We believe that our supermarket business as a whole is not dependent on any single supplier.

Metro Department Store maintains close relationships with its concessionaires and suppliers for its outright sales to ensure that it is able to continuously offer a broad range of merchandise. The concessionaires that carry competitive brands with a complete assortment of merchandise are generally placed in areas visually supported by graphics and unique fixtures, while suppliers of direct-sale merchandise are used to complete our product assortment and provide product differentiation.

With over 2,400 regular suppliers in 2017, Metro Department Store's supplier base includes suppliers such as Fil-Pacific Apparel Corporation, Authentic American Apparel Inc., Camel Appliances Manufacturing Corp. and Electrolux Philippines Inc. Metro Department Store's top five suppliers together accounted for approximately 7.0% of its net sales in 2017. We believe that our department store business as a whole is not dependent on any single supplier.

Super Metro's supplier base is the same as that of our supermarkets and department stores. Nestle Philippines, Inc., Unilever Philippines, Inc., Emperador Distillers Inc., and Universal Robina Corporation and Dranix Distributors, Inc. are among the biggest suppliers of our hypermarket retail format. Super Metro's top five suppliers together accounted for approximately 18% of its net sales in 2017. We believe that our hypermarket business as a whole is not dependent on any single supplier.

f. Dependent upon single/few supplier/customer

MRSGI is not dependent on any single supplier. The Company's top five suppliers accounted for only 14% of its net sales in 2017. The Company does not rely on a single or a few customers for its retail business.

g. Transaction with related parties

In the ordinary course of our business, we engage in transactions with related parties and affiliates. On March 16, 2016, MRSGI has adopted its Policy on Related-Party Transactions to ensure that these transactions are entered into at arm's length on terms no less favourable than terms available to any unconnected third party under the same or similar circumstances.

We have the following major transactions with related parties:

- We entered into lease agreements with Vicsal Development Corporation ("VDC") for the Company's store space and warehouses. As part of the spin-off of the retail business to Metro Retail Stores Group, the land and structures which used to be owned by VDC remained with the parent company. Rent expenses followed benchmarks based on market guidance from an independent party adviser.

- We have short-term non-interest bearing payables/receivables from VDC in the normal course of business pertaining to intercompany recovery of expenses and trade-related transactions.

- In 2016, we entered into a service agreement with VDC for VDC to provide legal and operations strategy services to the Company.

- In the normal course of business, we ordinarily purchase goods and services from our related parties with the following nature of transactions:
    - Purchases of imported goods and store and office equipment from Cornerstone Diversified Goods Trading, Inc.
    - Concession purchases from Beneluxe Trading Corporation, which engages in the watch and jewelry business.
    - The use of logistical services provided by Cargo Bayan Inc. and Bayan Movers Logistics, Inc.
    - Travel ticketing and booking services from Grand Holidays, Inc.
    - Supply of goods and services to malls operated by Pacific Malls Corp.

- We have entered into lease arrangements for store space with our related parties, including Beneluxe Trading Corporation and Wealth Development Bank Corp.
- We are parties to perpetual trademark licensing agreements with our affiliates, Metro Value Ventures, Inc. and VDC, for a nominal fee.
- We have cash placements and bank accounts with Wealth Deveolpment Bank Corporation which earn interest based on prevailing market interest rates.

h. Trademarks/Tradenames

Effective August 1, 2014, we had perpetually licensed from Metro Value Ventures, Inc., a related party, the use of the following registered trade names or trademarks and devices used to identify our stores, including “Metro and Device”, “Metro Gaisano”, “Metro Ayala”, “Metro Market Market”, “Super Metro Gaisano”, “Metro Fresh ‘n Easy”, “Metro Pharmacy”, “Metro Legazpi”, “Metro Lucena”, “Express Mart by Metro”, “Metro Wholesale Mart”, “Metro Gourmet”, “Metro Tropical Delights”, “Metro Market”, “Tita Gwapa Metro Supertinda” and “Metro Hi-Per.” Effective August 1, 2014, we also perpetually licensed from Metro Value Ventures, Inc. the use of the following trade names or trademarks and devices, which are registered or covered by pending applications for registration, for: “Blue Camp”, “Red Bears”, “Nicole”, “Junior Shop”, “Young Teens”, “Kiddies”, “Blue Camp & Device”, “Young Teens Collection & Device”, “Cozy”, “McKenzie & Jones”, “Soft Impressions”, “Firenze”, “Metro Living”, “Regal Comfort”, “Main Course”, “Metropolitan”, “Ms’tique”, “Swiss Precision”, “Stylized Casadei”, “MA.CO”, “Follie”, “Mei Wei”, “South Sea”, “Pure Soft”, “Pure Max”, “Pure Joy”, “Lakas”, “West Coast”, “Best Harvest”, “Q Premium Cebu’s Best Lechon & Device”, “Q Premium”, “Q Premium Carcar’s Best Chicharon”, “West Coast Ice”, “Savers Select”, “M Copies”, “Chum Girls”, “Mirabella”, “Cover Girl”, “Natural Clothing”, “Le Chateau”, “Eddy & Emmy”, “Metro Café”, “Nautilus”, “Christian Ferre”, “Nina Botticelli”, “Marquise”, “Vicenza Silver Collection” and “Metro Ware.” We pay Metro Value Ventures, Inc. an annual fee of P10,000.00 per trade name or trademark per year or a total of P 700,000.00 as consideration for the full and complete use of the foregoing trade names and trademarks, which fee may be adjusted upon the mutual consent of both parties.

As of August 1, 2014, we had also perpetually licensed the use of the registered trade names or trademarks and their devices for “Suisse Cottage”, “Karen Kay”, “Street Code”, “Roaster Chef Grill” and “Fiesta sa Sugbo Restaurant” from Vicsal Development Corporation. We pay Vicsal Development Corporation an annual fee of P 10,000.00 per trade name or trademark per year or a total of P50,000.00 as consideration for the full and complete use of the foregoing trade names and trademarks, which fee may be adjusted upon the mutual consent of both parties.

i. Government approvals

The Company has obtained, applied for, or is in the process of applying or renewing all material permits and licenses from national and local government units and other government units required to conduct its business. The Company expects to obtain these permits and licenses in the ordinary course.

j. Effect of existing governmental regulations

In the conduct of its operations, the Company is subject to the following laws and regulations: a) The Retail Trade Liberalization Act; b) The Philippine Competition Act; c) The Food, Drug and Cosmetics Act; d) The Consumer Act; e) The Meat Inspection Code; f) The Price Act; g) The Food Safety Act; h) The Comprehensive Dangerous Drugs Act; i) The Pharmacy Law; j) The Generics Act; and k) Philippine Labor Laws; (l) Expanded Senior Citizen Act of 2010; (m) Intellectual Property Code of the Philippines; (n) Articles on Quasi-Delicts of the Civil Code; and (o) Other pertinent laws.

k. Cost and effect of compliance and environmental laws

The Company is subject to various laws relating to environmental matters. In particular, the Company is required to obtain an Environmental Compliance Certificate (ECC) and/or Certificate of No Coverage (CNC) during the construction and development of commercial establishments such as malls, supermarkets and public markets, fast food and restaurants. The ECC is required when the total store area (including parking) exceeds 10,000 sqm. Where the total store area is equal to or less than 10,000 sqm, the operators of commercial establishments may obtain a CNC pursuant to Presidential Decree No. 1586.

The Company has obtained a CNC for its Metro Supermarket (Canduman) building. For other existing stores, the Company is not subject to the requirement of ECC and/or CNC since these stores are located on lands or buildings which are not owned by the Company.

In addition to the foregoing, the Company is also subject to Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), The Clean Air Act of 1999 (Republic Act No. 8749), and the Philippine Clean Water Act of 2004 (Republic Act No. 9275).

l. Employees

The following table sets out the number of our employees as of December 31, 2017.

Store Operation	7,672
Warehouse Operation	852
Corporate	804
Total	**9,328**

We believe that we have a good relationship with our employees. We have always placed a high value on training and retention, as demonstrated by the fact that approximately 25% of our regular employees have been with the Company for at least 10 years.

m. Risks Related to Our Business

We may face increased competition from other retail companies in the Philippines.

The retail industry in the Philippines is highly competitive. The intensity of the competition in the Philippine retail industry varies from region to region, but Metro Manila is generally considered to be the most competitive market in the Philippines. The Province of Cebu and Metro Manila are two of our largest markets in terms of net sales. We compete principally with national and international retail chains in the Philippines, such as Robinson’s Supermarket and Robinson’s Department Store, SM Department Store and SM Supermarket, Puregold, Rustan’s and Mercury Drug, among others. We also compete with retail stores operated by members of the broader Gaisano family. Each of these competitors competes with us on the basis of product selection, product quality, acquisition or development of new brands, customer service, price, store location or a combination of these factors. We anticipate competition from new market entrants and joint partnerships between national and international operators.

In addition, some of our competitors are also aggressively expanding their number of stores or their product offerings. Some of these competitors may have been in business longer or may have greater financial, distribution or marketing resources than us and may be able to devote greater resources to sourcing, promoting and selling their products. There can be no assurance that we will be able to compete successfully against current competitors or new entrants. Additionally, while we have a location advantage in certain underpenetrated regions of the Philippines, this advantage may decrease as our competitors expand or new entrants enter such regions. As competition in certain areas intensifies or competitors open stores within close proximity to our stores, our results of operations may be negatively impacted through a loss of sales, reductions in margins from competitive price changes or greater operating costs.

Competitive pressures, including those arising in connection with our expansion strategy, may have an adverse effect on our business, financial condition and results of operations.

Our future store openings may not be successful, and our existing stores may not be able to continue to benefit from the current favorable retail environment.

A significant part of our expansion strategy entails the opening of new stores in suitable locations in various areas of the Philippines, including in areas where we do not currently have a presence. There can be no assurance that we will be able to identify and procure suitable sites for our new stores. As of end of 2017, we had twelve (12) stores in third-party malls. There can be no assurance that these companies will continue to grow at a rate that is consistent with our planned rate of growth. In addition, there can be no assurance that we will continue to be able to obtain "anchor tenant" status or spaces in new malls or township projects, on terms acceptable to us or at all. Generally, because of its ability to draw more customers to a particular shopping center, an anchor tenant has more flexibility in negotiating the terms of its lease contract. Due to the increased competition for desirable store sites, we may not be able to lease appropriate real estate for our new store locations, on terms and conditions acceptable to us or at all.

There is also no assurance that our new stores will be successful or profitable. While we initially focused our business in the Visayas, we have gradually expanded into other regions. Expansion into new geographical areas will also expose us to additional operational, logistical and other risks. We may find it difficult to obtain regulatory or local government approvals for our new stores in these areas due to differences in local requirements and processes. We may also experience difficulty in building our "Metro Supermarket" and other brand names in these new areas. Our proposed expansion will also place increased demands on our managerial, operational, financial and administrative resources. We may, for example, experience supply, distribution, transportation or inventory management difficulties due to our lack of familiarity with the suppliers, distribution network, third-party vendors and transportation systems in these new geographical areas. Any difficulties we experience with respect to developing our business operations in new geographical areas may materially and adversely affect our business, financial condition and results of operations.

In addition, there can be no assurance that our existing stores will be able to operate on a profitable basis if the current retail environment becomes less favorable to us. The surrounding environment of our existing stores may also change in terms of consumer demographics, or in terms of store mix, as different businesses move in or out of the surrounding areas. There can be no assurance that we will have the flexibility to move our existing store locations or to modify our existing stores in response to changes in the surrounding environment and to changes in market and consumer preferences. If we fail to predict and respond to changes in the retail environment, our business, financial condition and results of operation may be materially and adversely affected.

We are exposed to inventory risks.

Outright sales accounted for over 70% of our net sales for the year ended December 31, 2016 and 2017. Our focus on outright sales exposes us to increased inventory risk, which includes inventory losses due to obsolescence, theft, pilferage, spoilage, and other damage. For products sourced for outright sales, we bear all risks and costs of inventory management, including shrinkage losses due to a discrepancy between our inventory based on a physical count and the amounts generated by our inventory system. If we fail to properly manage our inventory in relation to outright sales, we may suffer lower inventory turnover, which could have an adverse effect on our business, financial condition and results of operations.

The success of our business depends in part on our ability to develop and maintain good relationships with our current and future outright sales suppliers and concessionaires.

We derive approximately 98.8% of our revenue in 2017 from outright sales and sales of concession products, and our success depends on our ability to retain existing suppliers and concessionaires, and attract new suppliers and concessionaires on terms and conditions favorable to us. The sourcing of our products is dependent, in part, on our relationships with our suppliers. We have long-standing working relationships with a broad range of national and multinational suppliers across all of our retail formats. If we are unable to maintain these relationships, or if we lose suppliers for any reason, we may not be able to continue to source products at competitive prices that both meet our standards and appeal to customers. Our five largest suppliers accounted for approximately 16% and 14% of our net sales in 2016 and 2017, respectively. The loss of any one of these major suppliers would have an adverse effect on our sales.

We obtain deals, discounts, and rebates from suppliers, which allow us to maintain our competitive pricing. Should changes occur in market conditions or our competitive position, we may not be able to maintain or negotiate adequate support, which could have an adverse effect on our business, financial condition and results of operations.

If we are unable to maintain good relationships with our existing suppliers and concessionaires, or if we are unable to develop and maintain new supplier and concessionaire relationships, we will be unable to carry merchandise and products that are in demand and can generate profit for us. Furthermore, if any of our outright sales suppliers or concessionaires changes its distribution methods, we may experience a disruption in our product supply. As a result, our market positioning, image and reputation may be adversely affected, and our revenue and profitability may be impaired.

We rely significantly on distributors, service providers and the distribution networks of our multinational suppliers for our logistics requirements.

We rely significantly on distributors, third-party service providers and the distribution networks of our multinational suppliers for transportation, warehousing and delivery of products to our stores. The majority of our merchandise is delivered to our distribution centers from our suppliers by third-party service providers. Any deterioration in the relationships between distributors and third-party service providers or other changes relating to these parties, including changes in supply and distribution chains, could have an adverse effect on our business, financial condition and results of operations.

In addition, there can be no assurance that we will be able to effectively coordinate our logistics strategy to the degree necessary for the realization of our growth plans. As we continue to expand, we will need to ensure that we are able to secure efficient distributors and service providers for our stores to be opened in new locations.

We may experience difficulty in implementing our growth strategy.

Our growth depends on the execution of our strategy to continue establishing and successfully operating stores in new locations in the Philippines. There are a number of factors affecting our ability to implement our growth strategy, including, among others:

- favorable economic conditions and regulatory environment;
- our ability to identify suitable sites for store locations;
- our ability to lease appropriate real estate for store locations;
- our ability to bear the increase in logistics costs when regional expansion occurs;
- our ability to open new stores in a timely manner;
- our ability to introduce new brands to the market;
- our ability to continue to attract customers to our stores;
- our ability to maintain the scale and stability of our information technology systems to support our current operations and continuous business growth;
- the hiring, training and retention of skilled store personnel;
- the identification and relocation of experienced store management personnel;
- the effective management of inventory to meet the needs of our stores on a timely basis;
- the availability of sufficient levels of cash flow or necessary financing to support our expansion; and
- our ability to successfully address competitive merchandising, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.

If we fail to successfully implement our growth strategy due to the absence of, or our inability to carry out, any of the above mentioned factors, or otherwise, our business, financial condition and results of operations may be materially and adversely affected.

In addition, if we are unable to successfully manage the potential difficulties associated with store growth, we may not be able to capture the scale efficiencies that we expect from expansion. If we are unable to continue to capture scale efficiencies, improve our systems, continue our cost discipline and enhance our merchandise offerings, we may not be able to achieve our goals with respect to operating margins. Furthermore, if we do not adequately refine and improve our various ordering, tracking and allocation systems, we may not be able to increase sales or reduce inventory shrinkage, which may also cause our operating margins to stagnate or decline.

We lease all of our store premises and we may not be able to continue to renew these leases or to enter into new leases in favorable locations on acceptable terms and conditions.

As of 2017, we leased all of our net selling space and all of our distribution centers. Approximately 75% of our sites are leased from related parties and 25% are leased from third parties. There is no assurance that we will be able to renew our leases on acceptable terms and conditions or at all upon their expiry. Leases of store premises in large shopping centers may not be available for extension because landlords may decide to change tenants for better commercial arrangements. There is no assurance that we will be able to enter into such new agreements with third parties on terms and conditions that are acceptable to us or at all, and our failure to do so may materially and adversely affect our business, financial condition and results of operations.

Moreover, if rent prices increase significantly throughout the Philippines, or in a particular region, it may cease to be economical to lease stores and we may have to discontinue operations at some of our stores. Any inability to renew leases as they expire or acquire new leases in other favorable locations and sites on acceptable terms and conditions, termination of the existing leases, or revision of the terms and conditions of leases to our detriment may have an adverse effect on our business, financial condition and results of operations. Further, a number of our landlords are normally granted the right to terminate the leases for cause prior to their expiration. In the event that any of our leases are terminated for any reason prior to their expiration, we will need to either close our operations at such locations or relocate to alternative premises. Relocation of any of our operations may cause disruptions to our business and may require significant expenditure, and we cannot assure that we will be able to find suitable premises on acceptable terms and conditions or at all in a timely manner.

Product liability claims in respect of defective goods sold in our stores and food safety and food-borne illness concerns could adversely affect our reputation and our financial prospects.

Our business involves an inherent risk of product liability, product recall, adverse publicity and exposure to public liability claims. We do not currently have any product liability insurance and will therefore be subject to the full amount of any product liability we may incur. Although each of our concessionaires and suppliers provides us with a written indemnity covering the full extent of any third-party liability we incur through their operations and sales in our stores, there is no assurance that we will be successful in obtaining such indemnity payments or that the indemnity payments will fully cover all of our costs associated with the original liability. Furthermore, under the Consumer Act, we, as a seller, distributor or importer, may be subject to sanctions for goods not in conformity with applicable consumer product quality or safety standards. If we are found responsible for damage caused by defective goods sold in our stores, the reputation of our stores may be adversely affected. This could lead to erosion of consumer confidence in our brands and a subsequent reduction in sales. Such an event would be likely to have an adverse effect upon our business, financial condition, results of operations and prospects.

Preparation, packaging, transportation, storage and sale of fresh and freshly prepared food products and non-food products entail the inherent risk of product contamination, deterioration or defect, which could potentially lead to product recalls, liability claims and adverse publicity. Food and non-food products may contain contaminants that could, in certain cases, cause illness, injury or death. Any shipment or sale of contaminated, deteriorated or defective products may be grounds for a product liability claim or product recall. The risks of product liability claims or product recall obligations are particularly relevant in the context of our sales of freshly prepared food products. Although our suppliers bear the risk of product liability claims, we could incur adverse publicity through our association with such claims, which could have an adverse effect on our business, financial condition and results of operations.

As a means of fulfilling some of our labor requirements, a significant portion of our workforce is outsourced through third-party manpower agencies. Outsourcing carries with it certain inherent risks including potential litigation from the employees of our third-party manpower service providers who may claim an employer-employee relationship with us; and the risk that the current arrangements we currently have in place are later on found by the Department of Labor and Employment to be "labor-only contracting" which would have the consequence of effectively making us the employer of the relevant employees and thus, obliging us to extend to the relevant employees the same salaries and benefits we extend to our regular employees, which could have a significant impact on our labor costs. As the principal in the outsourcing arrangement, we can also be held jointly and severally liable with our third-party manpower service providers to the latter's employees for unpaid wages for work performed under their respective contracts, or for any violation by our manpower service providers of the provisions of the Labor Code.

<u>We are party to a number of related party transactions.</u>

Certain companies controlled by the Vicsal Group have significant commercial transactions with us, including leases for store spaces and purchases of goods, services and concession activities.

Such interdependence may mean that any material adverse changes in the operations or financial condition of the companies which are controlled by or under common control of the Metro Gaisano Family could adversely affect our results of operations.

We expect that we will continue to enter into transactions with companies directly or indirectly controlled by or associated with the Metro Gaisano Family. These transactions may involve potential conflicts of interest which could be detrimental to us or our shareholders. Conflicts of interest may also arise between the Metro Gaisano Family and us in a number of other areas relating to our businesses, including:

- major business combinations involving us;
- plans to develop our respective businesses; and
- business opportunities that may be attractive to both the Metro Gaisano Family and us.

The Company has a number of related party transactions that have been entered into on an arm's length basis. However, we have no assurance if the BIR will view these transactions as arm's length on the basis of its Transfer Pricing Regulations.

We can provide no assurance that our level of related party transactions will not have an adverse effect on our business or results of operations.

<u>Our business and operations are dependent upon key executives.</u>

Our key executives and members of management have greatly contributed to our success with their experience, knowledge, business relationships and expertise. If we are unable to fill any vacant key executive or management positions with qualified candidates, our business, operating efficiency and financial performance may be adversely affected.

Item 2 Legal Proceedings

As of December 31, 2017, neither the Company nor any of its properties is engaged in or a subject of any material litigation, claims or arbitration, including bankruptcy, receivership or similar proceedings, either as plaintiff or defendant, which could be expected to have a material effect on our financial position and we are not aware of any facts likely to give rise to any proceedings which would materially and adversely affect our business or operations.

Item 3 Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the year covered by this report.

PART II OPERATIONAL AND FINANCIAL INFORMATION

Item 4 Market for Issuer's Common Equity and Related Stockholder Matters

(A) Principal Market or Markets Where the Registrant’s Common Equity is Traded

The Company's common stock is listed in the Philippine Stock Exchange.

The following table shows the high and low prices (in Php) of the Company’s shares in the Philippine Stock Exchange for the year 2015 and for the first quarter of 2018, since the Company’s listing in November 2015:

		Low	High
November - December	2015	3.63	4.49
January – March (Q1)	2016	2.90	4.05
April- June (Q2)	2016	3.70	4.25
July-September (Q3)	2016	4.04	6.00
October – December (Q4)	2016	3.51	5.61
January –March (Q1)	2017	3.56	4.48
April – June (Q2)	2017	3.56	4.95
July – September (Q3)	2017	3.78	5.30
October – December (Q4)	2017	3.79	4.30
January – March (Q1)	2018	3.23	3.95

On March 28, 2018 the Company’s shares closed at Php 3.39 per share.

(B) Holders

The number of shareholders of record as of March 28, 2018 was twenty one (21). Common shares outstanding as of March 28, 2018 were 3,429,375,000.

List of Top 20 Stockholders of Record as of March 28, 2018

Name of Stockholder	Number of Shares	Percentage to Total Outstanding
Vicsal Development Corporation	2,489,800,000	72.60%
PCD Nominee Corp. (Filipino)	745,765,110	21.90%
PCD Nominee Corp. (Non-Filipino)	168,838,912	4.77%
Valueshop Stores, Inc.	24,801,489	0.72%
Juan G. Yu or John Peter C. Yu	150,000	0
Stephen T. Teo &/or Teresita R. Teo	10,000	0
Asuncion, Victor Jayo	5,000	0
Legaspi, Virgilio C.	1,000	0
Lampa, Arvin C.	1,000	0
Duñgo, Elpidio S.	1,000	0
Bagasin, Danilo G.	1,000	0
Valencia, Jesus San Luis	300	0
Herrera, Joselito C.	100	0
Au, Owen Nathaniel S. AU ITF: Li Marcus	78	0
Gaisano, Frank S.	2	0
Gaisano, Edward S.	2	0
Gaisano, Jack S.	2	0

Ang, Margaret G.	2	0
Parayno Jr., Guillermo L.	1	0
Jacinto, Ricardo Nicanor N.	1	0
Emmanuel, Arthur	2	0
Total	3,429,375,000	

(C) Dividends

Dividend Policy

Under Section 3 Article VIII of the Amended By-Laws, dividends shall be declared and paid out of the unrestricted retained earnings, which shall be payable in cash, property or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

On April 13, 2015, our Board of Directors approved and adopted an annual dividend payment ratio of approximately 20% of our net income after tax for the preceding fiscal year, payable in cash, property or shares, subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends, including but not limited to undertaking major projects and developments which require substantial cash expenditures, or restrictions due to loan covenants.

The Board may, at any time, modify such dividend payout ratio taking into consideration various factors including: the level of our cash earnings, return on equity and retained earnings; our results for, and our financial condition at the end of, the year in respect of which the dividend is to be paid and its expected financial performance; the projected levels of capital expenditure and other investment plans; restrictions of payment of dividends that may be imposed on us by any of our financing arrangements and current and prospective debt service requirements; and such other factors as the Board deems appropriate.

Dividend History

The tables below set out the dividends declared during 2015, 2016, 2017, and 2018:

Cash Dividend

Year	Amount Declared	Dividend Per Share	Recorded Date	Payment Date
2015	P650,000,000.00	P0.2575	July 10, 2015	September 18, 2015 December 18, 2015
2016	P154,321,875.00	P0.045	April 4, 2016	April 20, 2016
2017	P171,468,750.00	P0.05	April 3, 2017	May 2, 2017
2018	P205,762,500.00	P0.06	April 13, 2018	May 2, 2018

(D) Restriction that Limits the Payment of Dividends on Common Shares

None

(E) Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction.

None

Item 5 Management's Discussion and Analysis or Plan of Operation

Results of Operations

The year ended December 31, 2017 compared with the year ended December 31, 2016

Revenue

Net sales

For the year ended December 31, 2017, our net sales were ₱35,015.7 million, an increase of 1.8% compared to ₱34,410.9 million for the year ended December 31, 2016. The increase in net sales was primarily due to the opening of a new hypermarket and a new supermarket. The Company has a total of 52 stores as of December 31, 2017 versus 50 stores as of December 31, 2016. Same store sales growth was -0.7% in 2017 as compared to 2.8% in 2016 due to lesser clearance sales events and rationalization of sales to resellers which were not profitable.

Rental income

For the year ended December 31, 2017, our rental income was ₱299.9 million, an increase of 0.5% compared to ₱298.4 million for the year ended December 31, 2016. The increase in rental income was primarily due to the opening of two new stores, which led to an increase in net leasable space.

Interest and other income

For the year ended December 31, 2017, our interest and other income was ₱138.0 million, an increase of 0.7% compared to ₱137.1 million for the year ended December 31, 2016. The increase in interest and other income was primarily due to an increase in foreign currency gains resulting from the movements of the market exchange rates.

Cost of sales

For the year ended December 31, 2017, our cost of sales was ₱27,443.4 million, a decrease of 0.1% compared to ₱27,476.2 million for the year ended December 31, 2016. Margins have improved in 2017 compared to 2016 due to a well-executed margin enhancement plan that included among others, negotiations with suppliers, improvement of share to business of outright sales, lesser clearance sale events, and rationalization of sales to resellers.

Operating expenses

For the year ended December 31, 2017, our operating expenses were ₱6,596.9 million, an increase of 5.9% compared to ₱6,227.0 million for the year ended December 31, 2016. The increase in operating expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. In addition, nonrecurring expenses were incurred in 2017 amounting to ₱88.4 million resulting from the planned closure of an unprofitable store in the first quarter of 2018.

Finance costs

For the year ended December 31, 2017, our finance costs were ₱17.6 million, a decrease of 22.8% compared to ₱22.8 million for the year ended December 31, 2016. The decrease in finance costs is due to the payment of total outstanding loan of ₱950M as of December 31, 2015 in March 2016. The company had minimal loans for working capital in 2017 and had nil loans outstanding as of the end of December 2017.

Provision for income tax

For the year ended December 31, 2017, our provision for income tax was ₱418.8 million, an increase of 26.5% compared to ₱331.0 million for the year ended December 31, 2016. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2017, our net income was ₱977.0 million, an increase of 23.7% compared to ₱789.5 million for the year ended December 31, 2016.

The year ended December 31, 2016 compared with the year ended December 31, 2015

Revenue

Net sales

For the year ended December 31, 2016, our net sales were ₱34,410.9 million, an increase of 6.5% compared to ₱32,304.5 million for the year ended December 2015. The increase in net sales was largely a result of opening of two new department stores, a new supermarket and a new hypermarket. The Company has a total of 50 stores as of December 31, 2016 versus 46 stores as of December 31, 2015. Same store sales growth was 2.8% in 2016 compared to 9.4% in 2015.

Rental Income

For the year ended December 31, 2016, our rental income was ₱298.4 million, an increase of 48.4% compared to ₱201.1 million for the year ended December 31, 2015. The increase in rental income was primarily due to the opening of four new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of certain concession sales from percentage of revenue to fixed or percentage to revenue rent leases.

Interest and other income

For the year ended December 31, 2016, our interest and other income was ₱137.1 million, an increase of 80.2% compared to ₱76.1 million for the year ended December 31, 2015. The increase in interest and other income was primarily due to the increase in cash balances of bank accounts maintained by the Company for our working capital requirements and interest income from short term investments and cash equivalents arising from the proceeds of the initial public offering which happened later part of 2015.

Cost of sales

For the year ended December 31, 2016, our cost of sales was ₱27,476.2 million, an increase of 6.6% compared to ₱25,774.5 million for the year ended December 31, 2015 which is generally in line with the 6.5% increase in net sales.

Operating expenses

For the year ended December 31, 2016, our operating expenses were ₱6,227.0 million, an increase of 9.4% compared to ₱5,689.6 million for the year ended December 31, 2015. The increase was primarily due to an increase in salaries and wages, rent expenses, overhead expenses and depreciation expenses resulting from the opening of new stores.

