C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	3	1	5	8	7	7

C O M P A N Y   N A M E

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**

C O M P A N Y   I N F O R M A T I O N

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

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
22	**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.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.*

SEC FORM 17-A

**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 2019**

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, 2019	Market Value per Share as of February 14, 2020	Total Market Value
738,789,200	1.80	1,329,820,560

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 2019, we had a total of twelve (12) stores in Metro Manila and twelve (12) stores in other parts of Luzon with a total net selling space of approximately 133,765 sqm.

In addition, we have a total of thirty-three (33) stores in the Visayas, with a total net selling space of approximately 101,128 sqm. This brings our total store count in the Philippines to fifty-seven (57), with a total net selling space of 234,893 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 30 supermarkets in the Visayas, Metro Manila, and the rest of Luzon. As of end of 2019, Metro Supermarket had a total net selling space of approximately 50,273 sqm and an average net selling space of 1,676 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 2019, we had 14 department stores in strategic locations throughout the country, with a total net selling space of 138,831 sqm and an average net selling space per store of 9,916 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 13 hypermarkets in key cities throughout the country with a total net selling space of 45,788 sqm and an average net selling space of 3,522 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 17 warehouses nationwide (6 in Luzon and 11 in Visayas) 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 85% of our fleet capacity nationwide. Our in-house trucks are GPS enabled. The balance 15% 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 Markets; Robinsons Retail Holdings, Inc.; and Puregold Price Club, Inc. 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 neighborhood, 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 non-food 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 Holdings, Inc., 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 neighborhood, 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, Inc., SM Markets, and Prince Warehouse Club, Inc. 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 1,800 regular suppliers in 2019, Metro Supermarket's supplier base is diversified between local suppliers such as Monde Nissin Corporation, Universal Robina Corporation, and San Miguel Pure Foods Company, Inc. and multinational corporations such as Nestle Philippines Inc., Unilever Philippines, Inc. and Procter & Gamble Philippines Inc. Metro Supermarket's top five suppliers together accounted for 21% of its net sales in 2019. 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 1,600 regular suppliers in 2019, Metro Department Store's supplier base includes suppliers such as Finden Technologies Inc., Skies Merchandise Sales Corporation, Multiflex RNC Phils., Inc., Goldnines International Co. Ltd., and Atlas Home Products, Inc. Metro Department Store's top five suppliers together accounted for approximately 7.0% of its net sales in 2019. 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., Universal Robina Corporation, Monde Nissin Corporation and Procter & Gamble Philippines Inc. are among the biggest suppliers of our hypermarket retail format. Super Metro's top five suppliers together accounted for approximately 17% of its net sales in 2019. 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 2019. 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 adopted its Policy on Related-Party Transactions to ensure that these transactions are entered into at arm's length on terms no less favorable than terms available to any unconnected third party under the same or similar circumstances.

On September 5, 2019, MRSGI further adopted its Amended Policy on Related Party Transactions in Compliance to SEC Memorandum Circular 10 series of 2019.

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 Mall Corporation.

- We have entered into lease arrangements for store space with our related parties, including Beneluxe Trading Corporation and Wealth Development Bank Corporation
- We are parties to perpetual trademark licensing agreements with our affiliates, Metro Value Ventures, Inc. (now renamed "Taft Property Group, Inc.") and VDC, for a nominal fee.
- We have cash placements and bank accounts with Wealth Development 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, 2019.

Store Operation	5,499
Warehouse Operation	814
Corporate	773
Total	**7,086**

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 15% 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 Retail and SM Markets, 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 2019, we had fifteen (15) 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, 2019 and 2018. 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 99.2% of our revenue in 2018 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 14% of our net sales for 2018. 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 2018, 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.

We are party to a number of related party transactions.

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.

Our business and operations are dependent upon key executives.