Finance costs

For the year ended December 31, 2016, our finance costs were ₱22.8 million, a decrease of 36.8% compared to ₱36.1 million for the year ended December 31, 2015 after full payment of loans was made in March 2016.

Provision for income tax

For the year ended December 31, 2016, our provision for income tax was ₱331.0 million, an increase of 2.5% compared to ₱322.8 million for the year ended December 31, 2015. The increase in provision for income tax was primarily due to the increase in income before tax.

Net income

As a result of the foregoing, for the year ended December 31, 2016, our net income was ₱789.5 million, an increase of 4.1% compared to ₱758.6 million for year ended December 31, 2015.

The year ended December 31, 2015 compared with the year ended December 31, 2014

Revenue

Net sales

For the year ended December 31, 2015, our net sales were ₱32,304.5 million, an increase of 13.9% compared to ₱28,356.9 million for the year ended December 31, 2014. The increase in net sales was primarily due to the increase of same store sales of 9.4% and the opening of two new hypermarkets and one new supermarket. The Company has a total of 46 stores as of December 31, 2015 versus 43 stores as of December 31, 2014. Same store sales growth was 9.4% in 2015 as compared to -1.2% in 2014.

Rental income

For the year ended December 31, 2015, our rental income was ₱201.1 million, an increase of 125.7% compared to ₱89.1 million for the year ended December 31, 2014. The increase in rental income was primarily due to the opening of three new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of percentage of revenue to fixed rent leases.

Interest and other income

For the year ended December 31, 2015, our interest and other income was ₱76.1 million, a decrease of 20.4% compared to ₱95.6 million for the year ended December 31, 2014. Scrap sales in 2015 amounted to ₱14.6 million, representing a decrease of 64.0% compared to ₱40.6 million in 2014.

Cost of sales

For the year ended December 31, 2015, our cost of sales was ₱25,774.5 million, an increase of 15.1% compared to ₱22,393.2 million for the year ended December 31, 2014, which was generally in line with the growth of net sales of 13.9%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

Operating expenses

For the year ended December 31, 2015, our operating expenses were ₱5,689.6 million, an increase of 9.1% compared to ₱5,213.3 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. The increase of 9.1% of operating expenses is lower than the increase in our net sales of 13.9% due to the economic benefits derived from increase in scale of our operations.

Finance costs

For the year ended December 31, 2015, our finance costs were ₱36.1 million, a decrease of 9.8% compared to ₱40.0 million for the year ended December 31, 2014. The decrease in finance costs was primarily due to decrease in our average loans outstanding.

Provision for income tax

For the year ended December 31, 2015, our provision for income tax was ₱322.8 million, an increase of 21.3% compared to ₱266.2 million for the year ended December 31, 2014. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2015, our net income was ₱758.6 million, an increase of 20.6% compared to ₱628.9 million for the year ended December 31, 2014.

Financial Position

The year ended December 31, 2017 compared with the year ended December 31, 2016

As of December 31, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,613.8 million and ₱4,788.1 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investments, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were ₱9,605.9 million and ₱8,973.7 million, respectively. The increase of 7.0% of current assets is significantly due to the increase of cash and cash equivalents, short-term investments and receivables. As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱955.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱185.5 million. As of December 31, 2016, short-term investment totaled ₱525.0 million, receivables totaled ₱846.3 million, merchandise inventories totaled ₱4,014.7 million and other current assets totaled ₱280.7 million.

As of December 31, 2017, cash and cash equivalents amounted to ₱3,707.2 million, an increase of 12.1% from ₱3,307.0 million as of December 31, 2016. The increase were mainly attributable to ₱1,335.9 million generated from operating activities and were offset by the increase of short-term investments by ₱230.2 million, addition to property and equipment amounting to ₱446.3 million and dividends payment amounting to ₱171.5 million.

Current Liabilities

Total current liabilities as of December 31, 2017 and December 31, 2016 were ₱3,992.1 million and ₱4,185.6 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled ₱3,773.4 million and ₱3,940.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

The year ended December 31, 2016 compared with the year ended December 31, 2015

As of December 31, 2016 and December 31, 2015, our net current assets, or the difference between total current assets and total current liabilities, were ₱4,788.1 million and ₱5,059.5 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2016 and December 31, 2015 were ₱8,973.7 million and ₱9,576.5 million, respectively. The decrease of 6.3% of current assets is significantly due to the conversion of ₱1,700.0 million short-term investments to cash equivalent and the decrease in other current assets. As of December 31, 2016, short-term investment totaled ₱525.0 million, and other current assets totaled ₱280.7 million. As of December 31, 2015, short-term investments totaled ₱2,225.0 million, and other current assets totaled ₱481.6 million.

As of December 31, 2016, cash and cash equivalents amounted to ₱3,307.0 million, an increase of 40.7% from ₱2,351.0 million as of December 31, 2015. The increase were mainly attributable to the conversion of ₱1,700.0 million short-term investments to cash equivalent and ₱1,459.8 million generated from operating activities and were offset by the payment of ₱950.0 million of the outstanding loans payable, acquisition of ₱831.7 million property and equipment and dividend payment of ₱154.3 million.

Current Liabilities

Total current liabilities as of December 31, 2016 and December 31, 2015 were ₱4,185.6 million and ₱4,517.0 million, respectively. As of December 31, 2016 and December 31, 2015, trade and other payables totaled ₱3,940.9 million and ₱3,374.2 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to nil and ₱950.0 million as of December 31, 2016 and December 31, 2015, respectively.

The year ended December 31, 2015 compared with the year ended December 31, 2014

As of December 31, 2015 and 2014, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,059.6 million and ₱1,832.3 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2015 and 2014 were ₱9,576.5 million and ₱6,288.0 million, respectively. The increase of 52.3% of current assets is significantly due to the increase in working capital arising from the proceeds of the initial public offering. As of December 31, 2015, merchandise inventories totaled ₱3,679.8 million, cash and cash equivalents totaled ₱2,351.0 million and short-term investments totaled ₱2,225.0 million. As of December 31, 2014, merchandise inventories comprised the bulk of our current assets, totaling ₱3,168.2 million, followed by cash, totaling ₱1,625.7 million.

As of December 31, 2015, the cash balance totaled to ₱2,351.0 million, an increase of 44.6% from ₱1,625.7 million. The increase were mainly attributable to issuance of capital stock by way of an initial public offering of ₱3,360.9 million and increase in trade and other payables of ₱43.1 million offset by acquisition of ₱635.6 million property and equipment, net payment of ₱150.0 million of the outstanding loans payable as of December 31, 2014 and payment of cash dividends amounting to ₱650.0 million declared in 2015.

Current Liabilities

Our current liabilities consist of trade and other payables and loans payable and income tax payable. Total current liabilities as of December 31, 2015 and 2014 were ₱4,517.0 million and ₱4,455.7 million, respectively. As of December 31, 2015 and 2014, trade and other payables totaled ₱3,374.2 million and ₱3,284.0 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Loans payable in short term working capital loans amounted to ₱950.0 million and ₱1,100.0 million as of December 31, 2015 and 2014, respectively. There were no long-term loans from financial institutions in 2015 and 2014.

Cash Flows

The following table sets out information from our statements of cash flows for the periods indicated.

	For the years ended December 31,		
	2017	**2016**	**2015**
		(₱ million)	
Net cash flows from operating activities	₱1,335.9	₱1,459.8	₱1,020.7
Net cash flows from (used in) investing activities	(749.4)	653.4	(2,864.4)
Net cash flows from (used in) financing activities	(202.6)	(1,172.5)	2,560.9
Net increase in cash	₱383.9	₱940.7	₱717.2

Net cash flows from operating activities

Our net cash flows generated from operating activities for the year ended December 31, 2017 was ₱1,335.9 million, which comprised operating income before working capital changes of ₱1,991.1 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in receivables and decrease in trade and other payables.

Our net cash flows generated from operating activities for the year ended December 31, 2016 was ₱1,459.8 million, which comprised operating income before working capital changes of ₱1,580.1 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in merchandise inventories of ₱334.9 million primarily due to the opening of new stores. The increase in trade and other payables of ₱441.6 million also significantly contributed to the change in working capital requirements.

Our net cash flows from operating activities for the year ended December 31, 2015 was ₱1,020.7 million, which is comprised of operating income before working capital changes of ₱1,529.7 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in merchandise inventories amounting to ₱511.6 million primarily due to opening of new stores and decrease in receivables of ₱32.2 million. The increase in trade and other payables of ₱43.1 million also significantly contributed to the change in working capital requirements.

Net cash flows from (used in) investing activities

For the year ended December 31, 2017, net cash flows used in investing activities was ₱749.4 million, which resulted from the increase in short-term investments by ₱230.2 million, additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱446.3 million and increase in other non-current assets by ₱72.9 million.

For the year ended December 31, 2016, net cash flows generated from investing activities was ₱653.4 million, which resulted from the decrease in short-term investment by ₱1,700.0 million and partially offset by the additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱831.7 million and increase in other non-current assets by ₱214.9 million.

For the year ended December 31, 2015, net cash flows used in investing activities was ₱2,864.4 million, which is significantly due to the proceeds of the initial public offering placed under short-term investments amounting ₱2,225.0 million and additions to property and equipment for fit outs of new stores amounting to ₱635.6 million.

Net cash flows from (used in) financing activities

Net cash flows used in financing activities was ₱202.6 million for the year ended December 31, 2017, primarily as a result of payments of finance lease liability amounting to ₱31.1 million and payment of cash dividends amounting to ₱171.5 million declared on March 16, 2017.

Net cash flows used in financing activities was ₱1,172.5 million for the year ended December 31, 2016, primarily as a result of bank loan payments amounting to ₱950.0 million and payment of cash dividends amounting to ₱154.3 million declared on March 16, 2016.

Net cash flows from financing activities was ₱2,560.9 million for the year ended December 31, 2015, primarily due to net proceeds of ₱3,360.9 million from the issuance of capital stock by way of an initial public offering, bank loan payments of ₱1,600.0 million, offset by ₱1,450.0 million loan proceeds and payment of cash dividends amounting to ₱650.0 million declared in 2015.

Indebtedness

We have nil outstanding loans as of December 31, 2017 and December 31, 2016. Short-term loans payable were obtained to support working capital requirements.

Key Performance Indicators

	For the years ended December 31,		
	2017	**2016**	**2015**
The Company			
Net Sales[1] (₱ millions)	35,015.7	34,410.9	32,304.5
Same store sales growth[2] (%)	(0.7)	2.8	9.4
Number of Stores	52	50	46
Net selling area[3] (sqm)	228,989	224,835	201,820

Notes:
(1) Net sales are gross sales, net of discounts and returns.
(2) Same store sales growth is the comparisons of net sales between two periods generated by the relevant stores. The stores that are included in comparisons are those that have operated for at least 12 months preceding the beginning of the last month of the reporting period. The comparison for each store takes into account net sales by that store during the same period it was in operation in both the reporting period and the period of comparison. The net sales of all the relevant stores in the relevant period are then aggregated and compared.
(3) Net selling space is the area of the store where items are displayed, excluding the backroom and warehouse.

Quantitative and qualitative disclosure of market risk

Our principal financial instruments consist of cash and receivables. The main purpose of our financial instruments is to fund our operations and capital expenditures. We do not actively engage in the trading of financial assets for speculative purposes nor do we write options. The main risks arising from our financial instruments are liquidity risk and credit risk. See Note 24 of the notes to our audited financial statements.

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Our exposure to liquidity risk relates primarily to our short-term credit obligations. We seek to manage our liquidity profile by maintaining cash at a certain level and ensuring the availability of ample unused revolving credit facilities from banks as back-up liquidity that will enable us to finance our general and administrative expenses and operations. We maintain a level of cash deemed sufficient to finance operations. As part of our liquidity risk management, we regularly evaluate our projected and actual cash flows.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Our receivables are actively monitored by our collection department to avoid significant concentrations of credit risk. We manage the level of credit risk we accept through comprehensive credit risk policies setting out the assessment and determination of what constitutes appropriate credit risk for us. Our policies include setting up of exposure limits by each counterparty or company of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures; monitoring of compliance with credit risk policy; and review of credit risk policy for pertinence and the changing environment.

Trends, Events or Uncertainties that have had or that are reasonably expected to affect revenues and income

(i) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material effect on Company's liquidity.

(ii) There are no known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

(iii) There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entries or other persons created during the reporting period.

(iv) There are no material commitments for capital expenditures, general purposes of such commitments, expected sources of funds for such expenditures.

(v) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material effect on Sales.

(vi) The Company experiences seasonal fluctuations in operations. Historically, sales peak in December of each year, thereafter it slows down in the first quarter of the year and begins to increase in the second quarter, driven by the summer season, the school break in April and May, and particularly the beginning of the school year in the month of June. This is followed by a slowdown in sales in the third quarter due to the rainy season.

Item 6 Financial Statements and Supplementary Schedules

The financial statements are filed as part of this report.

Item 7 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

(A) External Audit Fees and Services

Audit and Audit - Related Fees

(B) External Audit Fees and Services

Audit and Audit - Related Fees

The following table sets out the aggregate fees billed to the Company and its subsidiaries for the last three years for professional services rendered by SyCip, Gorres Velayo & Co.,

Audit and Audit-Related Fees	2017	2016	2015
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	**₱1,890,000**	₱1,800,000	₱2,000,000
Professional Fees related to the Initial Public Offering		−	9,631,058
Tax Fees		−	−
All Other Fees	−	164,700	−
Total	**₱1,890,000**	₱1,964,700	₱11,631,058

There were no disagreements with the external auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company. No other service was provided by external auditors to the Company for the years ended December 31, 2017, 2016 and 2015.

The Audit Committee approves any engagement for the services of the external auditor. After reviewing the need for the services of the external auditor, the Audit Committee shall review the engagement proposal submitted. If the Audit Committee finds the engagement proposal acceptable, the Audit Committee then approves and passes a resolution appointing the external auditor and recommends that the said resolution be endorsed for the approval of the Company's stockholders during the Annual Meeting of the Stockholders of the Company. The stockholders of the Company then approves and ratifies the recommendation of the Audit Committee during the Annual Stockholders' Meeting.

PART III CONTROL AND COMPENSATION INFORMATION

Item 8 Directors and Executive Officers of the Issuer

(A) Board of Directors and Executive Officers of the Registrant

1. Board of Directors

Currently, the Board consists of seven (7) members, of which two (2) are independent directors.

The Table below sets forth certain information regarding the members of our Board:

Name	Age	Nationality	Position
1. Frank S. Gaisano	60	Filipino	Chairman
2. Jack S. Gaisano	64	Filipino	Director
3. Edward S. Gaisano	62	Filipino	Director
4. Margaret G. Ang	66	Filipino	Director
5. Arthur Emmanuel	64	American	Director
6. Guillermo L. Parayno	70	Filipino	Independent Director
7. Ricardo Nicanor N. Jacinto	57	Filipino	Independent Director

Messrs. Frank S. Gaisano, Jack S. Gaisano, Edward S. Gaisano, Arthur Emmanuel and Ms. Margaret Ang have served their respective offices since May 1, 2015. The independent directors, Mr. Guillermo L. Parayno, Jr. and Mr. Ricardo Nicanor N. Jacinto, were elected on July 16 and 27, 2015, respectively.

All seven (7) Board Members were re-elected to the Board during the last Annual Stockholders' Meeting held on May 5, 2017. There are no other directors who resigned or declined to stand for re-election to the board of directors since the date of the last annual meeting of the stockholders for any reason whatsoever.

Brief Description

Frank S. Gaisano, 60, has been the Company's Chairman and Chief Executive Officer since 2012 and has served on the board of directors since 2003. He holds a Bachelor of Science degree in Civil Engineering, which he received from the Cebu Institute of Technology in 1978, and is a board-certified civil engineer. Presently, Mr. Gaisano also serves as Chairman of AB Capital & Investment Corporation, Pacific Mall Corporation and Vicsal Investment, Inc. He is also a Director of Vicsal Development Corporation, Filipino Fund, Inc., Taft Property Venture Development Corporation, Taft Punta Engaño Property Inc. and HTLand, Inc. Additionally, he is a Trustee of Vicsal Foundation, Incorporated.

Jack S. Gaisano, 64, has been a Director of the Company since 2003. He received a Bachelor of Science degree in Chemical Engineering from the University of San Carlos, Cebu City in 1976 and is a board-certified chemical engineer. He currently also serves as Chairman and President of Taft Property Venture Development Corporation and Midland Development Corporation, and Chairman of Vsec.com. He is the President and Vice-Chairman of HTLand, Inc. He is also a Director of Vicsal Development Corporation, Pacific Mall Corporation and Vicsal Investment, Inc.

Edward S. Gaisano, 62, has served as a Director of the Company since 2003. He has been a board-certified Doctor of Medicine since 1980. Mr. Gaisano is currently Chairman and President of Vicsal Development Corporation. He is also Chairman of Wealth Development Bank Corporation, Hyundai Alabang, Inc. and Hyundai Southern Mindanao. He is a Director of Taft Property Venture Development Corporation and is the President of Pacific Mall Corporation and former President of the Cebu Chamber of Commerce & Industry. Additionally, Mr. Gaisano is a Trustee of Vicsal Foundation, Incorporated and Habitat for Humanity Philippines and a member of the Society of Fellows of the Institute of Corporate Directors..

Margaret G. Ang, 66, has served as Director of the Company since 2003 and its Corporate Secretary until July 26, 2015. Ms. Ang received a Bachelor of Science degree, major in Accounting (1974, Cum Laude), from the University of San Carlos, Cebu City and is a certified public accountant. She currently serves as Director and Corporate Secretary of Vicsal Development Corporation, Taft Property Venture Development Corporation and Vicsal Securities & Stock Brokerage, Inc. Ms. Ang is also the President of Filipino Fund, Inc. and of Grand Holidays, Inc. Additionally, she serves as a director of Manila Water Consortium, Inc. and as a Trustee of Vicsal Foundation, Incorporated.

Arthur Emmanuel, 64, serves as Director and current President and Chief Operating Officer of the Company. He served as a Consultant for Merchandising and Operations of Vicsal Development Corporation from 2010 to 2012. He has accumulated 38 years of experience in retail operations, merchandising, global procurement, product development and logistics. Mr. Emmanuel previously served in a number of senior management positions with Wal-Mart Stores, Inc., having most recently served as Senior Vice-President, Sourcing/Retail Import Development Organization in China.

Guillermo L. Parayno, Jr., 70, was elected as an independent Director of the Company on July 16, 2015. Mr. Parayno is also the Chairman and President of E-Konek Pilipinas, Inc. and the Director and Vice Chairman of Philippine Veterans Bank. He is also President of the Parayno Consultancy Services on logistics and distribution, customs, information, technology and taxation and the Chairman & President of Bagong Silang Farms, Inc. Previously, Mr. Parayno led several Asian Development Bank Missions relating to Trade Facilitation and served as Commissioner of Customs from 1992 to 1998, and Commissioner of the Bureau of Internal Revenue from 2002-2005.

Ricardo Nicanor N. Jacinto, 57, was elected as an independent Director of the Company on July 27, 2015. He obtained his Master's Degree in Business Administration from Harvard University in 1986. Mr. Jacinto is a Director of SBS Philippines Corporation. Mr. Jacinto previously served as Executive Director of Habitat for Humanity Philippines and CEO of the Institute of Corporate Directors.

2. Executive Officers

The table below sets forth certain information regarding our executive officers:

Name	Age	Nationality	Position
Frank S. Gaisano	60	Filipino	Chairman & Chief Executive Officer
Arthur Emmanuel	64	American	President & Chief Operating Officer
Joselito G. Orense	52	Filipino	Treasurer & Chief Financial Officer
Vincent E. Tomaneng	50	Filipino	Corporate Secretary and Chief Legal Counsel
Tara Tsarina B. Perez-Retuya	34	Filipino	Assistant Corporate Secretary & Compliance Officer
Luz A. Bitang	61	Filipino	Vice President & Head for Store Operations
Jonathan Juan DC. Moreno	45	Filipino	Chief Strategy & Governance Officer

A brief description of the directors and executive officers' business experience and other directorships held in other reporting companies are provided as follows:

Joselito G. Orense, 52, was appointed as the Treasurer & Chief Financial Officer on March 16, 2016. He is a Certified Public Accountant. He earned his Bachelor of Science in Business Administration and Accountancy (1987, Cum Laude) from the University of the Philippines, Diliman and obtained his Master in Business Management from the Asian Institute of Management in 1991. Prior to joining the Company in November 2015 as Deputy CFO, he has served as Chief Financial Officer of All Value Holdings Corp. (2012 to 2015), Adidas Philippines (2004 to 2010), and Golden Arches Development Corporation (Director of Accounting, and CFO, 1996 to 2002).

Vincent E. Tomaneng, 50, was appointed as the Corporate Secretary on July 27, 2015. He earned his Bachelor of Laws (1994) and Bachelor of Science in Accountancy (1988, Magna Cum Laude) degrees from the University of San Carlos in Cebu City. He is presently the Group General Counsel of Vicsal Development Corporation and the Metro Gaisano Group of Companies. Prior to joining Vicsal and the Metro Gaisano Group in May 2003, he has worked with Sycip Salazar Hernandez & Gatmaitan Law Offices as a Senior Associate (1997 to 2003) and with Sycip Gorres Velayo & Co., CPA's as a Tax Supervisor (1988 to 1996). He is presently the Director and Corporate Secretary of Filipino Fund, Inc. from 2014, a Director of Pacific Mall Corporation from 2010, and a Trustee of Vicsal Foundation, Incorporated since 2017.

Tara Tsarina B. Perez-Retuya, 34, was appointed as the Assistant Corporate Secretary and Compliance Officer on November 7, 2017, and assumed the position on November 30, 2017. She earned her Bachelor of Science in Psychology (2005, Cum Laude) and Bachelor of Laws (2010) degrees from the University of San Carlos in Cebu City. Prior to joining the Company, she has served as Associate General Counsel of Aboitiz Equity Ventures, Inc. (2010-2012), and Securities Counsel of the Securities and Exchange Commission (2012-2017).

Luz A. Bitang, 61, has served as Vice-President and Head of Store Operations since 2014. She obtained her Bachelor of Arts in Psychology in 1986. She was formerly the Vice President - General Loss Prevention for Vicsal Development Corporation.

Jonathan Juan DC. Moreno, 45, has served as the Chief Strategy and Governance Office since November 2014. He obtained his Master of Business Management from the Asian Institute of

Management/Melbourne Business School in 2000. He is also currently an Independent Director and Audit Committee Chair of Marsh Philippines.

(B) Significant Employees

The Company has no significant employee or personnel who was not an executive officer but is expected to make a significant contribution to the business.

(C) Family Relationships

Family relationships (by consanguinity or affinity within the fourth civil degree) between Directors and members of the Company's senior management are as follows: Frank S. Gaisano, Jack S. Gaisano, Edward S. Gaisano and Margaret G. Ang, Directors of the Company, are siblings.

Apart from the foregoing, there are no other family relationships up to the fourth civil degree either by consanguinity or affinity among directors or executive officers of the Company.

(D) Involvement in certain Legal Proceedings of Directors and Executive Officers

To the best of the Company's knowledge and belief and after due inquiry, as of December 31, 2017, none of the Company's directors, nominees for election as director, or executive officers have in the five-year period prior to the date of this Prospectus: (1) had any petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within a two-year period of that time; (2) have been convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offenses; (3) have been the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or (4) have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, such judgment having not been reversed, suspended, or vacated.

However, one of our Independent Directors, Mr. Guillermo L. Parayno, Jr., has disclosed that there are two complaints under preliminary investigation before the Office of the Ombudsman where he has been named as a respondent in his previous capacities as the former Commissioner of Customs and Internal Revenue. As of the date of this Statement, none of these complaints (all of which were filed before his election as an independent director of the Company) has progressed into a court case or been given due course.

Item 9 Executive Compensation

The following table sets out the Company's Chairman and Chief Executive Officer and four most highly compensated senior officers of the Company projected for the ensuing year (2017):

Name	Position
Frank S. Gaisano	Chairman and Chief Executive Officer
Arthur Emmanuel	President and Chief Operating Officer
Vincent E. Tomaneng	Corporate Secretary and Chief Legal Counsel
Joselito G. Orense	Chief Financial Officer and Treasurer
Jonathan Juan DC. Moreno	Chief Strategy & Governance Officer

The following table identifies and summarizes the aggregate compensation (actual and expected) of the Company's Chairman and Chief Executive Officer and the four most highly compensated executive officers of the Company in 2015, 2016 and 2017 and for the ensuing year 2018:

	Year	Total (in Php)
Chairman and Chief Executive Officer and the four most highly compensated executive officers named Above	2015 (Actual)	34,455,718.75
	2016 (Actual)	43,765,447.49
	2017 (Actual)	47,800,986.36
	2018 (Projected)	49,235,015.95

Standard Arrangement

The by-laws of the Company provide that the Board is authorized to fix and determine the compensation of the Directors and Officers in accordance with law. By resolution of the Board, there are currently no standard arrangements pursuant to which Directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, except reasonable per diem for attendance in Board and/or Committee meetings.

Other Arrangements

Except for Mr. Frank S. Gaisano and Mr. Arthur Emmanuel, who receive salaries as Chief Executive Officer and President & Chief Operating Officer, respectively, there are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

Item 10. Security Ownership of Certain Beneficial Owners and Management

(A) Security Ownership of Certain Record and Beneficial Owners holding more than 5% of the Company's voting securities as of December 31, 2017

As of December 31, 2017, the Company knows no one who beneficially owns in excess of 5% of the Company's common stock except as set forth in the table below:

Title of Class	Name and addresses of record owners and relationship with the Company	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	% of Total Outstanding
Common	Vicsal Development Corporation Vicsal Building, corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City (stockholder)	Same as record owner	Filipino	2,489,800,000	72.60%
Common	PCD Nominee Corporation 37th Floor, Tower 1, the Enterprise Center, 6766 Ayala Avenue corner of Paseo de Roxas 1226 Makati City, Philippines	PDTC Participants and their clients	Filipino	751, 814,610	21.90%
Common	PCD Nominee Corporation 37th Floor, Tower 1, the Enterprise Center, 6766 Ayala Avenue corner of Paseo de Roxas 1226 Makati City, Philippines	PDTC Participants and their clients	Non-Filipino	162,789,412	4.77%

Notes:
1. Vicsal Development Corporation is the principal stockholder of the Company.

2. 1.PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation's stock and transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. ("PDTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce a scripless or book-entry trading in the Philippines. Under the current PDTC system, only participants (brokers and custodians) will be recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee.

3. Out of the Top 100 PDTC Participants, the following participants hold for various trust accounts the following shares of the Corporation as of December 31, 2017:

Name of Participant	Shareholdings	Shareholdings
Banco De Oro – Trust Banking Group	348,539,300	**38.11%**
BPI Securities Corporation	145,126,617	15.87%
AB Capital Securities, Inc.	79,151,606	8.65%
COL Financial Group, Inc.	55,440,036	6.06%
The Hongkong and Shanghai Banking Corp. Ltd. – Client's Account	40,190,500	4.39%
Abacus Securities Corporation	26,890,975	2.94%

(B) Security Ownership of Management as of December 31, 2017

Title of Class	Name of Beneficial Owner	Position	Amount and Nature of Beneficial Ownership		Citizenship	% of Total Outstanding
			Direct	Indirect		
Common	Frank S. Gaisano	Chairman and Chief Executive Officer	2	0	Filipino	0%
Common	Edward S. Gaisano	Director	75,002	0	Filipino	0%
Common	Margaret G. Ang	Director	2	3,067,000	Filipino	.08%
Common	Jack S. Gaisano	Director	2	0	Filipino	0%
Common	Arthur Emmanuel	President and Chief Operating Officer	1,500,001	0	American	.04%
Common	Ricardo Nicanor N.Jacinto	Director	500,001	0	Filipino	.01%
Common	Guillermo L. Parayno, Jr.	Director	1	0	Filipino	0%
Common	Joselito G. Orense	Treasurer / Chief Finance Officer	0	0	Fillipino	0%
Common	Vincent E. Tomaneng	Corporate Secretary	0	0	Filipino	0%
Common	Tara Tsarina B. Perez-Retuya	Asst. Corporate Secretary and Compliance Officer	0	0	Filipino	0%

(C) Voting Trust Holders of 5% or more - as of December 31, 2017
There are no persons holding more than 5% of a class under a voting trust or similar agreement.

(E) Changes in Control

As of December 31, 2017, there has been no change in the control of the Corporation since the beginning of its last fiscal year.

Item 11. Certain Relationships and Related Transactions

Please refer to Note 19 of the Financial Statements for the Related Party Transactions.

PART IV CORPORATE GOVERNANCE

Please refer to the Company's Annual Corporate Governance Report.

PART V EXHIBITS AND SCHEDULES

Item 13 Exhibits and Reports on SEC Form 17-C

The table below lists the Company's Corporate Disclosures under SEC Form 17-C:

List of Corporate Disclosures/Replies to SEC Letters Under SEC Form 17-C January 1,-December 31, 2017	
DATE	**SUBJECT**
March 16, 2018	Approval of cash dividends amounting to Php 205,762,500

Item 14 Use of Proceeds

Attached, as Exhibit "C" is the Company's Disbursement of Proceeds and Progress Report duly certified by the Company's external Auditor.