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, 2019, 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:

		Low	High
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
April – June (Q2)	2018	2.54	3.60
July – September (Q3)	2018	2.40	3.04
October – December (Q4)	2018	1.91	2.57
January – March (Q1)	2019	2.45	3.36
April – June (Q2)	2019	2.42	3.54
July – September (Q3)	2019	2.32	2.87
October – December (Q4)	2019	2.59	2.05
January – March (Q1)	2020	1.15	2.19

On March 31, 2020, the Company's shares closed at Php 1.39 per share.

(B) Holders

The number of shareholders of record as of March 31, 2020 was twenty two (22). Common shares outstanding as of March 31, 2020 were 3,429,375,000.

List of Stockholders of Record as of March 31, 2020

	Name of Stockholder	Number of Shares	Percentage to Total Outstanding
1	Vicsal Development Corporation	2,627,427,300	76.62%
2	PCD Nominee Corp. (Filipino)	640,547,162	18.68%
3	PCD Nominee Corp. (Non-Filipino)	136,353,560	3.98%
4	Valueshop Stores, Inc.	24,801,489	0.72%
5	Juan G. Yu or John Peter C. Yu	150,000	0
6	Francisco C. Tiu	75,000	0
7	Stephen T. Teo &/or Teresita R. Teo	10,000	0
8	Asuncion, Victor Jayo	5,000	0
9	Dennis Lim Lim	2,000	0
10	Legaspi, Virgilio C.	1,000	0

11	Duñgo, Elpidio S.	1,000	0
12	Lampa, Arvin C.	1,000	0
13	Valencia, Jesus San Luis	300	0
14	Herrera, Joselito C.	100	0
15	Au, Owen Nathaniel S. AU ITF: Li Marcus	78	0
16	Ang, Margaret G.	2	0
17	Gaisano, Jack S.	2	0
18	Gaisano, Edward S.	2	0
19	Gaisano, Frank S.	2	0
20	Manuel C. Alberto	1	0
21	Parayno Jr., Guillermo L.	1	0
22	Jacinto, Ricardo Nicanor N.	1	0
	Total	3,429,375,000	

(C) Dividends

Dividend Policy

Under Section 3 Article VIII of the Company's Fourth 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 2016, 2017, 2018, 2019 and 2020:

Cash Dividend

Year	Amount Declared	Dividend Per Share	Recorded Date	Payment Date
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
2019	P205,762,500.00	P0.06	April 15, 2019	May 2, 2019

(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, 2019 compared with the year ended December 31, 2018

In 2019, the Company's operating income increased by 21.5% driven mainly by the 11.3% increase in Revenue and lower increase rates of operating expenses at 9.3%.

The Company recognized additional insurance recoveries which accounts mainly for the 44.6% increase in Interest and other income, but were offset by the prospective adoption of PFRS 16, Leases which resulted to a significant increase in recognition of finance cost on related lease liabilities. Net income after tax after these two significant adjustments resulted to a decrease of 19.7%.

Excluding the impact of the adoption of PFRS 16, the Company's Operating income and Net income would have increased by 13.7% and 18.0%, respectively.

	2019				2019 versus 2018 % Increase/(Decrease)	
	As reported	Before PFRS 16	Effect of adoption	2018	As reported	Before PFRS 16
REVENUE						
Net Sales	36,790.2	36,790.1	−	33,050.1	11.3%	11.3%
Rentals	255.8	255.8	−	233.7	9.5%	9.5%
	37,046.0	37,045.9	−	33,283.8	11.3%	11.3%
COSTS AND EXPENSES						
Cost of sales	28,592.5	28,592.5	−	25,650.0	11.5%	11.5%
Operating expenses	7,390.2	7,458.8	(68.6)	6,758.8	9.3%	10.4%
	35,982.7	36,051.3	(68.6)	32,408.8	11.0%	11.2%
Operating Income	1,063.3	994.6	68.6	875.0	21.5%	13.7%
OTHER INCOME (CHARGES)						
Interest and other income	709.3	709.3	−	490.6	44.6%	44.6%
Finance costs	(607.5)	(19.3)	588.2	(19.0)	3,097.4%	1.6%
	101.8	690.0	588.2	471.6	-78.4%	46.3%
Income before income tax	1,165.1	1,684.6	(519.6)	1,346.6	-13.5%	25.1%
Provision for income tax	389.4	545.3	(155.9)	381.2	2.15%	43.0%
Net income	775.7	1,139.3	(363.7)	965.4	-19.7%	18.0%

Revenue

Net Sales
For the year ended December 31, 2019, our net sales were ₱36,790.2 million, an increase of 11.3% compared to ₱33,050.1 million for the year ended December 31, 2018. The opening of four (4) new stores and the partial re-opening of the fire-damaged supermarket and department store boosted sales, in addition to the same store sales growth of 2.2%.

Rental income
For the year ended December 31, 2019, our rental income was ₱255.8 million, an increase of 9.5% compared to ₱233.8 million for the year ended December 31, 2018. Increase in rental income is primarily due to the opening of new stores and partial re-opening of the fire-damaged supermarket and department store, which increased net leasable space, coupled with increase in rental fees due to escalation clauses in our existing lease agreements.

Costs and expenses

Cost of sales
For the year ended December 31, 2019, our cost of sales was ₱28,592.5 million, an increase of 11.5% compared to ₱25,650.0 million for the year ended December 31, 2018. Cost of sales grew slightly faster than net sales due to faster rate of growth of our food retail business, which typically have a higher cost of sales compared to our general merchandise.

Operating expenses
For the year ended December 31, 2019, our operating expenses were ₱7,390.2 million, an increase of 9.3% compared to ₱6,758.8 million for the year ended December 31, 2018. The increase in operating expenses was primarily driven by the opening of new stores, as well as, the partial re-opening of the fire-damaged supermarket and department store, offset by the effect of PFRS 16 *Leases* adoption as at January 1, 2019.

Operating expenses for same stores, warehouses and shared services grew by 3.1% lower than the increase in sales due to increased efficiency, cost saving measures and closure of a non-performing store in 2018.

Interest and other income

For the year ended December 31, 2019, our interest and other income was ₱709.3 million, an increase of 44.6% compared to ₱490.6 million for the year ended December 31, 2018.

The increase was primarily due to recovery from insurance claims of the Company for inventory, property and business interruption of a supermarket and department store that were damaged by fire in January 2018. This amounted to ₱538.7 million and ₱350.7 million in 2019 and 2018, respectively.

In addition, there was an increase in interest income from money market placements due to higher placements and interest rates in 2019. This amounted to ₱101.9 million and ₱75.1 million in 2019 and 2018, respectively.

Finance costs

For the year ended December 31, 2019, our finance costs were ₱607.5 million, an increase of 3097.4% compared to ₱19.0 million for the year ended December 31, 2018. The increase in finance costs is primarily driven by the adoption of PFRS 16 *Leases* as at January 1, 2019.

Provision for income tax

For the year ended December 31, 2019, our provision for income tax was ₱389.4 million, an increase of 2.2% compared to ₱381.2 million for the year ended December 31, 2018. Although, there is a decrease in income before tax in 2019, Provision for income tax increased due to the tax effects of nondeductible expenses, income subject to final tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2019, Net income was ₱775.6 million, a decrease of 19.7% compared to ₱965.4 million for the year ended December 31, 2018.

The year ended December 31, 2018 compared with the year ended December 31, 2017

Revenue

Net Sales
For the year ended December 31, 2018, our net sales were ₱33,050.1 million, a decrease of 5.6% compared to ₱35,015.7 million for the year ended December 31, 2017. The decrease was largely due to the combined effect of a temporary closure of a supermarket and department store that were damaged by fire, discontinuance of operation of a non-performing hypermarket and rationalization of sales to resellers which were not profitable. The same caused the transaction count and average basket size to fall by 4.9% and 0.7%, respectively, in 2018 as compared to 2017. A more focused marketing and sales efforts resulted to an increase of 5.1% on the same stores sales in 2018.

Rental income
For the year ended December 31, 2018, our rental income was ₱233.8 million, a decrease of 22.0% compared to ₱299.9 million for the year ended December 31, 2017. The decrease was largely due to a decrease in net leasable space resulting from a temporary closure of a supermarket and department store. This is despite the increase in rental fees from the escalation clauses in our existing lease agreements in the remaining stores.