Pursuant to the requirement of Section 17 of the Code and Section 141 of the Corporate Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Cebu on April 10, 2018.

By:

FRANK S. GAISANO
Chairman and Chief Executive Officer

ARTHUR EMMANUEL
President and Chief Operating Office

JOSELITO G. ORENSE
Treasurer and Chief Financial Officer

VINCENT E. TOMANENG
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 10 2018 day of______20__affiants exhibiting to me their respective Philippine passports as follows.

Names	Passport No.	Date Issue	Place Issue
FRANK S. GAISANO	EB9732809	12/2/2013	DFA NRC SOUTH
ARTHUR EMMANUEL	42126284	12/28/2010	USA
JOSELITO G. ORENSE	EC0437549	2/28/2014	DFA MANILA
VICENT E. TOMANENG	EB9485745	10/30/2013	DFA Cebu

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Series of 2018

AILEEN P. LAZALA-GARROTE
Notarial Commission No. 048-12
Notary Public for Cebu City,
Carcar City and San Fernando, Cebu
Until December 31, 2019
Roll of Attorneys No. 46647
PTR No. 170811 / Cebu Province / Dec. 14, 2017
IBP O.R. No. 1065264 / Cebu Province / Nov. 3, 2017
MCLE Compliance No. V-0015079 / March 8, 2016
Rm. M03 Aniceta Bldg., Mezzanine
Osmeña Blvd., Capitol Site, Cebu City

METRO
RETAIL STORES GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Metro Retail Stores Group, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, 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, of has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

Sycip Gorres Velayo and Co. (SGV), the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of the presentation upon completion of such audit.

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 16, 2018

SUBSCRIBED AND SWORN to before me this APR 04 2018 affiants exhibiting to me their respective Philippine passports as follows:

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	ED9732809	02 Dec 2013	DFA NCR South
Joselito G. Orense	EC0437549	28 Feb 2014	DFA Manila

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Page No. 65
Book No. XXX
Series of 2018

AILEEN P. LAZALA-GARROTE
Notarial Commission No. 048-12
Notary Public for Cebu City,
Carcar City and San Fernando, Cebu
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SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.
Vicsal Building, Corner of C.D. Seno and W.O. Seno Streets
Guizo, North Reclamation Area, Mandaue City, Cebu

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metro Retail Stores Group, Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Metro Retail Stores Group, Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's 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 audit of the 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 Matter

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 period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Existence and completeness of merchandise inventories

The Company operates 52 stores (consisting of department stores, supermarkets and hypermarkets) and 9 warehouses in Luzon and Visayas. Refer to Note 7 to the financial statements for the relevant disclosures on inventories. Total inventories of ₱4.00 billion represents 31% of total assets. We focused on this area since inventories are material to the financial statements and are located in various locations across the country.

Audit response
Our audit procedures included understanding the physical inventory stock-take process, and testing the relevant controls in selected stores and warehouses. We observed the conduct of physical inventory stock-take procedures for selected stores and warehouses and performed test counts. We traced our test counts to the Company's inventory compilation. We reviewed the reconciliation of the merchandise inventories based on physical count with the Company's financial records and tested the selected reconciling items. We performed rollforward and rollback procedures for inventory movements from the physical stock-take date to year-end and tested selected purchases and sales transactions against supporting documents such as sales invoices and delivery receipts.

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, 2017, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's 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 above 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 PFRSs, 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.

Auditor's Responsibilities for the Audit of the 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 auditor's 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 PSAs 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, 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 auditor's 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 auditor's 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 audit.

We also provide with those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 period and are therefore the key audit matters. We describe these matters in our auditor's 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.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metro Retail Stores Group, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SGV
Building a better working world

The engagement partner on the audit resulting in this independent auditor's report is Dolmar C. Montañez.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-A (Group A),
April 21, 2016, valid until April 21, 2019
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621303, January 9, 2018, Makati City

March 16, 2018

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱3,707,152,708**	₱3,306,952,158
Short-term investments (Notes 5 and 24)	**755,204,271**	525,000,000
Receivables (Notes 6 and 24)	**955,537,954**	846,291,020
Merchandise inventories (Note 7)	**4,002,495,549**	4,014,727,305
Other current assets (Note 8)	**185,494,287**	280,729,767
Total Current Assets	**9,605,884,769**	8,973,700,250
Noncurrent Assets		
Property and equipment (Note 9)	**2,370,402,358**	2,434,897,565
Deferred tax assets - net (Note 20)	**149,932,184**	114,489,387
Other noncurrent assets (Note 10)	**593,831,479**	549,086,284
Total Noncurrent Assets	**3,114,166,021**	3,098,473,236
TOTAL ASSETS	**₱12,720,050,790**	₱12,072,173,486
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 24)	**₱3,773,383,677**	₱3,940,896,922
Income tax payable	**190,054,649**	202,360,756
Finance lease liability - current portion (Note 21)	**28,661,059**	42,320,291
Total Current Liabilities	**3,992,099,385**	4,185,577,969
Noncurrent Liabilities		
Finance lease liability - net of current portion (Note 21)	**50,609,267**	68,083,736
Retirement benefit obligation (Note 18)	**353,707,351**	308,148,593
Other noncurrent liabilities (Note 12)	**380,370,371**	365,118,438
Total Noncurrent Liabilities	**784,686,989**	741,350,767
Total Liabilities	**4,776,786,374**	4,926,928,736
Equity		
Capital stock (Note 13)	**3,429,375,000**	3,429,375,000
Additional paid-in capital (Note 13)	**2,455,542,149**	2,455,542,149
Retained earnings (Note 13)	**2,015,860,010**	1,210,371,451
Remeasurement gains on defined benefit obligation (Note 18)	**42,487,257**	49,956,150
Total Equity	**7,943,264,416**	7,145,244,750
TOTAL LIABILITIES AND EQUITY	**₱12,720,050,790**	₱12,072,173,486

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Net sales	**₱35,015,740,598**	₱34,410,947,243	₱32,304,453,639
Rental (Notes 19 and 21)	**299,880,342**	298,394,972	201,076,713
Interest and other income (Notes 4, 5 and 14)	**138,020,790**	137,103,998	76,116,891
	35,453,641,730	34,846,446,213	32,581,647,243
COSTS AND EXPENSES			
Cost of sales (Note 15)	**27,443,433,483**	27,476,168,638	25,774,490,130
Operating expenses (Note 16)	**6,596,907,791**	6,227,008,098	5,689,640,802
Finance costs (Notes 12 and 21)	**17,576,617**	22,805,794	36,065,857
	34,057,917,891	33,725,982,530	31,500,196,789
INCOME BEFORE INCOME TAX	**1,395,723,839**	1,120,463,683	1,081,450,454
PROVISION FOR INCOME TAX (Note 20)			
Current	**451,008,374**	336,516,418	317,518,048
Deferred	**(32,241,844)**	(5,504,837)	5,331,817
	418,766,530	331,011,581	322,849,865
NET INCOME	**976,957,309**	789,452,102	758,600,589
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit obligation (Note 18)	**(10,669,847)**	92,703,552	(15,711,516)
Income tax effect (Note 20)	**3,200,954**	(27,811,066)	4,713,455
	(7,468,893)	64,892,486	(10,998,061)
TOTAL COMPREHENSIVE INCOME	**₱969,488,416**	₱854,344,588	₱747,602,528
Basic/Diluted Earnings Per Share (Note 22)	**₱0.28**	₱0.23	₱0.29

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 13)	Additional Paid-in Capital (Note 13)	Retained Earnings (Note 13)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 18)	Total
Balances at January 1, 2017	**₱3,429,375,000**	**₱2,455,542,149**	**₱1,210,371,451**	**₱49,956,150**	**₱7,145,244,750**
Net income for the year	**–**	**–**	**976,957,309**	**–**	**976,957,309**
Other comprehensive loss	**–**	**–**	**–**	**(7,468,893)**	**(7,468,893)**
Total comprehensive income	**–**	**–**	**976,957,309**	**(7,468,893)**	**969,488,416**
Declaration of dividends (Note 13)	**–**	**–**	**(171,468,750)**	**–**	**(171,468,750)**
Balances at December 31, 2017	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,015,860,010**	**₱42,487,257**	**₱7,943,264,416**
Balances at January 1, 2016	₱3,429,375,000	₱2,455,542,149	₱575,241,224	(₱14,936,336)	₱6,445,222,037
Net income for the year	–	–	789,452,102	–	789,452,102
Other comprehensive income	–	–	–	64,892,486	64,892,486
Total comprehensive income	–	–	789,452,102	64,892,486	854,344,588
Declaration of dividends (Note 13)	–	–	(154,321,875)	–	(154,321,875)
Balances at December 31, 2016	₱3,429,375,000	₱2,455,542,149	₱1,210,371,451	₱49,956,150	₱7,145,244,750
Balances at January 1, 2015	₱2,524,000,000	₱–	₱466,640,635	(₱3,938,275)	₱2,986,702,360
Net income for the year	–	–	758,600,589	–	758,600,589
Other comprehensive loss	–	–	–	(10,998,061)	(10,998,061)
Total comprehensive income	–	–	758,600,589	(10,998,061)	747,602,528
Declaration of dividends (Note 13)	–	–	(650,000,000)	–	(650,000,000)
Issuance of shares (Note 13)	905,375,000	2,455,542,149	–	–	3,360,917,149
Balances at December 31, 2015	₱3,429,375,000	₱2,455,542,149	₱575,241,224	(₱14,936,336)	₱6,445,222,037

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,395,723,839**	₱1,120,463,683	₱1,081,450,454
Adjustments for:			
Depreciation and amortization (Note 9)	**519,524,410**	464,842,064	387,127,546
Provision for impairment of assets (Notes 9 and 10)	**64,977,300**	–	–
Retirement benefits costs (Note 18)	**34,888,911**	46,166,533	41,677,864
Provisions (Note 16)	**23,467,777**	–	–
Finance costs (Notes 12 and 21)	**17,576,617**	22,805,794	36,065,857
Provision for impairment of receivables (Note 6)	**6,853,766**	–	6,645,155
Loss on retirement of property and equipment (Note 9)	**31,618**	1,976,322	121,168
Interest income (Notes 4 and 5)	**(55,627,487)**	(60,878,058)	(13,915,394)
Foreign currency exchange gains (Note 14)	**(16,345,152)**	(15,245,103)	(8,043,618)
Reversal of impairment of receivables	**–**	–	(1,444,547)
Operating income before working capital changes	**1,991,071,599**	1,580,131,235	1,529,684,485
Decrease (increase) in:			
Receivables	**(119,949,109)**	(5,219,517)	32,178,696
Merchandise inventories	**12,231,756**	(334,911,810)	(511,583,106)
Other current assets	**49,656,775**	58,342,076	143,064,325
Increase (decrease) in:			
Trade and other payables	**(190,421,178)**	441,621,981	43,083,745
Other noncurrent liabilities	**15,251,932**	10,347,372	10,456,988
Cash flows generated from operations	**1,757,841,775**	1,750,311,337	1,246,885,133
Interest received	**55,609,537**	58,877,673	6,818,174
Income tax paid	**(463,314,481)**	(326,887,245)	(196,497,085)
Interest paid	**(14,270,100)**	(22,476,312)	(36,470,647)
Net cash provided by operating activities	**1,335,866,731**	1,459,825,453	1,020,735,575
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other noncurrent assets	**(72,914,019)**	(214,948,384)	(3,781,045)
Acquisition of property and equipment (Note 9)	**(446,290,592)**	(831,698,218)	(635,609,332)
Decrease (increase) in short-term investments	**(230,204,271)**	1,700,000,000	(2,225,000,000)
Net cash (used in) provided by investing activities	**(749,408,882)**	653,353,398	(2,864,390,377)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of:			
Cash dividends (Note 13)	**(171,468,750)**	(154,321,875)	(650,000,000)
Finance lease liability (Note 21)	**(31,133,701)**	(68,187,311)	–
Loans payable	**–**	(950,000,000)	(1,600,000,000)
IPO transaction costs (Note 13)	**–**	–	(251,529,101)
Proceeds from:			
Issuance of shares (Note 13)	**–**	–	3,612,446,250
Loans payable	**–**	–	1,450,000,000
Net cash (used in) provided by financing activities	**(202,602,451)**	(1,172,509,186)	2,560,917,149
NET INCREASE IN CASH AND CASH EQUIVALENTS	**383,855,398**	940,669,665	717,262,347
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	**16,345,152**	15,245,103	8,043,618
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,306,952,158**	2,351,037,390	1,625,731,425
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,707,152,708**	₱3,306,952,158	₱2,351,037,390

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information and Approval of the Financial Statements**

Corporate Information
Metro Retail Stores Group, Inc. (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003 in the Republic of the Philippines with a corporate life of 50 years. The Company is 72.96%-owned by Vicsal Development Corporation (VDC), 0.72%-owned by Value Shop Stores, Inc., and the rest by the public. Its primary purpose is to buy, sell and trade, goods, wares and merchandise of every kind and description and in general to carry on the businesses of a supermarket, hypermarket and department store operator. The Company began commercial operations on November 19, 2004.

The Company's common stock was listed with the Philippine Stock Exchange (PSE) on November 24, 2015 (see Note 13).

The Company's principal place of business is located at Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo North Reclamation Area, Mandaue City, Cebu.

Approval of the Financial Statements
The financial statements of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were endorsed for approval by the Audit Risk Committee on March 9, 2018 and were approved and authorized for issue by the Board of Directors (BOD) on March 16, 2018.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (₱), which is the Company's functional currency. Amounts are rounded off to the nearest Philippine Peso, except where otherwise indicated.

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS which became effective January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, Clarification of the Scope of the Standard (Part of *Annual Improvements* to PFRSs 2014−2016 Cycle)

- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows*, Disclosure Initiative

- Amendments to PAS 12, *Income Taxes*, Recognition of Deferred Tax Assets for Unrealized Losses

Standards and interpretation issued but not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  These amendments are not expected to have any impact to the Company.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying* PFRS 9*, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Company since it does not have activities that are connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs.

  Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company plans to adopt the new standard on the mandatory effective date and is currently assessing the potential impact of adopting PFRS 15 in 2018.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses.

  The Company plans to adopt the new standard on the mandatory effective date and is currently assessing the potential impact of adopting PFRS 9 in 2018.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

These amendments are not expected to have any impact to the Company.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  The Company does not expect the amendments to have material impact on its financial statements.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Company does not expect the amendments to have material impact on its financial statements.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases.* Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

  These amendments are not expected to have any impact in the Company's financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and,
  - How an entity considers changes in facts and circumstances.

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint

venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

These amendments are not expected to have any impact to the Company.

Summary of Significant Accounting Policies
The following accounting policies were applied in the preparation of the Company's financial statements:

Current and Noncurrent Classification
The Company presents assets and liabilities in the statement of financial position based on current / noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Cash and Cash Equivalents
Cash pertains to cash on hand and in banks. Cash in banks represents cash funds that are deposited in various bank accounts of the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term, highly liquid investment with maturities of more than three (3) months but less than one year and are intended for short term cash requirement of the Company.

Financial Instruments

Date of Recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition and Classification of Financial Instruments

Financial assets and liabilities are recognized initially at fair value. The initial measurement of financial instruments includes transaction costs.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets, as appropriate. Financial liabilities, on the other hand, are classified as financial liability at FVPL and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2017 and 2016, the Company's financial assets and financial liabilities are in the form of loans and receivables and other financial liabilities.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less 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 (EIR). The amortization is included in "Interest income" account in the statements of comprehensive income. The losses arising from impairment of such loans and receivables are recognized under "Operating expenses" account in the statements of comprehensive income.

Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Company's loans and other receivables consist of "Cash and cash equivalents", "Short-term investments" and "Receivables" (excluding "Advances to employees and officers") in the statement of financial position.

Other financial liabilities
Other financial liabilities are financial liabilities not designated as at FVPL where 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 satisfy the obligation other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of own equity shares. The components of issued financial instrument that contain both liability and equity element are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as fair value of the liability component on the date of issue. After initial measurement, other 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 EIR. The amortization is included in the "Finance cost" account in the statements of comprehensive income.

As of December 31, 2017 and 2016, other financial liabilities consist of "Trade and other payables" (excluding "Deferred revenue" and statutory payables) and "Finance lease liability".

Other noncurrent liabilities
Other noncurrent liabilities includes credit cash bonds and tenants' deposits. Other noncurrent liabilities are measured initially at fair value. After initial recognition, other noncurrent liabilities are subsequently measured at amortized cost using the effective interest method.

Fair Value Measurement
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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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 disclosed in Note 24.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or

more events that occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, credit history, past-due status and term

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Derecognition of Financial Instruments

Financial Assets

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 rights to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the 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 rights to receive cash flows from the 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.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities

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 amount is recognized in profit or loss.

Offsetting of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost and net realizable value (NRV). Cost which includes all cost directly attributable to acquisition such as purchase price and transport cost is determined using the weighted average cost (WAC) method. NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. The Company provides for estimated inventory losses based on the Company's experience. The provision is adjusted periodically to reflect the actual physical inventory count results.

Other Assets

Advances to Suppliers

Advances to suppliers are down payments to the Company's suppliers for the acquisition of supplies, merchandise inventories, property and equipment and other services. These are recognized based on the amount paid at the transaction date and are applied when the goods are received or services are rendered.

Prepayments
Prepayments include advance payments for insurance and rentals which are amortized or consumed within the entity's normal operating cycle.

Supplies
Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes. These are recorded at cost and taken to profit and loss upon issuance.

Value-Added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Deposits
Deposits are payments to lessors and utility companies for rental and meter deposits which will be offset against the Company's outstanding balance at the end of the contract term. These are recognized at the actual payments at transaction date.

Deferred Input VAT
Deferred input VAT represents input VAT on purchase of capital goods exceeding one million pesos. The related input VAT is recognized over five years or the useful life of the capital goods, whichever is shorter.

Property and Equipment
Items of property and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been placed into operation, such as repairs and maintenance costs, are normally recognized in profit or loss in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures would result in an increase in future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of such property and equipment.

Construction-in-progress are carried at cost and transferred to the related property and equipment account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

When assets are sold or retired, the cost and related accumulated depreciation or amortization and accumulated impairment in value are removed from the accounts and any resulting gain or loss is reflected in profit or loss.

Depreciation and amortization is calculated on a straight-line method over the estimated useful lives (EUL) of the property and equipment, except for leasehold improvements, which are amortized over the term of the lease or the EUL of the improvements, whichever is shorter.

	Years
Machinery and equipment	10 to 15
Store and office equipment	3 to 10
Computer equipment	3 to 5
Transportation equipment	3 to 10
Leasehold improvements	3 to 25 or the lease term, whichever is shorter

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated 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 asset is derecognized.

The assets' useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each reporting date.

Fully depreciated property and equipment are retained in the accounts while still in use although no further depreciation is credited or charged.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs 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 groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss, unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value on a systematic basis over its remaining useful life.

Retirement Benefit Obligation

The Company has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its employees. The Company's pension liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Pension cost comprise the following:

- service cost;
- interest on the pension liability; and
- remeasurements of pension liability.

Service costs which include current service costs, past service cost and gains and losses on non-routine settlements are recognized in expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated annually by independent qualified actuaries.

Interest on the Company's pension liability is the change during the period in the pension liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the pension liability. Interest on the Company's pension liability is recognized as expense in profit or loss.

Remeasurements comprising actuarial gains and losses are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Equity

Capital Stock and Additional paid-in capital

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issuance of new capital stock are shown in equity as a deduction from the proceeds.

Amount of contribution in excess of par value is accounted for as an additional paid-in capital.

Retained Earnings

The amount included in retained earnings includes profit (loss) less dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company's BOD.

Interim dividends, if any, are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. Retained earnings may be appropriated for any investments and funding of certain reserve accounts to be established pursuant to the requirements of the lenders in accordance with the agreement. When appropriation is no longer needed, it is reversed.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty, as applicable. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements.

Net Sales

Sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Net sales are measured at the fair value of the consideration received, net of discounts and returns.

Rental

Rental income is recognized in profit or loss on a straight-line basis over the lease term or based on the terms of the lease as applicable.

Interest Income

Interest income pertains to income recognized as the interest accrues using the effective interest method.

Other Income

Other operating income pertains to scrap sales from items such as non-reusable cartons, sacks, containers and other items from the Company's stores, and other miscellaneous income. Other income is recognized to the extent that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the service is used or the expenses incurred.

Cost of Sales

Cost of sales consists of inventory costs related to goods which the Company has sold. Inventory costs include all costs of purchase, costs of conversion and other costs incurred, net of all related discounts, in bringing the inventories to their present location and condition.

Operating Expenses
Operating expenses constitute costs of administering the business and selling and marketing expenses associated with the development and execution of marketing promotion activities. These are recognized as expenses when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has occurred and the decrease in economic benefits can be measured reliably.

Leases
Operating Leases
Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the Company's profit or loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized.

Operating Leases - Company as Lessor
Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as income in the statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes
Current Income Tax
Current income tax assets and current income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the reporting date.

Deferred Tax
Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purpose. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused tax losses from net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and NOLCO can be utilized.

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

Deferred Revenue
Deferred revenue includes the Company's customer loyalty program, which is used to allow their customers to accumulate points when they purchase the Company's products. The points can then be redeemed or used to pay for the purchase of the Company's merchandise inventories, subject to a minimum number of points being obtained. The consideration received is allocated between the products sold and points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is the amount for which the award credits could be sold separately. The fair value of the points issued is deferred, presented as deferred revenue under trade and other payables in the statement of financial position and recognized as revenue when the points are redeemed. Deferred revenue also includes redeemable credit, gift checks and commission arising from concession agreements. These are deferred and recognized as revenue when the goods are delivered or services are rendered.

Segment Reporting
The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker (CODM) in allocating resources. Information on reporting segment is represented in Note 23 to the financial statements.

Earnings Per Share (EPS)
Basic EPS is computed by dividing net income of the Company by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS amounts are calculated by dividing the net income attributable to the Company (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of common shares used in the calculation of the basic/diluted EPS is determined on the basis of the weighted average number of shares of the Company during the year.

Foreign Currency Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency using the closing rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are credited to or charged against current operations. Nonmonetary items that are denominated in foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Provisions
Provisions, if any, are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Company expects a provision to be reimbursed, reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Contingencies
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Events after the Reporting Date
Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the Company to exercise judgment, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change.

The effects of any change in accounting estimates are reflected in the Company's financial statements as they become reasonably determinable. Accounting assumptions, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effects on the amounts recognized in the financial statements:

Finance Lease - Company as a Lessee
The Company has entered into lease agreements as lessee. These agreements are accounted for as finance leases since the Company assumed substantially all the risks and rewards incidental to

ownership of the properties which are leased out under finance lease agreements due to the following:

- The Company has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; and
- The lease term is for the major part of the economic life of the asset even if title is not transferred.

Finance lease liabilities pertaining to leased computer equipment amounted to ₱79.27 million and ₱110.40 million as of December 31, 2017 and 2016, respectively (see Notes 9 and 21).

Contingencies
The Company in the ordinary course of business is a party to various legal proceedings and is subject to certain claims and exposures. The assessment of the probability of the outcome of these claims and exposures has been developed in consultation with the Company's counsels and is based upon an analysis of potential results. The Company's management and counsels believe that the eventual liabilities under these lawsuits, claims or exposures, if any, will not have a material effect on its financial statements.

Accordingly, no provision for probable losses was recognized by the Company in 2017 and 2016.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Assessing Net Realizable Value of Inventories
NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated cost necessary to sell. Increase in the NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs.

Merchandise inventories amounted to ₱4,002.50 million and ₱4,014.73 million as of December 31, 2017 and 2016, respectively (see Note 7).

Assessing Impairment for Financial Assets
The Company provides allowance for losses on financial assets to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The Company recognized allowance for impairment losses pertaining to security deposits which may not be recoverable due to the acceleration of lease termination date from the planned closure of a non-performing store amounting to ₱28.17 million for the year ended December 31, 2017. As of December 31, 2017 the carrying amount of security deposit, net of impairment losses, amounted to ₱434.69 million (see Note 10).

Allowance for impairment losses of receivables amounted to ₱11.61 million and ₱9.49 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the carrying amount of receivables, net of valuation allowance, amounted to ₱955.54 million and ₱846.29 million, respectively (see Note 6).

Evaluation of Impairment of Nonfinancial Assets
The Company reviews property and equipment with definite lives for impairment of value.

The Company estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that may affect property and equipment.

As of December 31, 2017 and 2016, the carrying value of the Company's property and equipment amounted ₱2,370.40 million and ₱2,434.90 million, respectively (see Note 9).

In 2017, the Company recognized provision for impairment losses amounting to ₱36.81 million pertaining to leasehold improvements and store equipment which may not be recoverable due to planned closure of a non-performing store (see Note 9).

Deferred Revenue - Loyalty Program
The Company operates a customer loyalty program called Metro Rewards Card Program (MRC).

This allows customers to accumulate points when they purchase products from the Company's retail store. The points accumulated can be used as a form of payment on the customer's future purchases, subject to certain restrictions. Fair value of the points is determined by applying statistical analysis. At every reporting date, the Company estimates the fair value of the points that their customers will redeem. The fair value of points issued is deferred and recognized as revenue when the points are redeemed.

As of December 31, 2017 and 2016, deferred revenue arising from MRC amounted to ₱46.00 million and ₱63.99 million, respectively (see Note 11).

Estimating Retirement Benefits Obligation
The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions in calculating such amounts. Those assumptions are described in Note 18 of the financial statements and include, among others, discount rates and future salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's retirement benefits obligation.

The Company's retirement benefits costs amounted to ₱36.35 million, ₱47.24 million and ₱41.68 million in 2017, 2016 and 2015, respectively. Retirement benefits obligation amounted to ₱353.71 million and ₱308.15 million as of December 31, 2017 and 2016, respectively (see Note 18).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱128,987,374**	₱116,601,205
Cash in banks	**1,902,103,372**	1,600,350,953
Cash equivalents	**1,676,061,962**	1,590,000,000
	₱3,707,152,708	₱3,306,952,158

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn annual interest at the respective short-term rates.

Interest income earned from cash and cash equivalents amounted to ₱40.77 million, ₱30.57 million and ₱8.15 million in 2017, 2016 and 2015, respectively (see Note 14).

5. Short-term Investments

These pertain to money market placements made for varying periods of up to one year depending on the immediate cash requirement of the Company and earn annual interest at the respective short-term investment rates that ranges from 2.00% to 3.00% and 2.00% and 2.75% in 2017 and 2016, respectively.

Short term investments as of December 31, 2017 and 2016 amounted to ₱755.20 million and ₱525.00 million, respectively.

Interest income earned from short-term investments amounted to ₱14.86 million, ₱30.31 million and ₱5.77 million in 2017, 2016 and 2015, respectively (see Note 14).

6. Receivables

This account consists of:

	2017	2016
Trade		
Third parties	**₱810,610,601**	₱771,559,360
Related parties (Note 19)	**89,607,005**	8,951,580
Nontrade		
Rentals	**23,190,823**	25,898,379
Related parties (Note 19)	**10,240,181**	4,913,913
Advances to employees and officers	**9,502,828**	13,260,336
Others	**23,998,928**	31,195,708
	967,150,366	855,779,276
Less allowance for impairment losses	**11,612,412**	9,488,256
	₱955,537,954	₱846,291,020

Trade receivables consist of receivables from third parties and related parties. Trade receivables from third parties pertain to credit sales significantly from the Company's credit account holders and credit card companies. These are noninterest-bearing and are generally collectible within 30 to 60 days.

Rentals pertain to receivables from tenants that lease spaces in the Company's stores. These are noninterest-bearing and are collectible within 15 days.

Advances to employees and officers pertain mainly to cash advances for travel and expenses related to store operations such as purchases of supplies and other expenses.

Other receivables pertain to accrued interest receivable and cash advances.

Movements in the allowance for individually and collectively impaired trade receivables from third parties follow:

	2017	2016	2015
Beginning of year	**₱9,488,256**	₱9,488,256	₱10,932,803
Provision for impairment of receivables (Note 16)	**6,853,766**	–	6,645,155
Write-off	**(4,729,610)**	–	(6,645,155)
Reversal	–	–	(1,444,547)
End of year	**₱11,612,412**	₱9,488,256	₱9,488,256

7. **Merchandise Inventories**

The rollforward analysis of this account follows:

	2017	2016	2015
Beginning inventory	**₱4,014,727,305**	₱3,679,815,495	₱3,168,232,389
Add purchases - net	**27,391,644,395**	27,766,881,546	26,232,330,298
Cost of goods available for sale	**31,406,371,700**	31,446,697,041	29,400,562,687
Less cost of merchandise sold (Note 15)	**(27,403,876,151)**	(27,431,969,736)	(25,720,747,192)
Ending inventory	**₱4,002,495,549**	₱4,014,727,305	₱3,679,815,495

Net purchases include cost of inventory, freight charges, insurance and customs duties.

No inventories have been used or pledged as security for the Company's obligations in 2017 and 2016.

No allowance for obsolescence had been recognized in 2017, 2016 and 2015.

The Company does not have any purchase commitments as of December 31, 2017 and 2016.

8. **Other Current Assets**

This account consists of:

	2017	2016
Supplies	**₱56,708,234**	₱72,308,365
Prepayments	**44,564,688**	78,262,522
Deferred input VAT – current	**44,114,542**	–
Advances to trade suppliers	**29,166,803**	129,718,749
Others	**10,940,020**	440,131
	₱185,494,287	₱280,729,767

Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes. These are recognized at cost.

Prepayments consist of prepaid insurance and advance rental payments.

Advances to suppliers pertain to down payments made to suppliers for purchases of merchandise inventories, supplies and other services.

Others consist of cash advances used to fund bayad center facilities.

9. **Property and Equipment**

The rollforward analysis of this account follows:

2017

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱197,843,206	₱1,491,202,863	₱1,013,371,762	₱265,329,237	₱1,258,074,297	₱179,054,009	₱4,404,875,374
Additions	5,476,553	112,707,967	107,926,434	58,344,721	109,630,540	97,783,082	491,869,297
Retirements	–	(348,167)	(241,651)	–	–	–	(589,818)
Reclassifications	(28,829,096)	–	28,829,096	–	114,063,355	(114,063,355)	–
At end of year	174,490,663	1,603,562,663	1,149,885,641	323,673,958	1,481,768,192	162,773,736	4,896,154,853
Less Accumulated Depreciation and Amortization:							
At beginning of year	40,479,644	962,737,605	640,174,771	57,087,435	269,498,354	–	1,969,977,809
Depreciation and amortization (Notes 15 and 16)	18,319,230	193,866,801	143,672,109	50,672,130	112,994,140	–	519,524,410
Retirements	–	(345,956)	(212,244)	–	–	–	(558,200)
Reclassifications	(3,123,152)	–	3,123,152	–	–	–	–
At end of year	55,675,722	1,156,258,450	786,757,788	107,759,565	382,492,494	–	2,488,944,019
Less Allowance for impairment losses:							
Impairment losses (Note 16)	–	991,936	–	–	35,816,540	–	36,808,476
Net Book Value	₱118,814,941	₱446,312,277	₱363,127,853	₱215,914,393	₱1,063,459,158	₱162,773,736	₱2,370,402,358

2016

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱134,081,561	₱1,240,348,823	₱801,190,773	₱179,405,633	₱721,442,050	₱82,956,776	₱3,159,425,616
Additions	64,286,331	257,079,931	214,784,996	85,923,604	507,220,736	125,508,744	1,254,804,342
Retirements	(524,686)	(6,225,891)	(2,604,007)	–	–	–	(9,354,584)
Reclassifications	–	–	–	–	29,411,511	(29,411,511)	–
At end of year	197,843,206	1,491,202,863	1,013,371,762	265,329,237	1,258,074,297	179,054,009	4,404,875,374
Accumulated Depreciation and Amortization:							
At beginning of year	21,920,869	776,320,022	509,055,421	20,422,763	184,794,932	–	1,512,514,007
Depreciation and amortization (Notes 15 and 16)	18,665,989	191,595,740	133,212,241	36,664,672	84,703,422	–	464,842,064
Retirements	(107,214)	(5,178,157)	(2,092,891)	–	–	–	(7,378,262)
At end of year	40,479,644	962,737,605	640,174,771	57,087,435	269,498,354	–	1,969,977,809
Net Book Value	₱157,363,562	₱528,465,258	₱373,196,991	₱208,241,802	₱988,575,943	₱179,054,009	₱2,434,897,565

In 2016, the Company acquired the store assets of Specialty Retailers, Inc. (SIAL) amounting to ₱498.81 million.

The Company leases computer equipment which was accounted for as finance lease. The carrying amount of the computer equipment amounted to ₱143.26 million and ₱178.59 million as of December 31, 2017 and 2016, respectively.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2017 and 2016.

Allowance for impairment losses pertain to the write-down of the carrying value of leasehold improvement and store equipment which may not be recoverable due to the planned closure of a non-performing store.

There are no contractual purchase commitments for property and equipment as of December 31, 2017 and 2016.

Fully depreciated property and equipment
The cost of fully depreciated property and equipment still in use amounted to ₱1,204.68 million and ₱907.73 million as of December 31, 2017 and 2016, respectively.

Construction-in-progress pertains to ongoing construction, installation and related activities on certain leasehold improvements or other items necessary to prepare it for use. These are located in various locations and are transferred to the related property and equipment account once construction is completed and is ready for service.

10. **Other Noncurrent Assets**

This account consists of:

	2017	2016
Deposits	**₱462,862,067**	₱415,378,119
Deferred input VAT	**94,425,786**	133,708,165
Advances to nontrade suppliers	**64,712,450**	–
	622,000,303	549,086,284
Allowance for impairment losses (Note 16)	**(28,168,824)**	–
	₱593,831,479	₱549,086,284

Deposits are payments to lessors and utility companies for rental and meter deposits. In 2017, the Company paid advance rentals pertaining to new lease contracts and existing contracts amounting to ₱7.03 million and ₱17.09 million, respectively. These will be offset against the Company's outstanding balance at the end of the contract term.

Deferred input VAT arises from purchases of capital goods above ₱1.00 million. This is amortized for a period of five years or over the useful life of the asset purchased, whichever is shorter.

Advances to nontrade suppliers pertain to advance payments made for the acquisition of property and equipment and are to be delivered up to six months.

Allowance for impairment losses pertains to security deposits which may not be recoverable due to the acceleration of lease termination date from the planned closure of a non-performing store.

11. **Trade and Other Payables**

This account consists of:

	2017	2016
Trade	**₱2,802,050,389**	₱3,097,831,679
Nontrade		
Third parties	**198,960,416**	300,207,618
Related parties (Note 19)	**3,599,664**	7,466,024
Accrued expenses	**254,975,921**	241,136,805
Output VAT - net	**237,340,635**	110,497,964
Deferred revenue	**204,896,051**	133,497,200
Others	**71,560,601**	50,259,632
	₱3,773,383,677	₱3,940,896,922

Trade payables pertain to payables to third parties. These are noninterest-bearing and are normally settled in 30 days. This account represents payables arising mainly from purchases of merchandise inventories.

Nontrade payables consist of purchases of supplies, property and equipment and other services. It also include retention payables to contractors for the Company's store equipment, leasehold improvements and other liabilities in line with the Company's operating expenses. These are normally settled within twelve months.

Accrued expenses consist of:

	2017	2016
Suppliers and contractors	**₱71,767,386**	₱67,469,119
Utilities	**56,886,038**	60,635,787
Rentals	**28,585,246**	11,066,656
Marketing-related cost	**15,353,296**	34,445,937
Professional fees	**10,210,811**	21,885,369
Other accruals	**72,173,144**	45,633,937
	₱254,975,921	₱241,136,805

Accrued expense others pertains to sick leave and vacation leave credits, management fee, and other operating related expenses.

Deferred revenue refers to redeemable credit and gift checks and transactions arising from the Company's customer loyalty program and commission from concession agreements.

Others include provision pertaining to the planned store closure of non-performing store in 2018 (Note 16) and amounts payable to government agencies for mandatory contributions and payments to the Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF), withholding tax payables, and other sundry payables.

12. Other Noncurrent Liabilities

	2017	2016
Credit cash bonds	**₱326,740,160**	₱316,956,963
Deposits	**53,630,211**	48,161,475
	₱380,370,371	₱365,118,438

Credit cash bonds pertain to cash bonds received by the Company as security for the unpaid balances of the receivables from credit account holders. This can also be applied against the account holder's remaining balance if the account holder no longer wants to avail of the Company's credit line. These bonds earn interest annually at a fixed rate ranging from 4% to 6% based on accumulated cash bond and purchases volume.

Finance cost included in profit or loss pertaining to cash bonds amounted to ₱14.68 million, ₱14.41 million and ₱13.82 million in 2017, 2016 and 2015, respectively. These were settled through deduction in the credit account holders' receivable balance.

Deposits pertain to security and customers' deposits. Security deposits to be applied to last term of the lease pertain to rental deposits from tenants that lease space from the Company's stores while customers' deposits pertain to payments from customers for installment sales.

13. **Equity**

Capital Stock
The Company's authorized, issued and outstanding shares as of December 31, 2017 and 2016 are as follows:

	No. of shares	Amount
Common stock - ₱1.00 par value		
Authorized	10,000,000,000	₱10,000,000,000
Issued and outstanding	3,429,375,000	₱3,429,375,000

The Company was listed on the Main Board of the PSE on November 24, 2015 wherein it offered 905,375,000 shares at an offer price of ₱3.99 per share.

The Company has 151 and 169 existing shareholders as of December 31, 2017 and 2016, respectively.

Additional Paid-in Capital
The Company recorded additional paid-in capital amounting to ₱2,455.54 million, net of transaction costs. The Company incurred transaction costs incidental to the IPO amounting to ₱251.53 million charged against "Additional paid-in capital" in the statements of financial position.

Stock Option Plan
The BOD and stockholders of the Company have adopted resolutions on July 27, 2015 approving the establishment of a stock option plan to offer up to 103,320,000 shares out of its unissued capital stock to key personnel. However, the Company has not formalized the stock option plan, hence, no actual grant has been made as of December 31, 2017 and 2016.

Retained Earnings
On March 16, 2017, the BOD approved the declaration of cash dividends amounting to ₱171.47 million or 0.05 per share, out of the Company's retained earnings as of December 31, 2016 to stockholders of record as of April 3, 2017 and was paid on May 2, 2017.

On March 16, 2016, the BOD approved the declaration of cash dividends amounting to ₱154.32 million or 0.045 per share, out of the Company's retained earnings as of December 31, 2015 to stockholders of record as of April 4, 2016 and was paid on April 20, 2016.

On July 27, 2015, the BOD approved the declaration of cash dividends amounting to ₱650.00 million out of the Company's retained earnings as of June 30, 2015 to stockholders of record as of July 10, 2015 and was paid on September 18, 2015 and December 18, 2015.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2017 amounted to ₱1,912.20 million.

Capital Management
The primary objective of the Company's capital 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 Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2017 and 2016. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2017	2016
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**2,015,860,010**	1,210,371,451
	₱7,900,777,159	₱7,095,288,600

14. Interest and Other Income

	2017	2016	2015
Interest income (Notes 4 and 5)	**₱55,627,487**	₱60,878,058	₱13,915,394
Foreign currency exchange gains	**16,345,152**	15,245,103	8,043,618
Scrap sales	**12,018,292**	12,031,896	14,624,197
Others	**54,029,859**	48,948,941	39,533,682
	₱138,020,790	₱137,103,998	₱76,116,891

Interest income pertains to the interest earned from cash placements and deposits in banks.

Scrap sales pertain to the sale of non-reusable cartons, sacks, containers, and other scrap items from the Company's stores.

Others significantly pertain to income from various sources such as parking income and vendor portal fees, and others.

15. Cost of Sales

	2017	2016	2015
Cost of merchandise sold (Note 7)	**₱27,403,876,151**	₱27,431,969,736	₱25,720,747,192
Others (Notes 9 and 17)	**39,557,332**	44,198,902	53,742,938
	₱27,443,433,483	₱27,476,168,638	₱25,774,490,130

Others pertain to the direct labor and other overhead costs.

16. **Operating Expenses**

	2017	2016	2015
Personnel cost (Note 17)	**₱2,092,246,328**	₱2,069,207,942	₱1,947,090,049
Rental (Notes 19 and 21)	**1,546,596,778**	1,461,529,754	1,269,327,823
Light, water and communication	**775,924,103**	759,444,165	722,250,613
Depreciation and amortization (Note 9)	**516,456,796**	461,508,512	383,384,284
Contracted services	**346,710,142**	386,903,911	354,722,622
Taxes and licenses	**300,832,944**	282,775,382	250,390,498
Advertising	**204,941,649**	196,599,764	210,011,048
Repairs and maintenance	**198,983,414**	121,814,633	108,480,895
Supplies	**173,321,819**	167,452,430	160,234,884
Commission	**102,438,162**	103,282,917	99,828,222
Transportation and travel	**89,413,195**	84,457,256	73,054,221
Provisions			
Impairment of assets (Notes 9 and 10)	**64,977,300**	–	–
Impairment of receivables (Note 6)	**6,853,766**	–	6,645,155
Others (Note 11)	**23,467,777**	–	–
Professional fees	**48,941,711**	47,051,238	26,719,940
Subscriptions	**45,256,831**	23,391,097	38,111,704
Insurance	**31,557,777**	29,722,785	27,112,248
Others	**27,987,299**	31,866,312	12,276,596
	₱6,596,907,791	₱6,227,008,098	₱5,689,640,802

Provision for impairment of assets and other provisions are non-recurring expenses pertaining to the planned closure of a non-performing store in 2018.

Others pertain to representation, entertainment, donations and contributions.

17. **Personnel Cost**

	2017	2016	2015
Salaries and wages	**₱1,741,795,649**	₱1,762,420,237	₱1,666,424,782
Retirement benefits costs (Note 18)	**36,352,996**	47,239,708	41,677,864
Other employee benefits	**339,636,308**	288,117,067	273,424,379
	₱2,117,784,953	₱2,097,777,012	₱1,981,527,025

The salaries and wages that were recognized as cost of sales amounted to ₱25.54 million, ₱28.57 million and ₱34.44 million in 2017, 2016 and 2015, respectively.

Other employee benefits consist of the required employer contributions to SSS, PHIC and HDMF, 13th month pay and other incentives.

18. Retirement Benefit Obligation

The Company has an unfunded, noncontributory defined benefit retirement plan. The accounting method and actuarial assumptions used were in accordance with the provisions of PAS 19. Actuarial valuation by an independent actuary was made based on employee data as of valuation dates.

The following tables summarize the components of the retirement expense, defined benefit obligation, and the pension liability recognized in the statements of financial position for the Company's retirement plan.

The components of net retirement benefit expense (included in "Personnel cost" under "Operating expenses") in the statements of comprehensive income are as follows:

	2017	2016	2015
Current service cost	**₱17,564,470**	₱29,150,742	₱27,704,941
Interest cost	**18,788,526**	18,088,966	13,972,923
	₱36,352,996	₱47,239,708	₱41,677,864

The remeasurement effects recognized in other comprehensive income (included in "Equity" under "Remeasurement gains (losses) on defined benefit obligation") in the statements of financial position are as follows:

	2017	2016	2015
Actuarial gain (loss) due to:			
Experience adjustments	**(₱25,521,310)**	₱24,277,645	(₱33,861,242)
Changes in financial assumptions	**14,851,463**	68,425,907	18,149,726
	(10,669,847)	₱92,703,552	(₱15,711,516)

The rollforward analyses of the present value of retirement benefits obligation follow:

	2017	2016
Balance at beginning of year	**₱308,148,593**	₱354,685,612
Current service cost	**17,564,470**	29,150,742
Interest cost	**18,788,526**	18,088,966
Benefits paid	**(1,464,085)**	(1,073,175)
Actuarial (gain) loss due to:		
Experience adjustments	**25,521,310**	(24,277,645)
Changes in financial assumptions	**(14,851,463)**	(68,425,907)
Balance at end of year	**₱353,707,351**	₱308,148,593

The principal actuarial assumptions used in determining retirement obligations are as follows:

	2017	2016	2015
Salary increase rate	**3.00%**	3.00%	4.00%
Discount rate	**6.10%**	5.70%	5.10%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at the valuation date are open to subjectivity, assuming if all other assumptions were held constant and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

	2017		2016	
	Increase (decrease)	**Net Retirement benefit liability**	Increase (decrease)	Net Retirement benefit liability
Discount Rates	**+0.5%**	**(₱17,237,917)**	+0.5%	(₱18,032,656)
	-0.5%	**18,721,956**	-0.5%	19,692,742
Salary increase rate	**+0.5%**	**₱18,211,957**	+0.5%	₱19,692,742
	-0.5%	**(16,903,834)**	-0.5%	(18,032,656)

The Company does not maintain a fund for its retirement benefit obligation. Shown below is the maturity analysis of the benefit payments as of December 31:

	2017	2016
1 year and less	**₱–**	₱–
More than one year to 5 years	**118,731,248**	75,069,710
More than 5 years to 10 years	**155,341,926**	101,939,596
More than 10 years to 15 years	**286,927,254**	235,256,258
More than 15 years to 20 years	**2,075,649,192**	1,644,132,627
	₱2,636,649,620	₱2,056,398,191

The weighted average duration of the defined benefit obligation is 14 years in 2017 and 2016.

19. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties maybe individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties
Transactions with related parties are made at terms agreed by the parties. Outstanding balances at year end are unsecured, noninterest-bearing and settled in cash usually within one year. There have been no guarantees or collaterals provided or received for any related party receivables or payables.

The significant related party transactions and outstanding balances as of and for the years ended December 31, 2017 and 2016 are as follows:

December 31, 2017

	Amount/Volume for the year ended December 31, 2017	**Outstanding Balance as of December 31, 2017**	**Terms and Conditions**
Parent Company (VDC)			
Rental expense	**(₱1,132,512,864)**	**(₱3,599,664)**	**Noninterest-bearing and due in 30 days, unsecured**
Advances	**956,584**	**10,240,181**	**Noninterest-bearing and due in 30 days, not impaired**
Management fee	**(26,474,577)**	**–**	**Noninterest-bearing and payable in 30 days, unsecured**
Entities Under Common Control			
Purchase, sale of goods and services and rental income	**(999,527,095)**	**89,607,005**	**Noninterest-bearing and payable in 30 days, not impaired**
Due from (to) related parties	**–**	**₱96,247,522**	

December 31, 2016

	Amount/Volume for the year ended December 31, 2016	Outstanding Balance as of December 31, 2016	Terms and Conditions
Parent Company (VDC)			
Rental expense	(₱810,762,065)	(₱7,466,024)	Noninterest-bearing and due in 30 days, unsecured
Advances	6,258,686	4,913,913	Noninterest-bearing and due in 30 days, not impaired
Management fee	(21,838,200)	–	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
Purchase, sale of goods and services and rental income	(987,740,614)	8,951,580	Noninterest-bearing and payable in 30 days, not impaired
Due from (to) related parties	–	₱6,399,469	

The Company, in the normal course of business, entered into the following transactions with related parties:

a. rental expense from leases for the Company’s store spaces and warehouses;
b. short-term noninterest-bearing payables/receivables in the normal course of business pertaining to intercompany recovery of expenses and trade-related transactions;
c. purchases of goods, services and concession activities;

d. rent income from related party tenants that lease spaces in the Company's stores. These are noninterest-bearing and are collectible within 15 days;
e. management fee pertaining to legal and other services

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱1,108.57 million and ₱972.20 million in 2017 and 2016, respectively, which earn interest based on prevailing market interest rates amounting to ₱2.18 million and ₱1.99 million in 2017 and 2016, respectively.

Compensation of the Company's key management personnel by benefit type follows:

	2017	2016	2015
Short-term employee benefits	**₱135,149,156**	₱140,638,971	₱121,533,053
Post-employment benefits	**3,786,384**	5,344,303	5,376,444

There are no amounts due to or due from members of key management as of December 31, 2017 and 2016.

The Company has not recognized any impairment losses on amounts due from related parties in 2017 and 2016. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

20. Income Taxes

Provision for income tax consists of:

	2017	2016	2015
Current			
RCIT	**₱440,694,207**	₱325,487,583	₱315,719,159
Final	**10,314,167**	11,028,835	1,798,889
	451,008,374	336,516,418	317,518,048
Deferred	**(32,241,844)**	(5,504,837)	5,331,817
	₱418,766,530	₱331,011,581	₱322,849,865

The components of the deferred tax asset of the Company are as follows:

	2017	2016
Retirement benefit obligation (Note 18)	**₱106,112,205**	₱92,444,578
Provision for impairment of assets (Note 16)	**19,493,190**	–
Deferred revenue - loyalty program	**13,802,732**	19,198,332
Provisions (Note 16)	**7,040,333**	–
Allowance for impairment of receivables (Note 6)	**3,483,724**	2,846,477
	₱149,932,184	₱114,489,387

The Company recognized deferred tax asset amounting to ₱3.20 million in 2017 and deferred tax liability amounting to ₱27.81 million in 2016 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

The reconciliation of statutory income tax rate to effective income tax rate follows:

	2017	2016	2015
Tax at 30% on income before tax	**₱418,717,152**	₱336,139,105	₱324,435,136
Tax effects of:			
Nondeductible expenses	**5,742,448**	1,477,765	1,113,063
Income subjected to final tax	**(5,693,070)**	(6,605,289)	(2,698,334)
	₱418,766,530	₱331,011,581	₱322,849,865

21. **Lease Commitments**

Operating leases - Company as lessee
The Company enters into lease agreements with third parties and related parties for Company's stores, warehouses and corporate office space. These leases have terms ranging from one to twenty five years and generally provide for either fixed or contingent rent.

Rental expense amounted to ₱1,546.97 million ₱1,461.85 million and ₱1,269.39 million in 2017, 2016 and 2015, respectively (see Note 16).

Rental expense that were recognized as cost of sales amounted to ₱0.38 million, ₱0.32 million and ₱0.05 million in 2017, 2016 and 2015, respectively.

Payments made for sublease rentals amounted to ₱724.85 million, ₱797.52 million and ₱709.33 million in 2017, 2016 and 2015, respectively.

Operating leases - Company as lessor
The Company entered into lease agreements with tenants for the use of space in the Company's stores. These lease agreements have terms ranging from one to five years. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market rate conditions.

Rental income amounted to ₱299.88 million, ₱298.39 million and ₱201.08 million in 2017, 2016 and 2015, respectively.

Finance lease - Company as lessee
The Company entered into finance lease arrangements covering various computer equipment used in the operations of the Company. As of December 31, 2017 and 2016, carrying amount of the leased computer equipment amounted to ₱143.26 million and ₱178.59 million, respectively (see Note 9).

The finance lease obligation amounted to ₱79.27 million and ₱110.40 million in 2017 and 2016, respectively. The components are as follows:

	2017	2016
Gross finance lease obligation:		
Not later than one year	**₱32,244,719**	₱45,946,764
Later than one year but no later than five years	**53,066,671**	73,025,485
	85,311,390	118,972,249
Future finance lease charges:		
Not later than one year	**3,583,660**	3,626,473
Later than one year but no later than five years	**2,457,404**	4,941,749
	6,041,064	8,568,222
	₱79,270,326	₱110,404,027

The present value of minimum lease payments as of December 31, 2017 is as follow:

	2017	2016
Gross finance lease obligation:		
Not later than one year	**₱28,661,059**	₱42,320,291
Later than one year but no later than five years	**50,609,267**	68,083,736
	₱79,270,326	₱110,404,027

The finance cost related to finance lease obligation amounted to ₱2.55 million and ₱3.50 million in 2017 and 2016, respectively.

22. Earnings Per Share

The following table presents information necessary to calculate EPS on net income:

	2017	2016	2015
Net income	**₱976,957,309**	₱789,452,102	₱758,600,589
Weighted-average number of common shares	**3,429,375,000**	3,429,375,000	2,599,447,917
Basic/Diluted EPS	**₱0.28**	₱0.23	₱0.29

The Company also assessed that there were no potential dilutive common shares as of December 31, 2017, 2016 and 2015.

In line with the Company's IPO on November 24, 2015, the weighted-average number of shares in 2015 considered changes in the outstanding number of shares during that year.

23. **Segment Reporting**

The Company has determined that it is operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8.

The Company's store operations is its only income generating activity and such is the measure used by the CODM in allocating resources.

The Company conducts its operations through the following store formats:

Department Stores
Department stores are engaged in the business of trading goods, commodities, wares and merchandise of any kind, such as clothes, bags, accessories, toys, and household goods.

Supermarket
Supermarkets offer a wide selection of meats, seafoods, fruits and vegetables and organic produce. This format also offers ancillary services such as pharmacy, bakeshop, café and fastfood outlets. A supermarket maybe a stand-alone supermarket or opened together with a department store.

Hypermarkets
Hypermarkets consist of "superstores" which is a combination of supermarket and department store which offer a wide range of product including full grocery lines and general merchandise.

The Company does not report its results based on geographical segments. The Company has no significant customer which contributes 10% or more to the revenues of the Company.

24. **Financial Instruments**

Fair Value of Financial Instruments
As of December 31, 2017 and 2016, the Company has no financial asset and liability carried at fair value.

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets 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

Financial Assets
Due to the short-term nature of the transaction, the fair values of "Cash and cash equivalents" "Short-term investments" and "Receivables" (excluding "Advances to employees and officers") approximate the carrying values at year-end.

Financial Liabilities
Due to the short-term nature of "Trade and other payables" (excluding "Deferred revenue" and statutory payables), their carrying values approximate fair value.

The fair value of the items classified as credit cash bonds, security deposits and finance lease liability is disclosed below and is classified as Level 3 in the fair value hierarchy:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Credit cash bonds (Note 12)	**₱326,740,160**	**₱259,202,789**	₱316,956,963	₱251,441,784
Finance lease liability (Note 21)	**79,270,326**	**82,908,212**	110,404,027	111,283,457
Deposits (Note 12)	**53,630,211**	**48,246,966**	48,161,475	43,327,166
	₱459,640,697	**₱390,357,967**	₱475,522,465	₱406,052,407

The fair value of credit cash bonds and security deposits were determined by discounting future cash flows using the applicable rates of similar types of instruments. The fair value of the long term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 4.00% to 5.00% for 2017 and 2016.

There were no transfers between level 1, 2 and 3.

Financial Risk Management Objectives and Policies
The main purpose of the Company's financial instruments is to fund its operations and capital expenditures. The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

Liquidity risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company's exposure to liquidity risk relates primarily to its short-term obligations.

The Company seeks to manage its liquidity profile by maintaining cash at a certain level and ensuring the availability of ample unused revolving credit facilities from banks as back-up liquidity that will enable it to finance its operating expenses.

The Company maintains a level of cash deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows.

The table below shows the maturity profile of the financial liabilities of the Company as of December 31, 2017 and 2016 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

December 31, 2017

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial Liabilities:				
Trade and other payables				
Trade	**₱–**	**₱2,802,050,389**	**₱–**	**₱2,802,050,389**
Non-trade				
Third parties	**–**	**198,960,416**	**–**	**198,960,416**
Related parties	**–**	**3,599,664**	**–**	**3,599,664**
Accrued expenses	**–**	**254,975,921**	**–**	**254,975,921**
Finance lease liability	**–**	**28,661,059**	**50,609,267**	**79,270,326**
Others*	**–**	**22,571,856**	**–**	**22,571,856**
Other noncurrent liabilities	**–**	**–**	**380,370,371**	**380,370,371**
	₱–	**₱3,310,819,305**	**₱430,979,638**	**₱3,741,798,943**

** Others excludes statutory payables*

December 31, 2016

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial Liabilities:				
Trade and other payables	₱–	₱3,097,831,679	₱–	₱3,097,831,679
Trade				
Non-trade				
Third party	–	300,207,618	–	300,207,618
Related parties	–	7,466,024	–	7,466,024
Accrued expenses	–	241,136,805	–	241,136,805
Finance Lease Liability	–	42,320,291	68,083,736	110,404,027
Others*	–	15,670,725	–	15,670,725
Other noncurrent liabilities	–	–	365,118,438	365,118,438
	₱–	₱3,704,633,142	₱433,202,174	₱4,137,835,316

** Others excludes statutory payables*

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company's receivables are actively monitored by its collection department to avoid significant concentrations of credit risk.

The Company manages the level of credit risk it accepts through comprehensive credit risk policies setting out the assessment and determination of what constitutes credit risk for the Company. The Company's policies include: setting up of exposure limits for each counterparty; reporting of credit risk exposures; monitoring of compliance with credit risk policy; and review of credit risk policy for pertinence and the changing environment.

The table below shows the maximum exposure of the Company to credit risk:

	2017			
	Maximum exposure to credit risk	**Fair value of collaterals or credit enhancements**	**Net exposure**	**Financial effect of collaterals or credit enhancements**
Receivables:				
Trade				
Third parties	**₱810,610,601**	**₱326,740,160**	**₱483,870,441**	**₱326,740,160**
Related parties	**89,607,005**	**–**	**89,607,005**	**–**
Nontrade				
Rentals	**23,190,823**	**53,630,211**	**–**	**23,190,823**
Related parties	**10,240,181**	–	**10,240,181**	–
Others	**23,998,928**	–	**23,998,928**	–
	₱957,647,538	**₱380,370,371**	**₱607,716,555**	**₱349,930,983**

	2016			
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
Receivables:				
Trade				
Third parties	₱771,647,508	₱316,956,963	₱454,690,545	₱316,956,963
Related parties	8,951,580	–	8,951,580	–
Nontrade				
Rentals	25,898,379	48,161,475	–	25,898,379
Related parties	4,913,913	–	4,913,913	–
Others	31,195,708	–	31,195,708	–
	₱842,607,088	₱365,118,438	₱499,751,746	₱342,855,342

Collaterals or credit enhancements pertain to cash bonds posted by credit account holders to secure payment of credit purchases through the Company's credit facilities. These also pertain to tenants' security deposits which shall be applied against the tenants' last billing.