Costs and expenses

Cost of sales
For the year ended December 31, 2018, our cost of sales was ₱25,650.0 million, a decrease of 6.5% compared to ₱27,443.4 million for the year ended December 31, 2017. This results to an improvement in gross margin as the decline in cost of sales is greater than the decline in net sales. The margin improvement was driven by a well-executed enhancement plan that included among others, negotiation with suppliers and rationalization of unprofitable sales to resellers.

Operating expenses
For the year ended December 31, 2018, our operating expenses were ₱6,758.8 million, an increase of 2.5% compared to ₱6,596.9 million for the year ended December 31, 2017. The increase in operating expenses was primarily due to increases in insurance, taxes and licenses, professional fees and personnel cost due to opening of new stores and salary rate adjustments.

Interest and other income

For the year ended December 31, 2018, our interest and other income was ₱490.6 million, an increase of 255.5% compared to ₱138.0 million for the year ended December 31, 2017. The increase in interest and other income was primarily due to recovery from insurance claims of the company against insurance coverage for inventories, properties and business interruptions of a supermarket and department store that were damaged by fire.

Finance costs

For the year ended December 31, 2018, our finance costs were ₱19.0 million, an increase of 8.0% compared to ₱17.6 million for the year ended December 31, 2017. The increase in finance costs is primarily driven by the increase in interest payments for credit cash bonds of credit account holders.

Provision for income tax

For the year ended December 31, 2018, our provision for income tax was ₱381.2 million, a decrease of 9.0% compared to ₱418.8 million for the year ended December 31, 2017. The decrease in provision for income tax was primarily due to the decrease 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, 2018, our net income was ₱965.4 million, a decrease of 1.2% compared to ₱977.0 million for the year ended December 31, 2017.

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. Same stores sales fell by 0.7% due to decisions to rationalize sales to resellers which were unprofitable. Transaction count fell by 5.2% in 2017 compared to 2016 but more focused marketing and sales efforts resulted to an average basket size increase of 7.3%.

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.

Costs and expenses

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.

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.

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.

Financial Position

The year ended December 31, 2019 compared with the year ended December 31, 2018

As of December 31, 2019 and 2018, our net current assets, or the difference between total current assets and total current liabilities, were ₱3,123.8 million and ₱4,730.3 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, 2019 and 2018 were ₱9,816.0 million and ₱9,420.9 million, respectively. The increase of 4.2% in current assets is due to the increase in inventories and short-term investments, offset by the decrease in receivables and cash and cash equivalents..

As of December 31, 2019, short-term investment totaled ₱629.6 million, receivables totaled ₱1,149.1 million, merchandise inventories totaled ₱4,636.6 million and other current assets totaled ₱491.6 million. As of December 31, 2018, short-term investment totaled ₱358.4 million, receivables totaled ₱1,371.6 million, merchandise inventories totaled ₱3,589.6 million and other current assets totaled ₱495.1 million.

As of December 31, 2019, cash and cash equivalents amounted to ₱2,909.1 million, a decrease of 19.3% from ₱3,606.2 million as of December 31, 2018. The decrease were mainly attributable to the additions to property and equipment amounting to ₱1,942.4 million, dividend payment amounting to ₱205.8 million and payment for lease liabilities of ₱1,300.3 million but were offset by thev₱3,297.7 million generated from operating activities.

Noncurrent Assets

Our noncurrent assets consist of property and equipment, right-of-use assets, deferred tax assets–net and non-current assets. Total noncurrent assets as of December 31, 2019 and 2018 were ₱13,548.6 million and ₱4,447.5 million, respectively. The increase of 2046.3% in noncurrent assets is significantly due to the recognition of right-of-use assets as result of adoption of PFRS 16, Leases, applied prospectively.