Credit quality per class of financial asset
The Company makes provisions, where necessary, for potential losses on credits extended. The credit quality per class of financial assets that were neither past due nor impaired is as follow:

December 31, 2017

	Neither Past Due Nor Impaired				
	High Grade	**Standard Grade**	**Past Due But Not Impaired**	**Impaired**	**Total**
Cash and cash equivalents*	**₱3,578,165,334**	**₱–**	**₱–**	**₱–**	**₱3,578,165,334**
Short-term investments	**755,204,271**	**–**	**–**	**–**	**755,204,271**
Receivables					
Trade					
Third parties	**709,275,066**	**–**	**89,723,123**	**11,612,412**	**810,610,601**
Related parties	**89,607,005**	**–**	**–**	**–**	**89,607,005**
Nontrade					
Rentals	**23,190,823**	**–**	**–**	**–**	**23,190,823**
Related parties	**10,240,181**	**–**	**–**	**–**	**10,240,181**
Others	**23,998,928**	**–**	**–**	**–**	**23,998,928**
	₱5,189,681,608	**₱–**	**₱89,723,123**	**₱11,612,412**	**₱5,291,017,143**

**Cash and cash equivalents excludes cash on hand*

December 31, 2016

	Neither Past Due Nor Impaired		Past Due		
	High Grade	Standard Grade	But Not Impaired	Impaired	Total
Cash and cash equivalents*	₱3,190,350,953	₱–	₱–	₱–	₱3,190,350,953
Short-term investments	525,000,000	–	–	–	525,000,000
Receivables					
Trade					
Third parties	709,501,684	–	52,569,420	9,488,256	771,559,360
Related parties	8,951,580	–	–	–	8,951,580
Nontrade					
Rentals	25,898,379	–	–	–	25,898,379
Related parties	4,913,913	–	–	–	4,913,913
Others	31,195,708	–	–	–	31,195,708
	₱4,495,812,217	₱–	₱52,569,420	₱9,488,256	₱4,557,869,893

**Cash and cash equivalents excludes cash on hand*

High grade receivables pertain to those receivables from clients or customers that consistently pay before the maturity date. Standard grade receivable includes those that are collected on their due dates even without an effort from the Company to follow them up. Past due receivables include those that are either past due but still collectible or determined to be individually impaired. The aging analysis of the Company's loans and receivables are as follows:

December 31, 2017

	Neither past due nor Impaired	**Past due but not impaired**				
		Less than 30 days	**30 - 60 days**	**More than 60 Days**	**Impaired**	**Total**
Cash and cash equivalents*	**₱3,578,165,334**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,578,165,334**
Short-term investments	**755,204,271**	**–**	**–**	**–**	**–**	**755,204,271**
Receivables:						
Trade						
Third parties	**709,275,066**	**51,716,573**	**4,783,865**	**33,222,685**	**11,612,412**	**810,610,601**
Related parties	**89,607,005**	**–**	**–**	**–**	**–**	**89,607,005**
Nontrade						
Related parties	**10,240,181**	**–**	**–**	**–**	**–**	**10,240,181**
Rentals	**23,190,823**	**–**	**–**	**–**	**–**	**23,190,823**
Others	**23,998,928**	**–**	**–**	**–**	**–**	**23,998,928**
	₱5,189,681,608	**₱51,716,573**	**₱4,783,865**	**₱33,222,685**	**₱11,612,412**	**₱5,291,017,143**

**Cash and cash equivalents excludes cash on hand*

December 31, 2016

	Neither past due nor Impaired	Past due but not impaired				
		Less than 30 days	30 - 60 days	More than 60 Days	Impaired	Total
Cash and cash equivalents*	₱3,190,350,953	₱–	₱–	₱–	₱–	₱3,190,350,953
Short-term investments	525,000,000	–	–	–	–	525,000,000
Receivables:						
Trade						
Third parties	709,501,684	33,495,550	5,005,764	14,068,106	9,488,256	771,559,360
Related parties	8,951,580	–	–	–	–	8,951,580
Nontrade						
Related parties	4,913,913	–	–	–	–	4,913,913
Rentals	25,898,379	–	–	–	–	25,898,379
Others	31,195,708	–	–	–	–	31,195,708
	₱4,495,812,217	₱33,495,550	₱5,005,764	₱14,068,106	₱9,488,256	₱4,557,869,893

**Cash and cash equivalents excludes cash on hand*

25. Events after the Reporting Period

a. On January 5, 2018, one of the stores of the Company was seriously damaged by fire. The Company has obtained adequate insurance covers and expects to recover lost inventories and properties at selling price and replacement cost, respectively. As of the date of this report, the Company is still quantifying the financial impact of the said event on the results of its operations, for the year to substantiate its business interruption claim.

b. On March 16, 2018, the BOD approved the declaration of cash dividends amounting to ₱205,762,500 out of the Company's retained earnings as of December 31, 2017 to stockholders of record as of April 13, 2018 to be paid on May 2, 2018.

26. Reclassification of accounts

Certain prior period amounts have been reclassified to conform to the current year presentation.

27. Notes to Statements of Cash Flows

The Company's noncash investing activities are as follows:

a) Advances to suppliers were reclassified from other current assets to other noncurrent assets amounting to ₱64.71 million and ₱123.56 million for 2017 and 2016, respectively.
b) Transfers from advances to suppliers to property and equipment amounted to ₱45.58 million and ₱119.81 million for 2017 and 2016, respectively.
c) In 2016, the Company leased computer equipment amounting to ₱178.59 million which were accounted for as finance lease. The carrying amount of the finance lease liability amounted to ₱110.40 million (see Note 21).
d) Purchases of property and equipment which remains unpaid amounted to ₱124.70 million for 2016.
e) Changes in finance lease liability for which cash flows have been classified as financing activity in the statement of cash flows follows:

	Finance leases due within 1 year	**Finance leases due after 1 year**
Net debt as at December 31, 2016	₱42,320,291	₱68,083,736
Cash flows	(31,133,701)	–
Reclassification from non-current to current	17,474,469	(17,474,469)
Net debt as at December 31, 2017	**₱28,661,059**	**₱50,609,267**

28. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2017:

Value added tax (VAT)
The National Internal Revenue Code (NIRC) of 1997, as amended, also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT.

The Company's vatable sales are based on actual collections received, hence may not be the same as amounts accrued in the statements of comprehensive income. The Company has zero-rated and exempt sales pursuant to Section 106(A)(2)(a)(5) of the Tax Code and Sections 109(A), 109(K) and 109 of the Tax Code, respectively.

The Company is a VAT-registered company with output VAT declaration of ₱3,796.80 million for the year based on the amount reflected in the Sales Account of ₱31,639.97 million. The Company paid net output VAT during the year amounting to ₱77.07 million.

The Company has zero-rated/exempt sales amounting to ₱4,043.90 million pursuant to the provisions of NIRC of 1997.

The amount of input VAT claimed are broken down into:

Beginning of the year	₱62,489
Input tax on purchases of goods exceeding ₱1 million deferred from prior period	133,708,165
Current year's domestic purchases of goods	3,466,383,089
Current year's capital goods purchases	48,946,705
Total available input VAT	**3,649,100,448**
Less: deductions from input VAT	
Input tax on purchases of goods exceeding ₱1 million deferred for the succeeding period	(138,540,327)
Input tax allocable to exempt sales	(27,666,371)
Input tax on sales to government closed to expense	(507,852)
Total allowable input VAT	**3,482,385,898**
Input VAT applied to Output VAT	3,482,385,898
Balance at December 31, 2017	**₱–**

Taxes and Licenses
The following are taxes, licenses, registration fees and permit fees lodged under "Taxes and Licenses" account under expenses for the year ended December 31, 2017.

Business tax	₱233,225,564
Real property tax	61,679,650
Motor vehicle tax	585,685
Others	5,342,045
Total	**₱300,832,944**

Withholding taxes
The amount of withholding taxes paid and accrued consists of the following:

Expanded withholding taxes	₱410,749,647
Tax on compensation and benefits	156,210,208
Final withholding taxes	6,369,149
Total	**₱573,329,004**

Tax Assessment and Cases
The Company has no Final Assessment Notice and/or Formal Letter of Demand from the Bureau of Internal Revenue alleged deficiency income tax, VAT and withholding tax.

SGV
Building a better working world

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Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.
Vicsal Building, Corner of C.D. Seno and W.O. Seno Streets
Guizo, North Reclamation Area, Mandaue City, Cebu

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this Form 17-A, and have issued our report thereon dated March 16, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-A (Group A),
April 21, 2016, valid until April 21, 2019
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621303, January 9, 2018, Makati City

March 16, 2018

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
DECEMBER 31, 2017

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Cash and cash equivalents			
Wealth Development Bank	₱953,365,050	₱953,365,050	
Philippine National Bank	730,430,702	730,430,702	
Security Bank	640,796,666	640,796,666	
Bank of the Philippine Islands	636,326,932	636,326,932	
Land Bank of the Philippines	180,568,655	180,568,655	
Others	436,677,329	436,677,329	
	3,578,165,334	3,578,165,334	40,769,330
Short-term investments			
Bank of the Philippine Islands	300,000,000	300,000,000	
China Bank Savings	300,000,000	300,000,000	
Wealth Development Bank	155,204,271	155,204,271	
	755,204,271	755,204,271	14,858,157
Receivables			
Third parties	810,610,601	810,610,601	
Related parties	99,847,186	99,847,186	
Rentals	23,190,823	23,190,823	
Others	23,998,928	23,998,928	
	957,647,538	957,647,538	
	₱5,291,017,143	₱5,291,017,143	₱55,627,487

SCHEDULE B

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2017

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
N/A	N/A	N/A	N/A	N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS DECEMBER 31, 2017

	Receivable Balance	Payable Balance	Current Portion
Total Eliminated Receivables/Payables	N/A	N/A	N/A

SCHEDULE D

METRO RETAIL STORES GROUP, INC.
SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2017

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
N/A	N/A	N/A	N/A	N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
DECEMBER 31, 2017

Long-term Debt			
Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
N/A	N/A	N/A	N/A

SCHEDULE F

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2017

Indebtedness to related parties (Long-term loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period
N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS DECEMBER 31, 2017

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
DECEMBER 31, 2017

			Capital Stock			
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares	10,000,000,000	3,429,375,000	103,320,000	2,499,801,489	4,505,011	–
Preferred Shares	–	–	–	–	–	–
	10,000,000,000	3,429,375,000	103,320,000	2,499,801,489	4,505,011	–

METRO RETAIL STORES GROUP, INC.

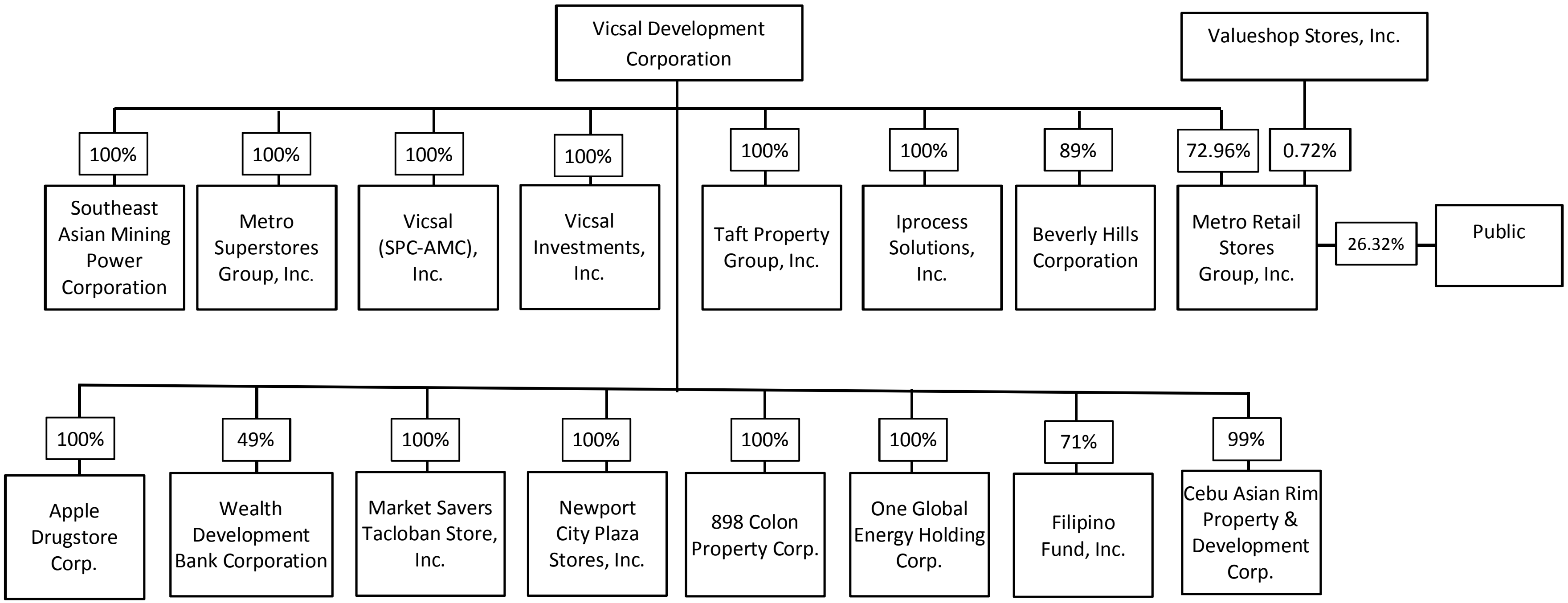
SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2017

Unappropriated Retained Earnings, beginning	**₱1,210,371,451**
Less: Deferred tax assets that reduced the amount of income tax expense	**(135,899,166)**
Unappropriated Retained Earnings as adjusted, beginning	**1,074,472,285**
Net income based on the face of AFS	**976,957,309**
Add: Non-actual/unrealized income net of tax	
Amount of provisions for deferred tax during the year that reduced the amount of tax expense	**32,241,844**
Net Income Actual/Realized	**1,009,199,153**
Less: Dividend declarations during the period	**171,468,750**
Unappropriated Retained Earnings, as adjusted, ending	**₱1,912,202,688**

METRO RETAIL STORES GROUP, INC.

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES

DECEMBER 31, 2017



METRO RETAIL STORES GROUP, INC.

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2017

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements **Conceptual Framework Phase A: Objectives and qualitative characteristics**		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs'			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance	Not early adopted		
	Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4	Not early adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			
	Amendments to PFRS 7: Improving Disclosures about	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Financial Instruments			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement (2010 version)	Not early adopted		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)	Not early adopted		
	Financial Instruments (2014 or final version)	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	Not early adopted		
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	PFRS 12, Clarification of the Scope of the Standard (Part			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	of Annual Improvements to PFRSs 2014-2016 Cycle)			
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not early adopted		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Presentation of Financial Statements – Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Separate Financial Statements			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	the Consolidation Exception			
	Amendments to PAS 28, Sale or Contribution of Assets* between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendments to PAS 34: Disclosure of Information ‘Elsewhere in the Interim Financial Report			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		**Adopted**	**Not Adopted**	**Not Applicable**
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Not early adopted		
IFRIC 23	Uncertainty over Income Tax Treatment	Not early adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Effectivity has been deferred by the Securities and Exchange Commission and FRSC.*

METRO RETAIL STORES GROUP, INC.
FINANCIAL RATIOS
DECEMBER 31, 2017

	December 31	
	2017	2016
CURRENT / LIQUIDITY RATIOS		
Current assets	**₱9,605,884,769**	₱8,973,700,250
Current liabilities	**3,992,099,385**	4,185,577,969
Current Ratios	**2.41**	2.14
Current assets	**9,605,884,769**	8,973,700,250
Merchandise inventories	**4,002,495,549**	4,014,727,305
Other current assets	**185,494,287**	280,729,767
Quick assets	**5,417,894,933**	4,678,243,178
Current liabilities	**3,992,099,385**	4,185,577,969
Quick Ratios	**1.36**	1.12

	December 31	
	2017	2016
SOLVENCY / DEBT-TO-EQUITY RATIOS		
Debt	**₱–**	₱–
Less: Cash and cash equivalents	**3,707,152,708**	3,306,952,158
Net debt	**(3,707,152,708)**	(3,306,952,158)
Equity	**7,943,264,416**	7,145,244,750
Net Debt to Equity Ratio	**(0.47)**	(0.46)

	December 31	
	2017	2016
ASSET TO EQUITY RATIOS		
Total assets	**₱12,720,050,790**	₱12,072,173,486
Total equity	**7,943,264,416**	7,145,244,750
Asset to Equity Ratios	**1.60**	1.69

	December 31		
	2017	2016	2015
INTEREST RATE COVERAGE RATIO			
Net income	**₱976,957,309**	₱789,452,102	₱758,600,589
Add:			
Provision for income tax	**418,766,530**	331,011,581	322,849,865
Interest and other financing charges	**17,576,617**	22,805,794	36,065,857
	1,413,300,456	1,143,269,477	1,117,516,311
Less:			
Interest income	**55,627,487**	60,878,058	13,915,394
EBIT	**1,357,672,969**	1,082,391,419	1,103,600,917
Depreciation and amortization	**519,524,410**	464,842,064	387,127,546
EBITDA	**1,877,197,379**	1,547,233,483	1,490,728,463
Finance costs	**17,576,617**	22,805,794	36,065,857
Finance Costs Coverage Ratio	**106.80**	67.84	41.33

	December 31		
	2017	2016	2015
PROFITABILITY RATIOS			
Net income	**₱976,957,309**	₱789,452,102	₱758,600,589
Revenue	**35,015,740,598**	34,410,947,243	32,304,453,639
Net Income Margin	**2.79%**	2.29%	2.35%
Net Income	**₱976,957,309**	₱789,452,102	₱758,600,589
Total assets CY	**12,720,050,790**	12,072,173,486	11,671,653,258
Total assets PY	**12,072,173,486**	11,671,653,258	8,084,008,438
Average total assets	**12,396,112,138**	11,871,913,372	9,877,830,848
Return on Total Assets	**7.88%**	6.65%	7.68%
Net Income	**₱976,957,309**	₱789,452,102	₱758,600,589
Total equity CY	**7,943,264,416**	7,145,244,750	6,445,222,037
Total equity PY	**7,145,244,750**	6,445,222,037	2,986,702,360
Average total equity	**7,544,254,583**	6,795,233,394	4,715,962,199
Return on Equity	**12.95%**	11.62%	16.09%

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

GENERAL INSTRUCTIONS

(A) Use of Form ACGR

This SEC Form shall be used to meet the requirements of the Revised Code of Corporate Governance.

(B) Preparation of Report

These general instructions are not to be filed with the report. The instructions to the various captions of the form shall not be omitted from the report as filed. The report shall contain the numbers and captions of all items. If any item is inapplicable or the answer thereto is in the *negative*, an appropriate statement to that effect shall be made. Provide an explanation on why the item does not apply to the company or on how the company's practice differs from the Code.

(C) Signature and Filing of the Report

A. Three (3) complete sets of the report shall be filed with the Main Office of the Commission.

B. At least one complete copy of the report filed with the Commission shall be **manually** signed.

C. All reports shall comply with the full disclosure requirements of the Securities Regulation Code.

D. This report is required to be filed annually together with the company's annual report.

(D) Filing an Amendment

Any material change in the facts set forth in the report occurring within the year shall be reported through SEC Form 17-C. The cover page for the SEC Form 17-C shall indicate "Amendment to the ACGR".

SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for **2016**
2. Exact Name of Registrant as Specified in its Charter **METRO RETAIL STORES GROUP, INC.**
3. **The Vicsal Bldng. Corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area, Mandaue City, Cebu, Philippines** **6014**

   Address of Principal Office Postal Code

4. SEC Identification Number **CRN CS200315877**
5. (SEC Use Only) Industry Classification Code
6. BIR Tax Identification Number **226-527-915-000**
7. **32 236-8390**
   Issuer's Telephone number, including area code
8. N/A
   Former name or former address, if changed from the last report

TABLE OF CONTENTS

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A. BOARD MATTERS

1) Board of Directors

Number of Directors per Articles of Incorporation	Seven (7)

Actual number of Directors for the year	Seven (7)

(a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID)[1]	Elected when (Annual /Special Meeting)	No. of years served as director
Frank S. Gaisano	ED	Vicsal Development Corporation ("VDC")	VDC	Aug. 28, 2003	May 6, 2016	Annual	13
Edward S. Gaisano	NED	VDC	VDC	Aug. 28, 2003	May 6, 2016	Annual	13
Margaret G. Ang	NED	VDC	VDC	Aug. 28, 2003	May 6, 2016	Annual	13
Jack S. Gaisano	NED	VDC	VDC	Aug. 28, 2003	May 6, 2016	Annual	13
Arthur M. Emmanuel	ED	VDC	VDC	May 1, 2015	May 6, 2016	Annual	1
Guillermo L. Parayno, Jr.	ID	-	Lucille Malazarte / No relationship	July 16, 2015	May 6, 2016	Annual	10 mos.
Ricardo Nicanor N. Jacinto	ID	-	Lucille Malazarte / No relationship	July 27, 2015	May 6, 2016	Annual	10 mos.

(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

On 13 April 2015, the Board of Directors has adopted the Company's Manual on

[1] Reckoned from the election immediately following January 2, 2012.

Corporate Governance, which aims to institutionalize the principles of good corporate governance (i.e. fairness, accountability, and transparency) in the entire organization (the "Manual"). In the Manual, the Company recognizes that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization. On May 5, 2017, the Company's Board of Directors has approved and ratified the First Amended Manual on Corporate Governance (the "Amended Manual") in compliance with Securities and Exchange Commission (SEC) Memorandum Circular No. 19 Series of 2016, (the "Code of Corporate Governance for Publicly Listed Companies")

In line with the foregoing, under Article XIII of the Amended Manual, the Company affirms that it shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights and provide an adequate venue for them to seek timely redress for violation of their rights. The Board shall be transparent and fair in the conduct of the annual and special stockholders' meeting of the Company and shall provide accurate and timely information to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The Board shall take appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. The Board shall respect the rights of the stockholders as provided for in the Corporation Code, namely:

1.) **Right to vote in all matters that require their consent or approval.**
2.) **Pre-emptive right to all stock issuances of the Corporation, if applicable under the Corporation's Articles of Incorporation and By-Laws;**
3.) **Right to Inspect corporate books and records;**
4.) **Right to information;**
5.) **Right to dividends;**
6.) **Appraisal right;**
7.) **Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting;**
8.) **Right to nominate candidates to the Board of Directors;**
9.) **Right to be informed of the nomination process and voting procedures that would govern the Annual and Special Shareholders' Meeting.**

The Amended Manual also provides that although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Company.

In addition to the foregoing, under Article XV of the Amended Manual, the Company reiterates its commitment to make all material information about the Company which could affect its viability or the interest of its stockholders and stakeholders, available to the publicly in a timely matter. In this connection, the Company's Investor Relations Officer is obliged to regularly conduct media and analysts' briefings to ensure the timely and accurate dissemination of public, material and relevant information to the Company's shareholders and other investors.

(c) How often does the Board review and approve the vision and mission?

The Board shall review the vision annually and the mission every 5 years.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group[2]

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Frank S. Gaisano	Vicsal Development Corporation	NED
	AB Capital & Investment Corporation	Chairman
	Pacific Mall Corporation	Chairman
	Vicsal Investment, Inc.	Chairman
	Taft Property Venture Development Corporation	NED
	Filipino Fund, Inc.	NED
	Taft Punta Engaño Property, Inc.	ED
	HTLand, Inc.	NED
	Direct Model Holdings, Inc.	ED

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Edward S. Gaisano	Vicsal Development Corporation	ED - Chairman
	Wealth Development Bank Corporation	Chairman
	Hyundai Alabang, Inc.	Chairman
	Hyundai Southern Mindanao, Inc.	Chairman
	Pacific Mall Corporation	ED
	Taft Property Venture Development Corporation	NED
	Taft Punta Engaño Property, Inc.	NED
	HT Land, Inc.	NED
	Trilogy Holdings Corporation	ED

[2] The Group is composed of the parent, subsidiaries, affiliates and joint ventures of the company.

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Jack S. Gaisano	Vicsal Development Corporation	NED
	Taft Property Venture Development Corporation	ED-Chairman
	Midland Development Corporation	ED-Chairman
	Vsec.com Inc.	Chairman
	HTLand, Inc.	ED
	Pacific Mall Corporation	NED
	Vicsal Investment, Inc.	NED
	JV.Com.Holdings Inc.	ED

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Margaret G. Ang	Vicsal Development Corporation	ED
	Vicsal Securities & Stock Brokerage, Inc.	ED
	Filipino Fund, Inc.	ED
	Taft Property Venture Development Corporation	ED
	Grand Holidays, Inc.	ED
	Manila Water Consortium, Inc.	NED
	Maric Ventures, Inc.	ED

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group: N/A

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Ricardo Nicanor J. Jacinto, Jr.	SBS Philippines Corporation	Non-Executive

(iii)Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of

Directors, which links them to significant shareholders in the Company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Frank S. Gaisano	Vicsal Development Corporation	Beneficial owner of VDC shares
Edward S. Gaisano	Vicsal Development Corporation	Beneficial owner of VDC shares
Jack S. Gaisano	Vicsal Development Corporation	Beneficial owner of VDC shares
Margaret G. Ang	Vicsal Development Corporation	Beneficial owner of VDC shares

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

Under the Amended Manual, the Board of Directors is given the authority to adopt guidelines on the number of directorships that its members can hold in stock and non-stock corporations. A director is required to notify the Board before accepting a directorship in another company.

	Guidelines	Maximum Number of Directorships in other companies
Executive Director		
Non-Executive Director		
CEO		

(e) Shareholding in the Company

Complete the following table on the members of the Company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Frank S. Gaisano	2		0%
Edward S. Gaisano	75,002		0%
Margaret G. Ang	2	1,831,593	.05%
Jack S. Gaisano	2	485,000	.01%
Arthur Emmanuel	1,500,001		.04%
Guillermo L. Parayno Jr.	1		0%

Ricardo Nicanor N. Jacinto	500,001		.01%

2) Chairman and CEO

(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes [ ] No [x]

Identify the Chair and CEO:

Chairman of the Board and CEO	Frank S. Gaisano
President and COO	Arthur Emmanuel

The Company's Amended Manual specifically delineated the functions of the Chairman and the Chief Executive Officer, in order to provide checks and balances to ensure that the Board gets the benefit of independent views and perspectives.

The Amended Manual provides further that if the positions of Chairman and CEO are not separate and matters for resolution of the Board involve the accountability of Management and there is a perceived conflict of interest in relation thereto, the Chairman shall appoint a lead director from among the independent directors to temporarily preside in the meeting to ensure the independence of the Board. The functions of the lead director shall include, among others, the following:

a) **Serves as an intermediary between the Chairman and the other directors when necessary.**
b) **Convenes and chairs meeting of the non-executive directors.**
c) **Contributes to the performance evaluation of the Chairman, as required.**

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	Chairman and Chief Executive Officer	**President and Chief Operating Officer**
Role	Manage the entire corporate organization	Primarily in charge of operations and merchandising
Accountabilities	Corporate performance	Operating performance
Deliverables	Net income after tax	Operating income

Based on Article VI of the Amended Manual, the duties and responsibilities of the Chairman in relation to the Board shall include, among others, the following:

a) Ensure that the meetings of the Board are held in accordance with the By-Laws of the Corporation. The Chairman shall foster an environment conducive for constructive debate and leveraging on the skills and expertise of the individual directors, during each meeting of the Board.

b) Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, Management and the directors.

In the preparation of the agenda, the Chairman must ensure that the Agenda focuses on strategic matters, including the overall risk appetite of the Corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations.

The Chairman shall ensure that the Board members receive accurate, timely, relevant, insightful, concise, and clear information regarding the agenda items to enable the Board to make sound decisions.

c) Maintain qualitative and timely lines of communication and information between the Board and Management. The Chairman shall ensure that the Board sufficiently challenges and inquires on reports submitted and representations made by Management.

d) The Chairman shall make sure that the performance of the Board is evaluated at least once a year and discussed/followed up on.

The CEO has the following roles and responsibilities, among others:

a) Be responsible for the general management, direction and control of the Corporation, in consultation with the Board, except for any matters requiring the approval of the stockholders and/or the Board in accordance with the Articles of Incorporation, By-Laws or relevant law;

b) Submit reports on the operation of the Corporation to the Board of Directors and an annual report to the Stockholders at the annual meeting;

c) Submit to the Board of Directors such statements, reports, memoranda and accounts as the latter may require, and prepare such statements and reports as may be required from time to time by law;

d) Coordinate, direct and implement matters related to Government relations; shareholder relations; community relations; and must be consulted before the release of media disclosures;

e) **To initiate and develop corporate objectives and policies and formulate long range projects, plans, and programs for the approval of the Board of Directors, including those for executive training, development and compensation;**

f) **Monitor the status of the projects, programs and plans of the Board of Directors as implemented by the President/COO;**

g) **Receive feedback from the President/COO and all Department Heads on the status of projects, programs, and plans including execution of projects and general operations of company systems;**

h) **Observe the preparation of the budgets, strategies, and the statements of accounts of the Corporation;**

i) **Ensure that the strategic, administrative and operational policies of the Corporation are carried out under his supervision and control;**

j) **See to it that the orders and resolutions of the Board of Directors are faithfully carried out;**

k) **Sign and execute for and in behalf of the Corporation, contracts and agreements of which the Corporation is a party; and**

l) **Exercise such other powers, and perform such other duties as the Board of Directors may, from time to time, fix or delegate.**

3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

The Board, through its Nomination & Compensation Committee ensures that there is a succession plan for the CEO, President & COO, and senior executives. The Nomination and Compensation Committee has the authority and obligation to recommend a succession plan for board members and senior officers and establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates, and which shall be commensurate to corporate and individual performance. The remuneration policy should be aligned with the long-term interest of the Corporation and should specify the relationship between remuneration and performance.

4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Yes, it is in the criteria that was used in the selection of the Independent Directors.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes, we have assigned a weight of 15% to "Industry experience and expertise" in the independent director selection criteria that we adopt. It is also indicated as one of the qualifications of our directors based on the Amended Manual.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	Executive	Non-Executive	Independent Director
Role	• Conduct fair business transactions with the Company, and ensure that his personal interest does not conflict with the interests of the Company. • Devote the time and attention necessary to properly and effectively perform his duties and responsibilities • Act judiciously, on a fully informed basis, in good faith and with due diligence and care, and in the best interest of the Corporation and all shareholders. • Exercise independent judgment • Have a working knowledge of the statutory and regulatory requirements that affect the Company, including its Articles of Incorporation and By-Laws, the rules and regulations of the SEC and, where applicable, the requirements of relevant regulatory agencies. • Observe confidentiality.		
Accountabilities	Our directors, whether executive, non-executive or independent, are accountable to the shareholders of the Company. As such, it is clear to them that their duty of care and loyalty is to the Company taken as a whole and so they shall work for its best interests.		
Deliverables	There is no distinction in the deliverables of our directors as they act in a collegial manner. On issues within his/her experience: ▪ Helps others to understand the problem ▪ Ensures Board has the right information ▪ Provides ideas and tools for problem solving		

	On issues beyond his/her experience: ▪ Asks questions ▪ Applies values and judgment to the problem ▪ Brings a fresh perspective from outside sources and experiences ▪ Uses consensus-building skills

Provide the company's definition of "independence" and describe the company's compliance to the definition.

The Company's definition of an independent director is indicated in the Amended Manual:

> **"– a person who is independent of management and the controlling shareholder, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director."**

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

Under the Amended Manual, the Board's independent directors should serve for a maximum cumulative term of nine (9) years. After which, the independent director should be perpetually barred from re-election as such in the Corporation, but may continue to qualify for nomination and election as non-independent director. In the instance that the Corporation intends to retain an independent director who has served for nine (9) years, as a non-independent director, the Board shall provide meritorious justifications/s and obtain shareholders' approval during the annual shareholders meeting.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal – **None**

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
a. Selection/Appointment		
(i) Executive Directors	▪ The BoD conducts a search via the Nomination and Compensation Committee ("Nomelec") to manage the selection and hiring process; ▪ The Nomelec will finalize with the Board the proposed criteria as well as source a comprehensive candidates list ▪ The Nomelec will come up with a shortlist of at least three candidates and present the names to the BOD in order of priority/preference; ▪ Upon the approval of the Board of the shortlisted candidates, the Nomelec shall reach out to candidates following the order of preference to ensure that he/she is willing to stand for election; and ▪ When the candidate expresses his/her willingness to stand for election, a "courtesy meeting" shall then be arranged with the Chairman and members of the Nomelec. ▪ After the courtesy meeting, the Search Committee shall then conclude the search and formally nominates the candidate to the board for election	Under the Company's Amended Manual, a director shall have the following qualifications: a) He must be a holder of at least one (1) share of stock of the Corporation registered under his name; b) He must be a college graduate or holds an equivalent academic degree; c) He must have been engaged in or exposed to the business of the Corporation for at least five (5) years; d) He must be diligent, hardworking, and a person of proven integrity/probity. The Executive Directors are in the board by virtue of their position
(ii) Non-Executive Directors	▪ The BoD conducts a search via the Nomination and Compensation Committee ("Nomelec") to manage the selection and hiring process; ▪ The Nomelec will finalize with the Board the proposed criteria as well as source a comprehensive candidates list ▪ The Nomelec will come up with a shortlist of at least three candidates and present the names to the BOD in order of priority/preference;	In addition to the general qualifications of Directors as stated above, the following criteria are considered in the election of the members of the Board: • Specific Industry know-how • Knowledge and experience in retail • High/distinguished profile • Distinctive "People Leader" • Believer in leadership development • Board experience in other listed

	▪ Upon the approval of the Board of the shortlisted candidates, the Nomelec shall reach out to candidates following the order of preference to ensure that he/she is willing to stand for election; and ▪ When the candidate expresses his/her willingness to stand for election, a "courtesy meeting" shall then be arranged with the Chairman and members of the Nomelec. ▪ After the courtesy meeting, the Search Committee shall then conclude the search and formally nominates the candidate to the board for election	companies • Independence/integrity
(iii) Independent Directors	▪ The BoD conducts a search via the Nomination and Compensation Committee ("Nomelec") to manage the selection and hiring process; ▪ The Nomelec will finalize with the Board the proposed criteria as well as source a comprehensive candidates list ▪ The Nomelec will come up with a shortlist of at least three candidates and present the names to the BOD in order of priority/preference; ▪ Upon the approval of the Board of the shortlisted candidates, the Nomelec shall reach out to candidates following the order of preference to ensure that he/she is willing to stand for election; and ▪ When the candidate expresses his/her willingness to stand for election, a "courtesy meeting" shall then be arranged with the Chairman and members of the Nomelec. ▪ After the courtesy meeting, the Search Committee shall	In addition to the general qualifications of Directors as stated above, the following criteria are considered in the election of Independent Directors: a) Is not a director, senior officer, employee, or substantial stockholder of the Corporation or of its related companies or any of its substantial shareholders (other than as an independent director of any of the foregoing); b) Is not a relative of any director, officer or substantial shareholder of the Corporation, any of its related companies or any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister; c) Is not acting as a nominee or representative of a substantial shareholder of the Corporation, any of its related companies or

	then conclude the search and formally nominates the candidate to the board for election	any of its substantial shareholders; d) Has not been employed in any executive capacity by the Corporation, any of its related companies or any of its substantial shareholders within the last three (3) years; e) Has not been appointed in the Corporation, its subsidiaries, associates, affiliates, or related companies as Chairman "Emeritus", "Ex-Officio" Directors/Officers or members of any advisory board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three (3) years immediately preceding his election. f) Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel by the Corporation, any of its related companies or any of its substantial shareholders within the last three (3) years; g) Has not engaged and does not engage in any transaction with the Corporation or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arm's-length and are immaterial or insignificant. h) Is not a securities broker-dealer of listed companies and

		registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associated person or salesman, and an authorized clerk of the broker or dealer. i) Is not affiliated with any non-profit organization that receives significant funding from the Corporation or any of its related companies or substantial shareholders. j) Is not employed as an executive officer of another company where any of the Corporation's executives serves as directors.
b. Re-appointment		
(i) Executive Directors	Re-appointed on the basis of their position in the Company	
(ii) Non-Executive Directors	Re-appointed on the basis of their shareholdings in the Company	
(iii) Independent Directors	The Board's independent directors should serve for a maximum cumulative term of nine (9) years. After which, the independent director should be perpetually barred from re-election as such in the Corporation, but may continue to qualify for nomination and election as non-independent director. In the instance that the Corporation intends to retain an independent director who has served for nine (9) years, as a non-independent director, the	

	Board shall provide meritorious justifications/s and obtain shareholders' approval during the annual shareholders meeting.	
c. Permanent Disqualification		
(i) Executive Directors (ii) Non-Executive Directors		No person shall be qualified or be eligible for nomination or election to the Board if: a. He is engaged in any business or activity which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be_deemed to be so engaged in any business or activity which competes with or is antagonistic to that of the Corporation – i.If he is a director, officer, manager or controlling person of, or the owner (either of record or beneficially) of 2% or more of any outstanding class of shares of, any corporation (other than one in which the Corporation owns at least 30% of the capital stock) engaged in a business or activity which the Board, by at least a majority vote, determines to be competitive or antagonistic to that of the Corporation; or ii.If he is a director, officer, manager or controlling person of, or the owner (either of record or beneficially) of 2% or more of any outstanding class of shares of, any other corporation or entity engaged in any line of business or activity of the Corporation, when in the judgment of the Board, by at least a majority vote, the laws against combinations in restraint of trade shall be violated by such person's membership in the Board of Directors; or iii.If the Board, in the exercise of its judgment in good faith, determine by at least a majority vote that he is the nominee of any person set forth in (i)

and (ii) directly above.

In determining whether, or not a person is a controlling person, beneficial owner, or the nominee of another, the Board may take into account such factors as business and family relationships.

b. He has any of the disqualifications provided under relevant laws including but not limited to the Revised Code of Corporate Governance of the SEC, or any amendments thereto, such as:

i. Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (i) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (ii) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (iii) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;

ii. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (i) acting as underwriter, broker, dealer investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (ii) acting as director or officer of a bank, quasi- bank, trust company, investment house, or investment company;(iii) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (i) and (ii) above, or willfully violating the laws that govern securities and banking activities.

iii. The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (“BSP”), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization;

v. Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

v. Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;

		vi. Any person judicially declared as insolvent; ii. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (a) to (d) above; Ix Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment; x. Other grounds as the SEC may provide.
(iii) Independent Directors		The Independent Directors have the same grounds for permanent disqualification as the Non-independent Directors. In addition, the following are also grounds for the disqualification of independent directors: a) He becomes an officer or employee of the Company where he is such member of the Board; b) His beneficial security ownership in the Corporation or its subsidiaries and affiliates exceeds two percent (2%) of the outstanding capital stock of the Corporation where he is such director. The disqualification from being elected as an independent director is lifted if the limit is later complied with.
d. Temporary Disqualification		
(i) Executive		a) Refusal to comply with the

Directors		disclosure requirements of the Securities Regulation Code and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists. b) Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election. c) Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination. d) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final. A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.
(ii) Non-Executive Directors		
(iii) Independent		Same grounds as the Non-Independent Directors, as enumerated above.

Directors		
e. Removal		
(i) Executive Directors		The commission of a third violation of the Company's Amended Manual by any member of the Board of the Company shall be a sufficient cause for removal from directorship.
(ii) Non-Executive Directors		The commission of a third violation of the Company's Amended Manual by any member of the Board of the Company shall be a sufficient cause for removal from directorship.
(iii) Independent Directors		The commission of a third violation of the Company's Amended Manual by any member of the Board of the Company shall be a sufficient cause for removal from directorship.
f. Re-instatement – Not available at this time.		
(i) Executive Directors		
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension – Not available at this time.		
(i) Executive Directors		
(ii) Non-Executive Directors		
(iii) Independent Directors		

Voting Result of the last Annual Stockholders' Meeting – May 6, 2016

Name of Director	Votes Received
Frank S. Gaisano	2,503,695,090
Edward S. Gaisano	2,531,900,790
Margaret G. Ang	2,531,900,841

Jack S. Gaisano	2,531,900,840
Arthur Emmanuel	2,531,900,841
Guillermo L. Parayno, Jr.	2,532,815,839
Ricardo Nicanor N. Jacinto	2,532,815,839

6) Orientation and Education Program

First time directors are required to attend an orientation program to be provided by a training provider duly accredited by the Commission and all directors are required to attend an annual continuing training to be provided by such accredited training provider. The courses for the orientation program and continuing training shall comply with the applicable SEC rules and regulations.

(a) Disclose details of the company's orientation program for new directors, if any.
(b) State any in-house training and external courses attended by Directors and Senior Management[3] for the past three (3) years:
(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Frank S. Gaisano	3/9/2016	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Arthur Emmanuel	3/9/2016	Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Margaret G. Ang	12/20/2016	Corporate Governance	Risks, Opportunities, Assessment and Management, Inc.
Jack S. Gaisano	12/20/2016	Corporate Governance	Risks, Opportunities, Assessment and Management, Inc.
Edward S. Gaisano	12/20/2016	Corporate Governance	Risks, Opportunities, Assessment and Management, Inc.
Ricardo Nicanor N. Jacinto	8/3/2016	Corporate Governance Forum	Securities and Exchange Commission
Guillermo L. Parayno	3/14/2017	Corporate Governance Seminar	Institute of Corporate Directors

B. CODE OF BUSINESS CONDUCT & ETHICS

Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

[3] Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

The Company has a Code of Conduct for Directors and Senior Management and a Manual on Company Rules and Regulations Governing Employee Conduct and Discipline for its employees, with the following rules:.

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	Board members shall abstain from discussion, voting or otherwise influencing a decision on any matters that may come before the Board in which they may have a conflict or potential conflict of interest.	Senior Management shall abstain from discussion, voting or otherwise influencing a decision on any matters that may come before the Board in which they may have a conflict or potential conflict of interest.	Employees should not exploit their position with MRSGI for personal gain. They must avoid any personal activity, investment or association which could appear to interfere with good judgment concerning MRSGI's best interest. Any situation, transaction, or relationship that gives rise to actual or potential conflict of interest must be disclosed in writing to the employee's immediate superior.
(b) Conduct of Business and Fair Dealings	A director shall conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation.	Senior Managers shall conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation.	Employees' private interest should not interfere with the interest of the Company. Therefore, they should not engage in personal business transactions that will interfere with their work. However, they may engage in outside work after office hours such as teaching, lecturing, or writing, provided that such activities shall not in any manner: 1. Interfere or affect the efficient performance of their duties and responsibilities; 2. Compete with the business of MRSGI

			or be interpreted by others as conflicting with MRSGI's interest; 3. Involve the use of MRSGI's confidential information; or 4. Bring MRSGI into discredit or cause adverse criticism.
(c) Receipt of gifts from third parties	A director shall not accept from or give to stakeholders gifts or other benefits not customary in normal social intercourse;	Senior Managers shall not accept from or give to stakeholders gifts or other benefits not customary in normal social intercourse;	Employees should not receive monetary favors, gifts, bribes, or kickbacks from a third party as a result of their position in MRSGI.
(d) Compliance with Laws & Regulations	It is the duty of the Directors to ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices.	The Company seeks to conduct its business honestly and with integrity. The Company expects all employees to maintain high standards of business conduct and to report any wrongdoing that falls short of these fundamental principles. It is the responsibility of all employees, suppliers/contractors, and those working for and/or dealing with the Company to raise any concerns that they might have about malpractice within the workplace.	The Company seeks to conduct its business honestly and with integrity. The Company expects all employees to maintain high standards of business conduct and to report any wrongdoing that falls short of these fundamental principles. It is the responsibility of all employees, suppliers/contractors, and those working for and/or dealing with the Company to raise any concerns that they might have about malpractice within the workplace.
(e) Respect for Trade Secrets/Use of Non-public Information	A director shall not use any information or opportunity received by them in their capacity as Directors or senior managers in a manner that would be detrimental or	Senior Managers shall not use any information or opportunity received by them in their capacity as Directors or senior managers in a manner that would be detrimental or	All Store and Company information, transactions, and documents are deemed confidential and shall not be disclosed to anybody except to and by authorized personnel. It shall be

	prejudicial to the Company's interest. Respect and preserve the confidentiality of information relating to the affairs of the Company acquired in the course of their service as Directors or senior managers, except when authorized or legally required to disclose such information;	prejudicial to the Company's interest. Respect and preserve the confidentiality of information relating to the affairs of the Company acquired in the course of their service as Directors or senior managers, except when authorized or legally required to disclose such information;	the responsibility of every employee to keep in strictest confidence all matters pertaining to the Company's operations and transactions during or even after their employment with the Company.
(f) Use of Company Funds, Assets and Information	A director shall not use the Company's property, resources, or position for personal gain	Senior managers shall not use the Company's property, resources, or position for personal gain	All employees must exercise due care and diligence to avoid loss, wastage, damage,or misuse of MRSGI's assets and properties. They should conserve MRSGI's resources and use them only for authorized activities and purposes.
(g) Employment & Labor Laws & Policies	The Company shall strictly observe and comply with the Labor Code and its implementing rules and regulations. The Company recognizes that its employees are its number one asset or resource.	The Company shall strictly observe and comply with the Labor Code and its implementing rules and regulations. The Company recognizes that its employees are its number one asset or resource.	The Company shall strictly observe and comply with the Labor Code and its implementing rules and regulations. The Company recognizes that its employees are its number one asset or resource.
(h) Disciplinary action	To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's	To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's	Violations and infractions of the Company's Manual on Company Rules and Regulations Governing Employee Conduct and Discipline shall subject the employee to disciplinary action which Management

	directors, officers, and employees, in case of violation of any of the provisions of this Manual: 1) In case of first violation, the subject personnel shall be reprimanded. 2) Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation. 3) For third violation, the maximum penalty of removal from office shall be imposed. The commission of a third violation of this Manual by any member of the Board of the Corporation shall be a sufficient cause for removal from directorship. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review	directors, officers, and employees, in case of violation of any of the provisions of this Manual: 1) In case of first violation, the subject personnel shall be reprimanded. 2) Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation. 3) For third violation, the maximum penalty of removal from office shall be imposed. The commission of a third violation of this Manual by any member of the Board of the Corporation shall be a sufficient cause for removal from directorship. The Compliance Officer shall be responsible for determining violation/s through notice and hearing and shall recommend to the Chairman of the Board the imposable penalty for such violation, for further review and approval of the Board.	shall administer in a fair, firm, objective, and consistent manner. Due process in the administration of disciplinary cases shall be safeguarded at all times. Penalties are to be imposed to correct unacceptable conduct and to restore order.

	and approval of the Board.		
(i) Whistle Blower	The Company seeks to conduct its business honestly and with integrity. The Company expects all employees to maintain high standards of business conduct and to report any wrongdoing that falls short of these fundamental principles. It is the responsibility of all employees, suppliers/contractors, and those working for and/or dealing with the Company to raise any concerns that they might have about malpractice within the workplace.	The Company seeks to conduct its business honestly and with integrity. The Company expects all employees to maintain high standards of business conduct and to report any wrongdoing that falls short of these fundamental principles. It is the responsibility of all employees, suppliers/contractors, and those working for and/or dealing with the Company to raise any concerns that they might have about malpractice within the workplace.	The Company seeks to conduct its business honestly and with integrity. The Company expects all employees to maintain high standards of business conduct and to report any wrongdoing that falls short of these fundamental principles. It is the responsibility of all employees, suppliers/contractors, and those working for and/or dealing with the Company to raise any concerns that they might have about malpractice within the workplace.
(j) Conflict Resolution	The Company is in the process of adopting a Policy on Conflict Resolution	The Company is in the process of adopting a Policy on Conflict Resolution	The Company is in the process of adopting a Policy on Conflict Resolution

1) Has the code of ethics or conduct been disseminated to all directors, senior management and employees? **Yes**

2) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

Under the Company's Code of Ethics, any concern involving malpractice or wrongdoing by any member of the Board of Directors or any senior manager of the Company shall be reported to the Company's Chief Strategy and Governance Officer. Concerns may be raised orally or in writing and should specify whether the employee or complainant wishes his/her identity to be kept confidential or not. The Company's Governance Committee shall then proceed to investigate the said concern and report directly, and make the appropriate recommendations, to the Company's Chairman and Chief Executive Officer.

A Director or senior manager who has concerns regarding compliance with this Code should raise those concerns to the Chairman of the Board and the Chairman of the Audit and Risk Committee, who will determine what action shall be taken to deal with the concern. In the extremely unlikely event that a waiver of this Code for a Director or senior manager would be in the best interest of the Company, said waiver must be approved by the Audit and Risk

Committee and the Board of Directors.

3) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures
(1) Parent Company (2) Joint Ventures (3) Subsidiaries (4) Entities Under Common Control (5) Substantial Stockholders (6) Officers including spouse/children/siblings/parents (7) Directors including spouse/children/siblings/parents (8) Interlocking director relationship of Board of Directors	1. It is the responsibility of each director or senior manager to promptly notify the Board, through the Audit and Risk Committee, of any proposed related party transaction as soon as they become aware of it to ensure that potential conflicts of interest are disclosed and brought to the attention of management. 2. The Audit and Risk Committee shall clearly define the thresholds for disclosure and approval of related party transactions and categorize such transactions that need not be reported or announced, those that need to be discussed and those that need prior approval by the Audit and Risk Committee and the Board. In determining the categories of related party transactions, the Audit and Risk Committee shall set the materiality thresholds for each category. 3. For related party transactions which have been determined to require Board approval, the Audit and Risk Committee shall review the proposed related party transaction and determine whether or not the said transaction shall benefit the Company and if the terms of the transaction are at arm's length and at fair market value. 4. After review by the Audit and Risk Committee, the related party transaction under review shall be presented to the Company's Board of Directors for approval.

	5. To the extent required by applicable laws or regulations, the Company shall disclose all material related party transactions in its annual financial statements and website. Moreover, the Company shall not provide lending to related parties unless done on market terms and conditions (arm's length basis). Lending to related parties shall not exceed more than five percent (5%) of the Company's total stockholders' equity. 6. The Company's independent external auditor shall be required to review all material related party transactions included in the financial statements to provide assurance as to the accuracy of the information reported.

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

		Details of Conflict of Interest (Actual or Probable)
Name of Director/s	Frank S. Gaisano; Margaret G. Ang; Edward S. Gaisano; Jack S. Gaisano	These directors are also directors Vicsal Development Corporation
Name of Officer/s		
Name of Significant Shareholders	Vicsal Development Corporation	VDC is the Lessor of several of the Company's store sites.

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

A director shall conduct fair business transactions with the Corporation, and ensure that his personal interest does not conflict with the interests of the Corporation.

The basic principle to be observed is that a director should not use his position to profit or gain some benefit or advantage for himself and/or his related interests. He should avoid situations that may compromise his impartiality. If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process.

A conflict of interest shall be considered material if the director's personal or business interest is antagonistic to that of the Corporation, or stands to acquire or gain financial advantage at the expense of the Corporation.

A director who has a continuing material conflict of interest should seriously consider resigning from his position.

4) Family, Commercial and Contractual Relations

(a) Indicate, if applicable, any relation of a family,[4] commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company: **None**

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship

(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
Vicsal Development Corporation	Lessor	VDC is the Lessor of several of the Company's store sites.

(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company: **None**

[4] Family relationship up to the fourth civil degree either by consanguinity or affinity.

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction

5) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities. **The Company has not had any disputes with its stockholders and any regulatory authority in the last three (3) years.**

	Alternative Dispute Resolution System
Corporation & Stockholders	This is being developed.
Corporation & Third Parties	Depends on contractual provisions.
Corporation & Regulatory Authorities	This is being developed.

C. BOARD MEETINGS & ATTENDANCE

1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

Regular meetings of the Board of Directors for a particular calendar year are scheduled at the end of the immediately preceding year.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Frank S. Gaisano	May 6, 2016	13	13	100%
Member	Edward S. Gaisano	May 6, 2016	13	11	85%
Member	Jack S. Gaisano	May 6, 2016	13	10	77%
Member	Margaret G. Ang	May 6, 2016	13	10	77%
Member	Arthur Emmanuel	May 6, 2016	13	11	85%
Independent	Guillermo L. Parayno	May 6, 2016	13	12	92%

Independent	Ricardo Nicanor N. Jacinto	May 6, 2016	13	13	100%

3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times? **No**

4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

   No, the minimum quorum is determined by a simple majority or, in the case of the Company, at least 4 directors.

5) Access to Information

   (a) How many days in advance are board papers[5] for board of directors meetings provided to the board?

   At least five (5) calendar days.

   (b) Do board members have independent access to Management and the Corporate Secretary?

   Yes

   (c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

   Under the Company's Amended Manual, the Corporate Secretary shall –

   a) **Assist the Board and the board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual board calendar, and assisting the chairs of the Board and its committees to set agendas for those meetings.**

   b) **Inform the members of the Board, in accordance with the By Laws, of the agenda of their meetings at least five (5) working days in advance and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval.**

   c) **Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so.**

   d) **Ensure that all Board procedures, rules and regulations are strictly followed by the members.**

   e) **Advises on the establishment of board committees and their terms of reference.**

[5] Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

f) **Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Corporation.**

g) **Be loyal to the mission, vision and objectives of the Corporation.**

h) **Work fairly and objectively with the Board, Management, stockholders and stakeholders, and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including shareholders.**

i) **Have appropriate administrative and interpersonal skills.**

j) **Keep abreast on relevant laws, regulations, all government issuances, relevant industry developments and operations of the Corporation, and advises the Board and the Chairman on all relevant issues as they arise.**

k) **Have a working knowledge of the operations of the Corporation.**

l) **Oversees the drafting and/or amendments to the Corporation's By-Laws and ensures that they conform with regulatory requirements.**

m) **Performs such other duties and responsibilities as may be provided by the SEC or delegated by the Board.**

(d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes.

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes [x] No [ ]

Committee	Details of the procedures
Audit and Risk	All committee members are briefed before a formal committee meeting so as to properly appraise and prepare the Director for the committee meetings. Summary documents are likewise sent to the committee members a day or two before the meetings.
Governance	
Nomination and Compensation	
Investment	

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details: **Directors are encouraged to seek external advise when necessary and appropriate.**

Procedures	Details

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change: **None**

Existing Policies	Changes	Reason

D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

<table>
<tr><th>Process</th><th>CEO</th><th>Top 4 Highest Paid Management Officers</th></tr>
<tr><td>(1) Fixed remuneration</td><td rowspan="6">• The Nomination and Compensation Committee deliberates on this and then presents its recommendation to the Company’s Board for approval</td><td rowspan="6">• The Nomination and Compensation Committee deliberates on this and then presents its recommendation to the Company’s Board for approval</td></tr>
<tr><td>(2) Variable remuneration</td></tr>
<tr><td>(3) Per diem allowance</td></tr>
<tr><td>(4) Bonus</td></tr>
<tr><td>(5) Stock Options and other financial instruments</td></tr>
<tr><td>(6) Others (specify)</td></tr>
</table>

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company’s policy on remuneration and the structure of its compensation package.

Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	Fixed monthly compensation plus nominal per diems per board and committee meeting	Fixed monthly compensation plus nominal per diems per board and committee meeting	Fixed monthly compensation plus nominal per diems per board and committee meeting
Non-Executive Directors	Nominal amount as director's fees	Purely board and committee fees	Fixed amount per board and/or committee meeting

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years. **Not applicable.**

Remuneration Scheme	Date of Stockholders' Approval

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	₱ 24,700,000.00	N/A	
(b) Variable Remuneration	N/A	N/A	N/A
(c) Per diem Allowance – BoD Meetings (per meeting)	₱10,000.00 (net)	₱10,000.00 (net)	₱150,000.00 (Gross)
(d) Per diem Allowance – Committee Meetings (per meeting)	₱10,000.00 (net)	₱10,000.00 (net)	Chairman:₱ 45,000.00 (Gross) Member:₱ 40,000.00 (Gross)
(e) Bonuses	N/A	N/A	N/A
(f) Stock Options	N/A	N/A	N/A

and/or other financial instruments			
(g) Others (Specify)			
Total			

Other Benefits	**Executive Directors**	**Non-Executive Director (other than independent directors)**	**Independent Directors**
1) Advances	N.A.	N.A.	N.A.
2) Credit granted	N.A.	N.A.	N.A.
3) Pension Plan/s Contributions	N.A.	N.A.	N.A.
(d) Pension Plans, Obligations incurred	N.A.	N.A.	N.A.
(e) Life Insurance Premium	N.A.	N.A.	N.A.
(f) Hospitalization Plan	N.A.	N.A.	N.A.
(g) Car Plan	N.A.	N.A.	N.A.
(h) Others (Specify)	N.A.	N.A.	N.A.
Total			

4) Stock Rights, Options and Warrants

(a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares: **None.**

Director's Name	**Number of Direct Option/Rights / Warrants**	**Number of Indirect Option/Rights / Warrants**	**Number of Equivalent Shares**	**Total % from Capital Stock**

(b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting: **None.**

Incentive Program	Amendments	Date of Stockholders' Approval

5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

Name of Officer/Position	Total Remuneration
Vincent E. Tomaneng – Corporate Secretary and Chief Legal Counsel	Php27,825,942.33
Joselito G. Orense – Treasurer and Chief Financial Officer	
Luz A. Bitang – Vice President and Head for Store Operations	
Karen H. Gaviola-Climaco – Compliance Officer / Asst. Corporate Secretary	
Ricardo B. Aguas Jr. – Vice President, Supply Chain	

E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)	
Audit and Risk Management	0	1	2	Yes
Governance	1	2	1	Yes
Nomination and Compensation	1	1	1	Yes
Investment	1	1	1	Yes
Others (specify)				

Committee	Functions	Key Responsibilities	Power
Audit and Risk Management	1) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations. 2) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts. 3) Review the reports submitted by the internal and external auditors. 4) Review the financial statements before their submission to the Board, with particular focus on the following matters: • Any change/s in accounting policies and practices • Major judgmental areas • Significant adjustments resulting from the audit • Going concern assumptions • Compliance with accounting standards • Compliance with tax, legal and regulatory requirements. 5) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the	1) Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from Management of information on risk exposures and risk management activities. 2) Perform oversight functions over the Company's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions. 3) Organize an Internal Audit Department, and consider the appointment of an independent Internal Auditor and the terms and conditions of its engagement and removal. 4) Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security. 5) Coordinate, monitor and facilitate compliance with laws, rules and regulations.	1) Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget necessary to implement it.

	external auditor and to the Company's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Corporation's annual report. 6) Define the strategies for managing and controlling the major risks. Identify practical strategies to reduce the chance of harm and failure, or minimize losses if the risk becomes real. 7) Assess the probability of each risk becoming a reality and shall estimate its possible effect and cost.	6) Establish and identify the reporting line of the Internal Auditor to enable him to properly fulfil his duties and responsibilities. He shall functionally report directly to the Audit and Risk Committee. The Audit and Risk Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties. 7) Oversee the implementation of the risk management strategies and policies.	
Gover-nance	The Committee shall have the following functions, among others that may be delegated by the Board: a) Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environments. b) Oversees the periodic performance evaluation of the Board and its committees as well as Management, and conducts an annual self-evaluation of its performance.	The Corporate Governance Committee is tasked with ensuring compliance with and proper observance of corporate governance principles and practices.	

	c) Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement. d) Recommends continuing education and/or relevant training programs for directors. e) Develop, review and recommend to the Board a set of corporate governance policies and guidelines applicable to the Corporation, including the amendments or revisions to this Manual, and ensures that these are reviewed and updated regularly. f) Responsible for overseeing the Corporation's implementation and effectiveness of its corporate governance, including the annual accomplishment of the scorecard on the scope, nature and extent of the actions undertaken by the Corporation to meet the objectives of this Manual. g) To maintain an informed status on issues related to the Corporation's corporate social responsibility, public policy and philanthropy, and those affecting the name, reputation and goodwill of the Corporation.		
Nomination and Compensation	(1) Review and evaluate the qualifications of all individuals nominated to the Board and other appointments that require Board approval,	(1) Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that	

	and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors. (2) Pre-screen and shortlist all candidates nominated to become a member of the Board in accordance with the qualifications and disqualifications of a director.	their compensation is consistent with the Company's culture, strategy and the business environment in which it operates.	
Investment	1) Evaluate and enhance the Company's investment processes. 2) Recommend the hiring and termination of investment managers.	(1) Establish, review and recommend to the Board the policies and strategies to be adopted by the Company regarding the investment activities and portfolios necessary to achieve its goals and objectives.	
Others (specify)	-	-	-

2) Committee Members

(a) Audit and Risk Management Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Guillermo L. Parayno, Jr.	May 6, 2016	3	3	100%	1 year
Member (NED)	Margaret G. Ang	May 6, 2016	3	3	100%	1 year
Member (ID)	Ricardo Nicanor N. Jacinto	May 6, 2016	3	3	100%	1 year

Disclose the profile or qualifications of the Audit Committee members.

Guillermo L. Parayno, Jr.

***Guillermo L. Parayno, Jr.*, 68,was elected as an independent Director of the Company on July 16, 2015. Mr. Parayno is also the Chairman and President of E-Konek Pilipinas, Inc. and the Director and Vice Chairman of Philippine Veterans Bank. He is also President of the Parayno Consultancy Services on logistic and distribution, customs, information, technology and taxation, the Project Management Consultant for the Revenue Administration Reform Program, Millennium Challenge Account Philippines, and the Chairman & President of Bagong Silang Farms, Inc. Previously, Mr. Parayno led several Asian Development Bank Missions relating to Trade Facilitation and served as Commissioner of the Bureau of Internal Revenue.**

Margaret G. Ang

***Margaret G. Ang*, 65, has served as Director of the Company since 2003 and its Corporate Secretary until July 26, 2015. Ms. Ang received a bachelor of science degree, major in accounting (1974, *Cum Laude*), from the University of San Carlos, Cebu City and is a certified public accountant. She currently serves as Director and Corporate Secretary of Vicsal Development Corporation, Taft Property Venture Development Corporation and Vicsal Securities & Stock Brokerage, Inc. Ms. Ang is also the President of Filipino Fund, Inc. and of Grand Holidays, Inc. Additionally, she serves as a director of Manila Water Consortium, Inc. and as a Trustee of Vicsal Foundation, Incorporated.**

Ricardo Nicanor N. Jacinto

***Ricardo Nicanor N. Jacinto*, 56, was elected as an independent Director of the Company on July 27, 2015. He obtained his Master's Degree in Business Administration from Harvard University in 1986.Mr. Jacinto is President & CEO of the Institute of Corporate Directors and the Nicanor P Jacinto Jr Foundation. He is also a Director of LLL Holdings, Inc. and former Director of the Manila Water Company. Mr. Jacinto previously served as Chief Executive Officer and President of Habitat for Humanity Philippines, a foundation supported by Ayala Corp.**

Describe the Audit and Risk Committee's responsibility relative to the external auditor.

The Audit and Risk Committee perform oversight functions over the Corporation's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

In addition, the Audit and Risk Committee is required to evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Corporation's overall consultancy expenses. The committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Corporation's annual report.

(b) Governance Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED)	Edward S. Gaisano	May 6, 2016	1	1	100%	1 year
Member (ED)	Arthur Emmanuel	May 6, 2016	1	1	100%	1 year
Member (NED)	Margaret G. Ang	May 6, 2016	1	1	100%	1 year
Member (ID)	Guillermo L. Paryno Jr.	May 6, 2016	1	1	100%	1 year
Member						

(c) Nomination and Compensation Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Frank S. Gaisano	May 6, 2016	2	2	100%	1 year
Member (NED)	Margaret G. Ang	May 6, 2016	2	2	100%	1 year
Member (ID)	Ricardo Nicanor N. Jacinto	May 6, 2016	2	2	100%	1 year

(d) Investment Committee

Provide the same information on all other committees constituted by the Board of Directors:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (NED)	Jack S. Gaisano	May 6, 2016	2	2	100%	1 year
Member (ED)	Frank S. Gaisano	May 6, 2016	2	2	100%	1 year
Member (ID)	Ricardo Nicanor N. Jacinto	May 6, 2016	2	2	100%	1 year

3) Changes in Committee Members **None for 2016**

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Governance		
Audit		
Nomination		
Remuneration		
Others (specify)		

4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Governance	Approval of various corporate governance policies	Identification, formulation, and implementation of corporate governance policies required by the Company.
Audit and Risk	Approval of Audited Financial Statements and appointment of external auditor	Procedure for approval of related party transactions Issues identified by internal and external auditors
Nomination and Compensation	Endorsement of nominees to the Board Succession Planning	Identification of criteria for nominees to the board and top management positions
Investment	Approval of new store sites	Identification of possible store sites
Others (specify)		

5) Committee Program – **This is still being developed.**

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive		
Audit		
Nomination		
Remuneration		
Others (specify)		

F. RISK MANAGEMENT SYSTEM

1) Disclose the following:

(a) Overall risk management philosophy of the company;

Sustaining the Company's Enterprise Risk Management framework are 10 principles and they combine to reinforcing the integrity and functionality of the framework:

a) **Maintain an effective and relevant framework. The Company will ensure that the ERM framework's design is reviewed at least on an annual basis to ensure that it is appropriate to the changing businesses needs and is sufficiently dynamic to identify key potential threats within the organization's operating environment. Standards and limits employed in risk and quality measurements, such as on Key Performance Indicators and Key Risk Indicators, should reflect the "latest" business development. The Company will ensure that through the uses of the framework, it will regularly review its appetite for retaining risk. In doing so it will ensure that the appropriate risk treatment strategies are in place to effectively manage inappropriate exposures.**

b) **Establish a clear and accountable governance structure. The Company will ensure that the framework's ERM governance structure is well defined; that roles and accountability are clear for all risk and risk owners. This enables the appropriate levels of assurance, control and oversight to be utilized in managing the Company's risks.**

c) **Push ownership to the level where decisions can be taken. Given the time criticality of the operations at the Company, staff that possesses the relevant risk information and knowledge must have the authority and understanding to act. They must be encouraged to own the challenge and not to pass around the responsibility. Good governance means encouraging accountability and decision making at the proper working level.**

d) **Keep the Board informed. The second criteria for good governance is to keep the Board of Directors informed and where key decisions had been taken, these should be appropriately checked at the proper level and that such information be escalated. Likewise, the Board understands how and when to seek additional information. The Head of Risk Management will have direct access to leaders of each departments and the Board itself.**

e) **Balance risks with opportunities. The Company will ensure that framework and culture drives behavior of responsible, accountable and transparent decision making. All key decisions will be made through the use of risk-based information and will consider both potential downside impacts and losses as well as upside opportunities.**

f) **Focus on preventive control measures. Ideally actions should contribute to preventing any form of business interruption. Prevention is much more powerful and cost effective than any cure and every effort should be made to prevent delay or interruption of any key process processes.**

g) **Minimize time and cost in corrective control measures. In the unfortunate event that one of the business requires the engagement of BCPs; every effort should be taken to return the operation to normality as soon as possible. Time, cost, and systemic risks inevitably will escalate the longer is the recovery.**

h) **Foster a sustainable, positive and robust culture. The Company will ensure that it creates the optimal environment for the development of a sustainable, positive and robust risk management culture that encourages risk identification, reporting, transparency and accountability across the enterprise. This will be a culture that is fully supported by the Company's board and senior management and one that extends to key stakeholders.**

i) **Facilitate and share isomorphic learning. The Company will ensure that it learns from losses and past experience associated to risk. A bias towards knowledge management, innovation, training and development, and continual refinement will assure the framework will continue to improve and become a living system. The higher the understanding of ERM by staff and participants, the stronger will be the framework. Knowledge management should be a practice and not only a belief.**

j) **Communicate openly and proactively. The Company's management and staff will promote and engage in open and proactive communication about key risks at all levels of the organisation. Transparency is critical and helps to strengthen understanding and improve governance.**

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Company, in its Amended Manual, formally recognized an Enterprise Risk Management Framework.

(c) Period covered by the review;

N/A

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

The following functions of the Risk Management System, are the criteria to be used in determining the effectiveness of the ERM:

a. **Defining a risk management strategy.**
b. **Identifying and analyzing key risks exposure relating to economic, environmental, social and governance factors and achievement of the organization's strategic objectives.**
c. **Evaluating and categorizing each identified risk using the Corporation's predefined risk categories and parameters.**
d. **Establishing a risk register with clearly defined, prioritized and residual risks.**
e. **Developing a risk mitigation plan for the most important risks to the Corporation, as defined by the risk management strategy.**
f. **Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Audit and Risk Committee.**
g. **Monitoring and evaluating the effectiveness of the organization's risk management processes.**

(e) Where no review was conducted during the year, an explanation why not.

As stated above, it was only recently, that the Company's Board of Directors formally recognized the Company's Management Risk Oversight Committee, and defined the functions and responsibilities of such Committe. Moving forward, the Company shall review its risk management function regularly.

2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

The Company risk register consist of all extreme risk which were identified at departmental level and verified at senior management level.

Twenty five (25) Risk is documented and twenty one (21) risk recorded are extreme risks.

Risk Exposure	Factors Affecting Risk Mitigation Initiatives
Security	Limitation of Fire Protection and Evacuation Paths
Products	Product contamination, food scare and food poisoning
Marketing	Ineffective promotion campaign; Poor customer service and satisfaction
Political	Delay in gov't. Approval and permits; Difficulty in managing and dealing with gov't. official
People	Lack of key staff for store expansion
New Store	Difficulty in securing preferred sites in a highly challenging market; Fire protection system not completed on store opening day
Operational	Delay in stock delivery to stores; Natural Disasters; Overstocking; Shrinkage in Stock; Under Stocking/Out of Stock at Store
Financial	Data Integrity in Finance Applications; Qualified Opinions by Auditors; Surging land acquisition costs
IT	Discrepancies and in price tags and item barcodes and POS; Slow, erroneous or no response from critical IT application
Strategic	Economic slowdown impact on store sales; Fallout with major mall operators; Fierce competition with existing players; High turnover of Senior Mgt. Team; Limited Variety of Products at dept. stores; Major incident at store impact of the Company reputation; Supply chain challenges for new stores

(b) Group – **N/A**

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

Risk to Minority Shareholders
Vicsal Development Corporation, the Company's controlling shareholder effectively owns 2,489,800,000 shares in the Company or a total of approximately 73% of the Company's voting stock.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the Company:

Risk Exposure	Department Involve	Risk Management and Control	Control Effectiveness
New Store – Difficulty in securing preferred sites in a highly challenging market.	Business Development Group; Land and Space Group	1. Investment Committee delegates certain authority (10% of price) to CEO and/or President/COO to speed up decision making 2. Initial land evaluation by Land and Space Group 3. Valuations above P20m requires verification by 3rd party appraiser 4. Legal and property (technical) due diligence 5. Maintain relationship with government officials	Moderate

		6. Maintain relationship with property developers and real estate brokers 7. Partnership with property developer (e.g. Ayala) 8. Different expansion strategy depending on region. (e.g. acquire existing retails)	
Operational - Overstocking	Merchandising; Merchandising Support	1. Inventory level monitoring 2. Sales and promotions 3. Adjustment at the next purchasing 4. Review and adjust replenishment parameters	Moderate
Political – Delay in gov't. Approval and permits;	Business Development; Construction	1. Relationship with the national and local governments	Uncontrollable
Strategic – Limited Variety of Products at dept. stores	Merchandising; Store Operations	1. Partnership with well-known brand names (e.g. Sony) 2. Product mix cater to local community	Moderate
IT – Discrepancies and in price tags and item barcodes and POS	Merchandising; Merchandising Support	1. Pre-scanning of items by stores 2. Verification upon receipts of goods against PO. Re-tag if error and charge back to suppliers 3. Discrepancies escalated to MSG and verify the true price 4. Manual override at check-out counters	Moderate
Natural Disasters	General Loss Prevention; Store Planning & Engineering; Security	1. Evacuation exercise 3 times a year 2. Construction quality to resist earthquake 3. Emergency procedures upon typhoon (dedicated staff to monitor) 4. Rectification to roof	Moderate

		structure for typhoon area 5. Multiple (3) pumps for basement floor with redundancy	
Shrinkage in Stock	Finance, General Loss Prevention; Merchandising; Store Operations; Supermarket; Supply Chain	1. Stock count and sampling at stores. Increase sampling rate if discrepancies found. 2. Weekly count for food and non-food at stores. Monthly for fresh. 3. Annual count at warehouse 4. Reject damaged goods and return to suppliers 5. Internal auditor (financial) at most stores. Auditor from corporate to perform random check. 6. Security check to prevent theft 7. Logistics and warehouse contractors to compensate if responsible for damaged goods 8. Root cause analysis by GLP on major variation	Moderate
Out of Stock at Store	Merchandising; Merchandising Support; Store Operations; Supermarket	1. Dedicated replenishment team 2. Weekly sales figures and forecasts 3. Cycle counts at store to rectify inventory records 4. Weekly monitor CSL, in-stock level, suppliers	Moderate

(b) Group – **Not Applicable**

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

Risk Exposure	Risk Assessment (Monitoring and Measurement Process)	Risk Management and Control (Structures, Procedures, Actions Taken)

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Board of Directors (“Board”)	Ensure that risk assessment is carried out regularly throughout the organization, as part of the enterprise risk management. Responsible for setting this Risk Management Policy and for monitoring its implementation.	• Overall duty of care to ensure that there are adequate systems in place to manage risk and to ensure compliance with laws and regulatory requirements; • Oversee the progress of enterprise risk management (or delegate this role to the Risk Committee); • Approve the ERM Policy; • Periodically review management reports on the overall risk profile and risk treatment plans; • Ensure that a risk management culture is embedded in the Company’s culture that is appropriate for the company’s objectives; and Ensure that an internal control system and adequate risk management are in operation by providing guidance and oversight on the scope and nature of Risk Management.
Audit and Risk Committee	The Audit and Risk Committee shall be responsible for the oversight of the	• Assess the probability of each risk becoming a reality and shall estimate its possible effect and cost.

	Corporation's Enterprise Risk Management system to ensure its functionality and effectiveness.	• Define the strategies for managing and controlling the major risks. Identify practical strategies to reduce the chance of harm and failure, or minimize losses if the risk becomes real. • Oversee the implementation of the risk management strategies and policies. • Develop a formal enterprise risk management plan which contains the following elements: (i) common language or register of risks, (ii) well-defined risk management goals, objectives and oversight, (iii) uniform processes of assessing risks and developing strategies to manage prioritized risks, (iv) designing and implementing risk management strategies, and (v) continuing assessments to improve risk strategies, processes and measures. • Oversee the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The Committee conducts regular discussion on the Corporation's prioritized and residual risk exposures based on regular risk management reports and

		assesses how the concerned units or offices are addressing and managing these risks. • Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The Committee revisits defined risk management strategies, looks for emerging or changing material exposures, and stays abreast of significant development that seriously impact the likelihood of harm or loss. • Advise the Board on its risk appetite levels and risk tolerance limits. • Review at least annually the Corporation's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Corporation. • Assess the probability of each identified risk becoming a reality and estimates its possible

		significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its stakeholders. • Provides oversight over Management's activities in managing credit, market liquidity, operational, legal and other risk exposures of the Corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management. • Report to the Board on a regular basis, or as deemed necessary, the Corporation's material risk exposures, the actions taken to reduce the risks, and recommend further actions or plans, as necessary. •
Senior Management	Undertake and sponsor key risk management activities undertaken by the Risk Management Department and provides adequate support, in terms of availability, budget, resources etc., to risk management initiatives. They must ensure the key risks are effectively assessed, managed and	• Ensure that the Risk Registers are maintained effectively and consistently at all levels and departments; • Work with departments by providing support to them to identify, analyze and rank risks; • Aggregate output from all Departments to form an enterprise-level risk register

	communicated to the Board.	and to have all the risks analyzed and evaluated;
		• Communicate and manage the establishment and on-going maintenance of an ERM Policy and Framework
		
		• Ensure adequate and feasible risk control measures such as internal process controls are in place;
		
		• Update and improve the ERM Framework;
		
		• Provide support to ensure that the ERM process is integrated in the routine activities of the business and that all significant risks are being recognised and effectively managed in a timely manner;
		
		• Coordinate ERM education, training and certification;
		
		• Report on key deviations and changes of key risks indicators and performance indicators (applicable at operation stage only) and ensure that they are effectively monitored, reported, updated, and controlled within a certain range or parameters as decided by the BOD;
		
		• Report to the BoD regarding the:
		  ○ Progression of the ERM framework and its implementation;
		  ○ Critical risk exposures, analysis and recommendations;
		Quarterly ERM reports and

		annually Risk Management Strategy.
Crisis Management Committee ("CMC")	The implementation agent on behalf of the BoD. CMC shall ensure that the Risk Register is maintained effectively and consistently at all levels and by all sections. CMC is responsible for working with all departments to help aggregating risk outputs from all departments to form an enterprise level risk register, have all the key risks analyzed, evaluated, and report to the Senior Management and Board on critical and emerging risks as per Board requirements.	• Adopt the Policy; • Lead his/her department in carrying out risk assessments at least on an annual basis to identify, analyze and evaluate, and to document risks specific to the section. Help may be sought from the CMC; • Assess impact of ad hoc events, policies and decisions that affect the section and consult risk issues with relevant parties; • Keep a latest copy of the risk register and regularly review the risk register for planning, management decisions and setting priorities; • Make the risk register accessible to all staff within the section; • Train staff to recognize risks in their work; • Ensure at least one staff in the section is knowledgeable enough to fill out the section risk register, by going through risk management training or consultation with CMC and to allocate sufficient time for the staff to attend training and to perform risk assessment duties; • Escalate risk that cannot be managed at department level to CMC; • Ensure all staff are aware of this policy and aware of their responsibilities with regard to risk assessment; • Inform staff of the findings of a risk assessment for any task/activity in which they are involved; • Inform staff how and when

		to report incidents and near misses; a. Highlight new risks to CMC for follow up action.
Head of each Department	Responsible for leading his /her departments in carrying out risk assessments on an annual basis to identify analyze and evaluate risks specific to the department. Help may be sought from the Risk Management Department.	• Assist in facilitating, coordinating and implementation of risk management activities within the departments; • Maintain and update department risk registers and other risk information from input of relevant staff regularly; • Seek updates from risk treatment owners on the status of risk treatment status; • Communicate and interface with Risk Management Department and other departments on risk related matter; and b. Escalate major changes of risks and significant risk matters within the Department to the respective Department Head and Risk Management Department.
All staff	Responsible for the effective identification and management of risk and to assist their department and overall organization in managing risk.	• Shall assist department heads in identifying emerging risks on an annual basis, and as and when needed; • Take part in training so as to meet the requirements of this policy; • Inform department heads if he/she suspects the systems in place for the assessment and management of risks are ineffective or inadequate. • Identify, evaluate, and mitigate risks as everyday work responsibilities; • Proactively alert supervisors to possible problems; • Work with managers and

		supervisors and management to implement corrective actions as needed; • Ultimately carry out all their responsibilities in compliance with applicable laws, and policies; • Meet their personal obligations to manage risks through the performance management review process; • Continue to upgrade their own knowledge and skills in ERM; and c. Aim to teach and share their own knowledge with others at the Company or with participants.

G. INTERNAL AUDIT AND CONTROL

1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

Internal Control System is the framework under which internal controls are developed and implemented (alone or in concert with other policies or procedures) to manage and control a particular risk or business activity, or combination of risks or business activities, to which the Corporation is exposed.

Through the Audit and Risk Committee, the company considers and monitors the effectiveness of the company's internal control system (including information technology security and control) that ensures achievement of company objectives and compliance with laws, regulations, and internal policies. The committee understands the scope of external auditors' review of internal control over financial reporting, and obtain and evaluate reports of internal auditors' significant findings and recommendations on internal processes and policies, together with management responses.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

Yes the Board of directors reviews the effectiveness of internal control system.

(c) Period covered by the review;

The period covered in the review depends on the scope of the audit of a particular operation.

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Internal controls are reviewed quarterly concurrently during the review of internal audit and financial reports.

(e) Where no review was conducted during the year, an explanation why not.

Not applicable as review is conducted quarterly.

2) Internal Audit

(a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Provide an independent and objective assurance and consulting services to identify opportunities for process, policy and control improvements	As provided in the Audit Plan	In House Internal Audit	Dione Derrick Kocencio	Reports to the Audit and Risk Committee
Conducts special audit as requested by top management ex. Fraud audit.	As called for in this special audit engagement.	In House Internal Audit	Dione Derrick Kocencio	Reports to the Audit and Risk Committee

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes

(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

Internal Audit reports directly to the Audit and Risk Committee. It has access to the Board of Directors, to the Audit and Risk Committee as well as to all records, properties and personnel.

(d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Hanna Fe Empahsis	Career move to another company
Ronnie Catalan	Career move to another company
Sandara Entero	Career move to another company
Ann Christine Alit	Career move to another company
Isabel Albarando	Retirement
Ma. Jannica Quintana	Migration

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Progress Against Plans	Progress of engagement is in line with plans
Issues[6]	There are no significant issues which will put the company at major risk
Findings[7]	Overall the company's system of internal controls, risk management and governance processes remains to be generally adequate and effective. With the help of the Systems and Procedures division under the General Loss Prevention group, each functional group is consistently pursuing enhancement of its operating policies and procedures.
Examination Trends	No significant trends have been noted.

The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

1) Preparation of an audit plan inclusive of a timeline and milestones;
2) Conduct of examination based on the plan;

[6] "Issues" are compliance matters that arise from adopting different interpretations.
[7] "Findings" are those with concrete basis under the company's policies and rules.

3) Evaluation of the progress in the implementation of the plan;
4) Documentation of issues and findings as a result of the examination;
5) Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;
6) Conduct of the foregoing procedures on a regular basis.

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

Policies & Procedures	Implementation
Audit and Risk Committee Charter	Implemented
Internal Audit Charter	Implemented
Annual Audit Planning	Implemented
Planning the Audit Engagement	Implemented
Fieldwork and Reporting	Implemented
Follow-up and Monitoring of Agreed Actions	Implemented

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

Auditors (Internal and External)	Financial Analysts	Investment Banks	Rating Agencies
Internal Audit Head reports functionally to the Audit and Risk Committee; and administratively to the Chairman & CEO.	-	-	-

(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

Chairman & CEO and President & COO are authorized to attest to the Company's full compliance with the SEC Code of Corporate Governance.

H. ROLE OF STAKEHOLDERS

1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Company strictly adheres to the following laws: 1. Consumer Act of the Philippines; 2. Food and Drugs Administration Act of 2009; 3. Expanded Senior Citizen Act of 2010; 4. Articles on Quasi-Delict of the Civil Code; 5. Intellectual Property Code of the Philippines; 6. Other pertinent laws protecting the rights of the consumers.	The Company continuously enhances its processes and systems to further improve quality of products and services for customers by having the freshest and widest assortment of products available on the shelves, as well as ensure that the customers' shopping experience is always safe and pleasant.
Supplier/contractor selection practice	Supplier Accreditation Policy	The Supplier Accreditation policy continued the program of strengthening the process and systems to improve the supplier selling and payment experience. The Company held constant dialogues with suppliers to listen to and address their concerns.
Environmentally friendly value-chain	The Company is compliant with environmental laws	The Company donates plastic, soda cans and bottles, used cooking oil, and other recyclable scrap materials to the Solid Waste Management for Sustainable Livelihood Program, for conversion into bricks used to pave sidewalks.
Community interaction	There is no specific written policy, but the Company has created the Office of Corporate Affairs that implement various programs designed to enhance the Company's long-term social value for its stakeholders, from the management and employees, to	• Education MRSGI continues to contribute to the Vicsal Foundation. The funds are utilized for the construction of school classrooms and to provide college scholarships to

	its customers and host communities.	underprivileged yet deserving high school graduates. At present, Vicsal Foundation has 54 existing College scholars. • Livelihood The Company has implemented a Skills Training and Employment Program (STEP) to provide free training for skills required by the stores' operations. • Environment The Company donates plastic, soda cans and bottles, used cooking oil, and other recyclable scrap materials to the Solid Waste Management for Sustainable Livelihood Program, for conversion into bricks used to pave sidewalks. • Community Outreach MRSGI employees are continuously encouraged to volunteer in the Company's various outreach initiatives that span relief operations, medical mission and other community assistance efforts, particularly in areas affected by natural disasters and calamities.
Anti-corruption programmes and procedures?	Whistleblower Policy	
Safeguarding creditors' rights	Not applicable	Not applicable

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section? **Yes.**

3) Performance-enhancing mechanisms for employee participation.

(a)What are the company's policy for its employees' safety, health, and welfare?

Below are the policies adopted by MRSGI, covering all employees in the Metro chain of stores, in compliance with the legal mandate on employment policies:

Policy	Policy Number	Effective Date
Anti-Sexual Harassment Policy	PM-ELR-14-001	01 January 2014
Drug-Free Workplace Policy	PM-MC-11-001	10 March 2010
Tuberculosis Prevention Program in the Workplace	PM-ELR-11-002	01 May 2011
Workplace Policy and Program on Hepatitis B	PM-ELR-13-003	01 December 2013

In addition to the foregoing, All regular full-time active employees the Company who are between 18 to 64 years old are eligible to participate and are covered by Life, Hospitalization and Accident insurance policies with various insurers.

(b) Show data relating to health, safety and welfare of its employees**.**

Health and wellness of its employees are a priority for the Company. For the Company, prevention is key to wellness, thus, the need to establish health and safety programs for the welfare of its employees. The Company ensures that its employees are all well and healthy on a regular basis through the Annual Physical Examination given to the Company's employees. Physicians have also been retained for every store on a weekly basis to ensure proper consultation is done. A full shift nurse is likewise assigned to on-site clinics of every store as well as the Corporate Office to ensure delivery of medical services on real time.

Apart from the readily available facilities, employees are covered with hospitalization benefits to cater to cases needing admission.

In addition to the foregoing, the Company offers its employees various programs and activities relative to health and wellness:

Health Talks:

- **Hypertension and Obesity**
- **Urinary Tract Infection**
- **Diabetes Mellitus**
- **Tuberculosis**
- **Pneumonia**

Health Bulletins posted at Boards:

- **Hand Hygiene Technique**

- **DOH Approved Medicinal Plants**
- **Causes and Symptoms of Heart Attack**
- **Breast Cancer Awareness**
- **Zika Virus**
- **Hepatitis Prevention**
- **Chicken Pox**

Other Activities in 2016:

- **Flu Vaccine**
- **Pneumococal Vaccine**
- **Cervical Vaccine**
- **Hepatitis B Vaccine**
- **Dengue Vaccine**
- **Blood Donation**
- **Race to Beauty Fun Run 2016**
- **Metro Challenge: Beat The Heat, Let's Unite**

To ensure compliance with Labor Standards on healtj and safety of the Company's employees, the following policies have also been established:

- **Occupational Health and Safety & Administration Standards Manual**
- **Drug Free Workplace Policy**
- **Tuberculosis Prevention Program in the Workplace**
- **Workplace Program and Policy on Hepatitis B**
- **HIV/Aids Workplace Program and Policy**

Safety practices are likewise of priority to the Company. Fire and Earthquake Drills, lectures and orientations are done thrice a year for all Hypermarket and Big Store Formats. The Security Teams are given Lectures on Updates on Safety and Security Practices in coordination with the Fire Department, National Bureau of Investigation (NBI) and the Armed Forces of the Philippines (AFP).

(c) State the company's training and development programmes for its employees. Show the data.

The Company prioritizes training and development programs for its employees. Below are the training seminars conducted for 2016:

DATE	TRAINING	# OF ATTENDEES	POSITION LEVEL	# of HOURS
01/14/16	BASIC EXCEL TRAINING	14	Merchandising	4
01/15/16	INTERMEDIATE EXCEL TRAINING	11	Merchandising	4
01/15/16	ADVANCED EXCEL TRAINING	13	Merchandising	4
01/20/16	INTERMEDIATE EXCEL TRAINING	11	HRD	4
01/21/16	BASIC EXCEL TRAINING	40	Merchandising	4
01/22/16	INTERMEDIATE EXCEL TRAINING	21	Merchandising	4

01/28/16	MS EXCEL 2010 TRAINING	13	MOPC	4
01/29/16	EXCEL TRAINING	11	Replenishment	4
01/28/16	UTILITY DASHBOARD AND MATERIALS INVENTORY TRAINING	16	Store Engineers	5
02/04/16	EXCEL TRAINING	30	Replenishment	4
02/05/16	EXCEL TRAINING	32	Plannogramming, Master Data	4
02/11/16	POLICY ON MONITORING AND TREATMENT OF B.O.	34	Store Manager, Assistant Store Manager, Loading Sup, Transfer Clerk, DIG, Sr. Receiving Checker, RTV Clerk, Supermarket Manager	4
02/16/16	CONCESSION INVENTORY MANAGEMENT TRAINING		17	8
02/17/16	AUTOCAD TRAINING	8	SPD	2
04/07/16	BASIC EXCEL TRAINING	9	Food & Beverage	4
04/07/16	EXCEL TRAINING	6	Regulatory Affairs	3
04/14/16	WINE APPRECIATION SEMINAR	14	Merchandising	3
05/16/16	EXCEL TRAINING	30	Treasury, Accounting, Budget, A/P	4
05/23/16	WAREHOUSE GUIDELINES REFRESHER COURSE	24	Store Operations Team	4
06/06/16	EXCEL TRAINING	10	HRD, VSF	4
06/09/16	EXCEL TRAINING	18	Accounting, A/P	4
06/1-3/16	INFORMATION TECHNOLOGY INFRASTRUCTURE LIBRARY (ITIL) TRAINING	3	IT	16
6/21-22/2016	GMP/GRP & HACCP PRE-REQUISITE COURSE	26	Fresh Manager, Fresh OIC, Team Leader, QC Sup	16
6/21-22/2016	GMP/GRP & HACCP PRE-REQUISITE COURSE - Ancillary	38	Dept. Sup, Team Leader, Food Ave, Suisse	16
06/23-24/16	STORE MANAGERS TRAINING PROGRAM	42	Floor Supevisor, Department Supervisor, Assistant Store Manager	16
07/14/16	PHARMACY PRODUCT ORIENTATION			4
07/15/16	ELECTROLUX PRODUCT ORIENTATION	19	Teamleader, Department Supervisor, Salesclerk	4
07/16-17/16	FOOD SAFETY CONFERENCE	2	Quality Assurance	16
7/19-20/2016	INFORMATION TECHNOLOGY INFRASTRUCTURE LIBRARY (ITIL) TRAINING	9	Programmer, BI developer, App Support, Sevice Desk	8
07/22/16	BILLING VALUATION	16	Store Engineers	4
07/25/16	EXCEL TRAINING	8	Area Manager, Store Manager, EA	4
7/26/2016	EXCEL TRAINING	10	Area Manager, Store Manager	4
08/02/16	INFORMATION TECHNOLOGY INFRASTRUCTURE LIBRARY (ITIL) TRAINING	16	Programmer, BI developer, App Support, Sevice Desk	8
08/02/16	EXCEL TRAINING	10	Store Manager, Supermarket Manager,	4

			ISO	
08/03/16	INFORMATION TECHNOLOGY INFRASTRUCTURE LIBRARY (ITIL) TRAINING	16	Programmer, BI developer, App Support, Sevice Desk	8
08/04/16	EXCEL TRAINING	10	Store Manager, Supermarket Manager, ISO	4
08/04-05/16	PMAP REGIONAL CONFERENCE	11	HRD	16
08/12/16	GOAL SETTING SEMINAR	12	Marketing, HRD, Accounting, HoldCO	4
08/15/16	RISK COORDINATORS TRAINING	16	Dept. Sup, ASM, TL, Salesclerk, HR, FS, Ads	4
08/18-19/16	DEMAND PLANNING & SALES FORECASTING BEST PRACTICES	3	Planning, Inventory Management, Research & Development	16
8/24-25/2016	INFORMATION TECHNOLOGY INFRASTRUCTURE LIBRARY (ITIL) TRAINING	17	Programmer, BI developer, App Support, Sevice Desk	8
09/19/16	RISK COORDINATORS TRAINING	18	TL, Salesclerks, Security, Dept. Sup, Store Manager, Engineering, Receiving	4
09/20/16	PERMISSIBLE CONTRACTING vs. LABOR ONLY CONTRACTING	14	Capability Dev., Store Operations, Payroll and Benefits, Talent Acquisition	4
09/22/16	EXCEL TRAINING	16	Store Engineers	8
09/22/16	MANPOWER SCHEDULING & PACC ORIENTATION	27	Regional Manager, Area Manager, Store Manager, Store Supervisor,	9
09/25/16	SECURITY COURSE INVESTIGATION	19	Security Supervisor, Chief Security Officer	8
10/04/16	GOAL SETTING SEMINAR	14	GLP, Planning, IT, Security, Merchandising, PSS	4
10/06/16	GOAL SETTING SEMINAR	43	IT, ERM, Engineering, BTC, F&B, HRD, PM0, Merchandising, MOPC	4
10/08/16	BASIC EXCEL TRAINING	16	Store Engineers	8
10/12/16	TIME MANAGEMENT	21	Security, MOPC, Planning, HRD, Merchandising	4
10/13/16	TIME MANAGEMENT	24	Engineering, Trading, Merchandising, Replenishment, Procurement	4
10/17/16	ONLINE SELLING OF GCs	11	Head Cashier, FX Cashier	4
10/19-21/16	PMAP ANNUAL CONFERENCE	5	HRD	16
10/28/16	EMPLOYEE HANDBOOK CASCADE	21	Management Trainees	8

11/11/16	BUSINESS PROCESS MAPPING	33	CompBen, ERM, Systems & Procedures, Telecom Specialist, Asset Admin, MSS Specialist, Programmer, Planning Manager, BI Specialist	4

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.

The Company's compensation philosophy is to pay competitive base salaries and to reward employees for their individual performance. Salary increases are dependent upon the company's performance and the employee's performance rating.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

The Company has approved a Whistleblowing Policy to allow, employees, suppliers/contractors, and those working for and/or dealing with the Company to raise any concerns that they might have about malpractice within the workplace. The following is the disclosure process under the policy:

a) **For the purposes of this procedure, employees, in the first instance, are asked to raise concerns about any form of malpractice or wrongdoing with their line manager or a senior manager in their department. If the employee is unable to do this, he/she should contact the Internal Audit Head of MRSGI or phone the confidential whistle-blowing line at 0908-8956-861;**

b) **If the disclosure is extremely serious or in any way involves the Internal Audit Department of the Company, employees should report it directly to the Chairman of the Audit and Risk Committee;**

c) **Concerns may be raised orally or in writing and should specify whether the employee wishes his/her identity to be kept confidential or not. Employees shall formalize their concerns in writing either before or after the first meeting (or if no meeting occurs, via email or phone conversation). The immediate superior or the Internal Audit Head will acknowledge receipt of the formal written disclosure and keep a record of further action taken;**

d) **MRSGI recognizes that disclosure made under this policy may involve highly confidential and sensitive matters and that employees are allowed to make an anonymous disclosure. The Company shall make best effort to investigate all reported concerns and issues. However, proper investigation may prove impossible if the investigator cannot obtain further information from the reporting employee, provide feedback, or ascertain whether the disclosure was made in good faith.**

No employee who raised genuinely-held concerns in good faith under the foregoing procedure will be dismissed or subjected to any detriment as a result of such action. Detriment includes unwarranted disciplinary action and victimization. Should the reporting employee believe that he/she is being subjected to a detriment within the workplace as a result of raising concerns under this procedure, such employee shall immediately inform the Audit and Risk Committee. Employees who victimize or retaliate against those who have raised concerns under this policy will be subjected to disciplinary action.

I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

Shareholder	Number of Shares	Percent	Beneficial Owners
Vicsal Development Corporation	2,489,800,000	73%	JV. Com. Holdings Inc.; Trilogy Holdings Corp., Direct Model Holdings, Inc.; Maric Ventures, Inc.

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
None			
TOTAL			

Does the Annual Report disclose the following:

Key risks	Yes
Corporate objectives	Yes
Financial performance indicators	Yes
Non-financial performance indicators	Yes
Dividend policy	Yes
Details of whistle-blowing policy	No
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	Yes
Training and/or continuing education programme attended by each director/commissioner	Yes
Number of board of directors/commissioners meetings held during the year	Yes
Attendance details of each director/commissioner in respect of meetings held	Yes
Details of remuneration of the CEO and each member of the board of directors/commissioners	Yes

While the details of the Company's Whistle-blowing Policy are not disclosed in the Annual Report, that approval of such Policy is disclosed in the Report.

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.

2) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
SGV	Php1,800,000.00	Php164,700.00

3) Medium of Communication

a) Internet – Company Website
b) Telephone

4) Date of release of audited financial report: **April 17, 2017**

5) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	Yes
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

6) Disclosure of RPT

RPT	Relationship	Nature	Value (Volume of the year ended December 31, 2016)
Rental Expense	Parent Company	Noninterest-bearing and due in 30 days	Php810,762,065.00
Advances	Parent Company	Noninterest-bearing and due in 30 days	Php6,258,686.00
Management Fee	Parent Company	Noninterest-bearing and due in 30 days	Php21,838,200.00
Purchase, sale of	Entities under	Noninterest-bearing	Php987,740,614.00

goods and services and rental income	Common Control	and due in 30 days	

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

The Company's Related Party Transactions Policy provide for the following safeguards:

- **All transactions between MRSGI and Related Parties are to be conducted as arm's length, at fair market values, and must always be fair and reasonable under the circumstances.**

- **It is the responsibility of each director or senior manager to promptly notify the Board, through the Audit and Risk Committee, of any proposed related party transaction as soon as they become aware of it to ensure that potential conflicts of interest are disclosed and brought to the attention of management.**

- **The Audit and Risk Committee shall clearly define the thresholds for disclosure and approval of related party transactions and categorize such transactions that need not be reported or announced, those that need to be discussed and those that need prior approval by the Audit and Risk Committee and the Board. In determining the categories of related party transactions, the Audit and Risk Committee shall set the materiality thresholds for each category.**

- **For related party transactions which have been determined to require Board approval, the Audit and Risk Committee shall review the proposed related party transaction and determine whether or not the said transaction shall benefit the Company and if the terms of the transaction are at arm's length and at fair market value.**

- **After review by the Audit and Risk Committee, the related party transaction under review shall be presented to the Company's Board of Directors for approval.**

- **To the extent required by applicable laws or regulations, the Company shall disclose all material related party transactions in its annual financial statements and website. Moreover, the Company shall not provide lending to related parties unless done on market terms and conditions (arm's length basis).**

- **The Company's independent external auditor shall be required to review all material related party transactions included in the financial statements to provide assurance as to the accuracy of the information reported.**

J. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

   (a) Quorum

   Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

Quorum Required	Stockholders owning/holding at least a majority of the total outstanding shares of the Company

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

System Used	Voting
Description	By voting tickets and proxy forms. Based on the number of shares held.

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders' Rights under The Corporation Code	**Stockholders' Rights not in The Corporation Code**
1.) Right to vote in all matters that require their consent or approval. 2.) Pre-emptive right to all stock issuances of the Corporation, if applicable under the Corporation's Articles of Incorporation and By-Laws. 3.) Right to Inspect corporate books and records. 4.) Right to information. 5.) Right to dividends. 6.) Appraisal right. 7.) Right to nominate candidates to the Board of Directors.	1.) Right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. 2) Right to be informed of the nomination process and voting procedures that would govern the Annual and Special Shareholders' Meeting.

Dividends

Declaration Date	Record Date	Payment Date
March 16, 2016	April 4, 2016	April 20, 2016

(d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
The Notice and Agenda with Proxy Forms are published at least thirty days before the scheduled date of the Annual Stockholders' Meeting	• Publication through the PSE Edge; • Publication in a newspaper of general circulation
The Company has established an Investor Relations Department to manage and disseminate relevant information to investors.	• One on one meetings with various investor groups • Quarterly earnings calls

All stockholders are encouraged to actively participate and ask questions during the proceedings for the Annual Stockholders' Meeting.

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:

a. Amendments to the company's constitution
b. Authorization of additional shares
c. Transfer of all or substantially all assets, which in effect results in the sale of the company

The Company strictly adheres to the pertinent provisions of the Corporation Code of the Philippines.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?

Based on the Company's By-Laws, notices to the AGM are required to be sent to the shareholders by personal delivery, by mail or by electronic means, at least two (2) weeks prior to the date of meeting.

a. Date of sending out notices: **Not later than the third week of April of each year.**

b. Date of the Annual/Special Stockholders' Meeting: **First Friday of May of each year.**

4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting. **None**

5. Result of Annual/Special Stockholders' Meeting's Resolutions **N/A**

Resolution	Approving	Dissenting	Abstaining
Approval of the Minutes of the Annual Meeting of Stockholders held on May 1, 2015	2,542,908,490	0	0
Approval of the Annual Report and the Audited Financial Statements for CY 2015	2,542,908,490	0	0
Appointment of SGV & Co. as the External Auditor for 2016	2,542,908,490	0	0
Ratification of all acts and resolutions of the Board of Directors and its Committees, Officers, and management since the last annual stockholders meeting up to the date of the current meeting	2,542,908,490	0	0

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

On the same day as the AGM

(e) Modifications **None**

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Directors: 1. Frank S. Gaisano – Chairman/CEO, 2. Edward S. Gaisano, 3. Jack S. Gaisano, 4. Margaret G. Ang; 5. Arthur Emmanuel – President COO; 6. Ricardo Nicanor Jacinto; 7. Guillermo L. Parayno, Jr. Officers: 1. Joselito G. Orense – Treasurer/CFO 2. Atty. Vincent E. Tomaneng – Corporate Secretary 3. Atty. Karen H. Gaviola-Climaco – Asst. Corporate Secretary and Compliance Officer	May 6, 2016	By poll through voting tickets	0	74.15 %	74.15%

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs? **Yes, the Company's Stock and Transfer Agent**

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares. **The Company's common shares carry one (1) vote per share. The Company has only one class of shares.**

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

It is Company policy to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Subject to the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

	Company's Policies
Execution and acceptance of proxies	At all meetings of stockholders, a stockholder may vote in person or by proxy. Proxies shall be in writing and signed in accordance with the existing laws, rules and regulations of the Securities and Exchange Commission .
Notary	No express requirement, however, the Corporation will abide by existing laws, rules and regulations of the Securities and Exchange Commission.
Submission of Proxy	Proxies, in the form provided by the Company, must be submitted to the Company's Corporate Secretary, at the Principal Office of the Company on or before the date specified in the Notice of Meeting.
Several Proxies	Not prohibited
Validity of Proxy	Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary.
Proxies executed abroad	No express requirement, however, the Corporation will abide by existing laws, rules and regulations of the Securities and Exchange Commission.
Invalidated Proxy	Invalidated Proxies may not be voted during the meeting.
Validation of Proxy	The proxies shall be validated at the Principal Office of the Company. The Corporate Secretary's decision shall be final and binding on the

	shareholders, and those not settled during the proxy validation shall be deemed waived and may no longer be raised during the Annual Stockholders' Meeting.
Violation of Proxy	-

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
The Board shall be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation and should provide accurate and timely information to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Subject of the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.	Notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery, by mail or by electronic means at least two (2) weeks prior to the date of the meeting to each stockholders of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called.

Definitive Information Statements and Management Report

Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials	Thirteen (13) Registered Stockholders; The beneficial owners of the PCD Nominee shares were also provided copies of the Definitive Information Statements and Management Report and other Materials
Date of Actual Distribution of Definitive Information Statement and Management Report and Other	April 15, 2016

Materials held by market participants/certain beneficial owners	
Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders	April 15, 2016
State whether CD format or hard copies were distributed	CD Format
If yes, indicate whether requesting stockholders were provided hard copies	Yes.

(i) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	This is included in the Definitive Information Statements
The auditors to be appointed or re-appointed.	Yes
An explanation of the dividend policy, if any dividend is to be declared.	This is included in the Definitive Information Statement
The amount payable for final dividends.	This is included in the Definitive Information Statement
Documents required for proxy vote.	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholders' rights, encourage shareholders to exercise their rights, provide a clear-cut process and procedures to follow, and provide an adequate venue for them to seek timely redress for violation of their rights.	• Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation. • The Corporation shall establish an Investor Relations Office (IRO) to ensure constant engagement with its shareholders. The IRO should be present at every shareholders' meeting.
The Board shall be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation and should provide accurate and timely information to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy.	• To encourage active shareholder participation, the Corporation's Corporate Secretary shall disclose and/or publish in the PSE Edge the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty-eight (28) days before the meeting. • The Corporation shall make the results of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available in the PSE Edge the next working day. As much as possible, the Minutes of the Annual and Special Shareholders' Meeting should be available on the Corporation's website within five (5) business days from the end of the meeting.
The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the	

stockholders' meaningful participation in meetings, whether in person or by proxy. Subject of the requirements of the By-Laws, the exercise of the right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.	

(b) Do minority stockholders have a right to nominate candidates for board of directors?

Yes.

K. INVESTORS RELATIONS PROGRAM

3) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

To ensure that investors are maintained and nurtured, MRSGI actively engaged its shareholders by communicating its strategies and performance through its Investor Relations Department. Headed by Joseph Conrad Balatbat, IRD managed and disseminated relevant information to investors through, one-on-one meetings with various investor groups, press releases and regular earnings calls.

A. Internal Communications under Corporate Affairs

The Company's Corporate Affairs department gives the Company's internal stakeholders the knowledge they need to be active partners in building its business. The Company keeps its employees informed of what issues affect the Company and new developments that may interest them.

The department creates dynamic communications around METRO's programs, initiatives and corporate values. The department partners with all areas of the Company to ensure that all communications are consistent with the Mission and Values of Metro's Brand.

<u>**Protocols and Policies**</u>

- **Corporate Protocols on the Use of the Corporate Name, Corporate Logo and Brand Logos**
- **Corporate Policy on Corporate and Store Posting and Signage**
- **Corporate Protocol on the Use of the Corporate Website and Brands Microsites**
- **Social Media Policy**
- **Quad Media Communications via News Alerts (email blast, text blast)**

<u>**Activities**</u>

- **Seminars on Communications**
- **Knowledge Data Bank**
- **Infotext and Email Blast on news monitoring and announcements**
- **Monthly Meeting on Internal Communications (for review)**

B. External Communications under Corporate Affairs

The Corporate Affairs department proactively create the corporate identity of METRO through traditional and new media channels. The department oversees the writing and editing of corporate event scripts, speeches of the chairman and president, press releases, interviews, and any other external communications. In the case of an unforeseen issue, crisis or other potentially problematic situation, it generates communications to maintain a positive image for the Company. It reviews public communications to ensure a consistent brand identity and message.

Undertakings

- **MRSGI Corporate Website postings**
- **Metro Brands Microsites postings**
- **Metro Press Room**
- **Corporate Profile, Brochures, Collateral**
- **Correspondences and Communiqués**
- **Speeches of the Chairman and CEO**
- **Presentations of the Chairman and CEO**
- **Crisis Communications**
- **Monthly Meeting on External Communications**

C. Other Means of External Communications under Corporate Affairs

1. Media and Public Relations

The Company seeks to develop and execute comprehensive public relations media outreach strategies that support the mission, objectives and business goals of the Company. The Corporate Affairs department creates and implements a complete PR plan for METRO's key markets, and track its effectiveness. The department serves as a voice of the Company, providing PR guidance to corporate and store management both in formal training program and on an ad hoc basis. The department also answers media questions to help develop a more informed understanding of our company and the size and scope of our mission.

Programs

- **Press releases (writing, publication)**
- **Advertorials (writing, publication)**
- **3.3 iSentia Media Banc monitoring (SoE charts, MIS Reports)**
- **Competitors news monitoring**
- **Quarterly Media Rounds**
- **Quarterly Press Conferences**
- **Media Interviews of the Chairman, President, and Vice President for Corporate Affairs**
- **TV and Radio Guesting**

2. **Public Affairs and Government Relations Communications**

The Corporate Affairs department aims to develop and enhance relationship with stakeholders such as customers and local communities, clients, shareholders, trade associations, business groups, charities, and the media. The department's public affairs work combines government relations wherein we aim to influence public policy, build and maintain a strong reputation with national and local government units and find common ground with stakeholders. The department also combines public affairs work with corporate social responsibility programs, issue management, information dissemination and strategic communications advice.

Programs

- **Monthly meetings with local government officials**
- **Representation in trade associations and industry organizations**
- **Meetings with investors and external stakeholders**

4) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	To ensure that relations with investors are maintained and nurtured, and that stockholders are informed in a timely manner of important developments in the Corporation.
(2) Principles	Constant and open communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.
(3) Modes of Communications	Media and analysts briefing; press releases; one-on-one meetings with investors
(4) Investors Relations Officer	Mr. Joseph Conrad Balatbat

5) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

   Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

   The Company's rules and procedures is still being developed.

L. **CORPORATE SOCIAL RESPONSIBILITY INITIATIVES**

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
A. Community Support Services **1. Projects and Services** **1.1 Medical Missions -** METRO distributes medicines, sets up soup kitchens, and provides basic medical assistance **1.2 Relief operations -** donating and distributing relief goods (basic food supply) to affected residents **1.3 Social Service Projects** 1.3.1 **METRO Hanepbuhay -** METRO supports livelihood programs of the barangays in areas where a Metro store operates 1.3.2 **Livelihood Bazaar and Product Display Showcase -** Metro has also offered booth display spaces to various cooperatives, which they can use to showcase products exclusively made in their cities.	- residents and families residing in the areas wherein METRO operates - METRO stores communities affected by natural disasters and calamities - Out-of-school youth, unwed mothers, other employed residents of the barangay - Antipolo,City Cooperative and Livelihood Office (Antipolo City), Mandaluyong Livelihood Entrepreneurship Advancement Program (Mandaluyong City), and Likhang Kamay ng Kalambenyo Cooperative (Calamba City)
2. Employment Generation 2.1 **METRO S.T.E.P. (Skill Training and Employment Program) -** METRO organizes employment-training programs where beneficiaries will be trained to work part- time at Super Metro stores. Through a partner cooperative, METRO creates a fund per part-timer wherein a certain percentage of his/her salary will be deposited to the fund as forced savings for his/her education.	- Out- of-School Youth residing in areas where Metro stores operate
B. Environmental Preservation, Conservation, and Management **1. Implementation of Environmental Projects** (**Recycling) –** Metro shall be	

recognized as a retailer that supports the conservation of the ecosystem and the environment by selling eco-friendly and affordable products. 1.1 **Recyclable Bricks -** Metro has partnered with Barangay Bagumbuhay in Anonas, Quezon City, in its Solid Waste Management for Sustainable Livelihood Program. Garbage collected from the Bagumbuhay residents such as plastic, soda bottles, used cooking oil, residues and cans are converted into bricks that are mainly used for sidewalks located in the barangay. 1.2 **Charcoal Briquettes** - Metro will support the livelihood of Barangay Bagumbuhay residents by way of retailing charcoal briquettes in Super Metro Anonas and other Metro Supermarkets	- Bgy. Bagumbuhay, Anonas, Quezon City - Proceeds of the purchase of charcoal briquettes from Barangay Bagumbuhay will go to the out-of-school youth of Anonas.
2. Support to Education 2.1 **Scholarship Program** MRSGI, in partnership with Vicsal Foundation - the corporate foundation of Metro chain of stores**,** supports programs that provide access to quality education. 2.2 **Construction of School Buildings**	- The Company contributes to college scholarship grants that are awarded to underprivileged yet deserving high school graduates. - The Company also donates to the construction of school buildings nationwide.

M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

The appraisal system still being developed.

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
Board of Directors		
Board Committees		
Individual Directors		
CEO/President		

N. INTERNAL BREACHES AND SANCTIONS

Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees.

Violations	Sanctions
First Offense	In case of first violation, the subject personnel shall be reprimanded.
Second Offense	Suspension from office shall be imposed in case of second violation. The duration of the suspension shall depend on the gravity of the violation.
Third Offense	For third violation, the maximum penalty of removal from office shall be imposed.

- Signature Page Follows -

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in Taguig City on May 24, 2017.

SIGNATURES

FRANK S. GAISANO **Chairman of the Board/Chief Executive Officer**	**ARTHUR EMMANUEL** **President/Chief Operating Officer**
GUILLERMO L. PARAYNO JR. **Independent Director**	**RICARDO NICANOR N. JACINTO** **Independent Director**
KAREN H. GAVIOLA-CLIMACO **Compliance Officer**	

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SUBSCRIBED AND SWORN to before me this 2[illegible] MAY 2017 day of ____________ 20__ , affiant(s) exhibiting to me their ____________, as follows:

NAME/NO.	DATE OF ISSUE	PLACE OF ISSUE

NOTARY PUBLIC

ATTY. [illegible]ILBERTO F. FAGINABAO
NOTARY PUBLIC for [illegible] Taguig City
Until December 31, 2018
IBP O.R. No. 1051199 / 11-15-16
PTR No. A - [illegible] / 01-03-2017
MCLE Compliance No. V - 0024438
IBP Roll No. 29548
[illegible] Bldg. Gen. Luna St., Tuktukan Taguig

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METRO
RETAIL STORES GROUP, INC.

25 January 2018

THE PHILIPPINE STOCK EXCHANGE
Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: Ms. Janet A. Encarnacion
Head, Disclosure Department

Subject: Annual Progress Report on the Disbursement of Proceeds from the Initial Public Offering ("IPO") of Metro Retail Stores Group, Inc. ("MRSGI")

Dear Ms. Encarnacion,

We are pleased to submit our Annual Progress Report on the Application of Proceeds for 2017, duly certified by our external auditors, in compliance with the disclosure requirements of the Philippine Stock Exchange.

Please be advised that as of December 31, 2017, the remaining balance of the proceeds from the MRSGI common shares IPO amounts to One Billion Eight Hundred Fifty Three Million Six Hundred Forty Four Thousand Thirty Eight Pesos and Forty One Centavos (Php1,853,644,038.41).

The details of the disbursement for the Calendar Year 2017 are as follows:

Balance of IPO Proceeds as of December 31, 2016		Php		2,017,262,885.61
Less:	Capital Expenditure for Store Network Expansion		124,620,134.25	
	Capital Expenditure for Cebu Warehouse		38,998,012.95	
	Bank Charges		700.00	163,618,847.20
Balance of IPO Proceeds as of December 31, 2017		**Php**		**1,853,644,038.41**

Thank you.

Very truly yours,

JOSELITO G. ORENSE
Treasurer / Chief Financial Officer

MANILA CORPORATE OFFICE
6F Metro Market! Market!, McKinley Parkway,

CEBU PRINCIPAL OFFICE
Vicsal Building corner of C.D. Seno and W.O. Seno Streets Guizo

SGV
Building a better working world

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REPORT ON FACTUAL FINDINGS

The Board of Directors
Metro Retail Stores Group, Inc.
Vicsal Building, Corner of C.D. Seno and W.O. Seno Streets
Guizo, North Reclamation Area
Mandaue City, Cebu
Philippines

We have performed the procedures agreed with you and enumerated below with respect to the attached Annual Progress Report dated January 25, 2018 on the use of proceeds generated from the Initial Public Offering (IPO) of Metro Retail Stores Group, Inc. (the Company) on November 24, 2015. The procedures were performed solely to enable the Company to comply with the Philippine Stock Exchange Inc.'s (PSE) requirement to submit an external auditor's certification on the information being presented by the Company relating to the application of proceeds. Our engagement was undertaken in accordance with the Philippine Standard on Related Services (PSRS) 4400, *Engagement to Perform Agreed-upon Procedures Regarding Financial Information*, applicable to agreed-upon procedures (AUP) engagements. These AUPs and results thereof are summarized as follows:

1. Check the mathematical accuracy of the Annual Progress Report on the Application of Proceeds from IPO (the Report).

2. Compare the list of all disbursements in the Report with the schedule of application of proceeds.

3. Obtain the supporting documents pertaining to the disbursements in the Report and agree the amount to the accounting records.

We report our findings below:

1. We checked the mathematical accuracy of the Report. No exceptions were noted.

2. We compared the list of all disbursements in the Report with the schedule of application of proceeds. No exceptions were noted.

3. We obtained the supporting documents (e.g. payment remittance advice, sales invoices, progress billings, etc.) pertaining to the disbursements in the Report and agreed the amount to the accounting records. No exceptions were noted.

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing (PSA) or Philippine Standards on Review Engagement (PSRE), we do not express any assurance on the accounts of the Company or its financial statements, taken as a whole.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with PSA or PSRE, other matters might have come to our attention that would have been reported to you.

We have no responsibility to update this report for events or circumstances after the date of this report.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report relates only to the report on the Company's application of proceeds from the offering and items specified above do not extend to any financial statements of the Company, taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-A (Group A),
April 21, 2016, valid until April 21, 2019
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 5908733, January 3, 2017, Makati City