Current Liabilities

Total current liabilities as of December 31, 2019 and 2018 were ₱6,692.2 million and ₱4,690.6 million, respectively. As of December 31, 2019 and 2018, trade and other payables totaled ₱5,409.5 million and ₱4,392.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Noncurrent Liabilities

Total noncurrent liabilities as of December 31, 2019 and 2018 were ₱7,436.4 million and ₱474.9 million, respectively. The increase of 1465.9% in noncurrent liabilities is significantly due to the recognition of lease liabilities as result of adoption of PFRS 16, Leases, applied prospectively.

The year ended December 31, 2018 compared with the year ended December 31, 2017

As of December 31, 2018 and 2017, our net current assets, or the difference between total current assets and total current liabilities, were ₱4,730.3 million and ₱5,273.4 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, 2018 and 2017 were ₱9,420.9 million and ₱9,660.0 million, respectively. The decrease of 2.5% of current assets is due to the decrease in short-term investments and inventories.

As of December 31, 2018, short-term investment totaled ₱358.4 million, receivables totaled ₱1,371.6 million, merchandise inventories totaled ₱3,589.6 million and other current assets totaled ₱495.1 million. As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱878.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱316.7 million.

As of December 31, 2018, cash and cash equivalents amounted to ₱3,606.2 million, a decrease of 2.7% from ₱3,707.2 million as of December 31, 2017. The decrease were mainly attributable to the additions to property and equipment amounting to ₱1,447.7 million and dividend payment amounting to ₱205.8 million but were offset by the ₱1,450.2 million generated from operating activities.

Current Liabilities

Total current liabilities as of December 31, 2018 and 2017 were ₱4,690.6 million and ₱4,386.6 million, respectively. As of December 31, 2018 and 2017, trade and other payables totaled ₱4,392.3 million and ₱4,167.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

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 ₱5,273.4 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 investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were ₱9,660.0 million and ₱8,973.7 million, respectively. The increase of 7.6% 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 ₱878.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱316.7 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 ₱1,349.5 million generated from operation 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 ₱4,386.0 million and ₱4,185.6 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled ₱4,167.9 million and ₱3,940.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Cash Flows

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

	For the years ended December 31,		
	2019	2018	2017
	(₱ million)		
Net cash flows generated from operating activities	₱3,297.7	₱1,450.2	₱1,349.5
Net cash flows used in investing activities	(2,480.2)	(1,352.2)	(763.0)
Net cash flows used in financing activities	(1,506.1)	(219.6)	(202.6)
Net increase in cash	(₱688.6)	(₱121.6)	₱383.9

In 2019, the Company's net cash flows generated from operating activities significantly increased by 127.4%, while net cash used in financing activities increased by 585.8%. This is a result of the adoption of PFRS 16, Leases, applied prospectively. The Standard requires companies to present payments to lease liabilities within financing activities.

Had there been no adoption of PFRS 16, net cash flows generated from operating activities would have increased by 38.7% only, while net cash used in financing activities increased by 0.1%.

	For the year ended December 31, 2019		
	As reported	Before PFRS 16	Effect of adoption
	(₱ million)		
Net cash flows generated from operating activities	₱3,297.7	₱2,011.4	(₱1,286.3)
Net cash flows used in investing activities	(2,480.2)	(2,480.2)	–
Net cash flows used in financing activities	(1,506.1)	(219.8)	1,286.3
Net increase in cash	(₱688.6)	(₱688.6)	₱–

Net cash flows from operating activities

Our net cash flows from operating activities for the year ended December 31, 2019 was ₱3,297.7 million, which is comprised of operating income before working capital changes of ₱2,935.0 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in trade and other payables of ₱1,016.7 offset by the increase in merchandise inventories of ₱1,047.0 million and receivables of ₱127.4 million.

Our net cash flows from operating activities for the year ended December 31, 2018 was ₱1,450.2 million, which is comprised of operating income before working capital changes of ₱1,494.7 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in other current assets amounting to ₱184.4 million and decrease in merchandise inventories of ₱112.4 million, as well as, the increase in trade and other payables and contract liabilities of ₱221.7 million ₱103.2 million, respectively.

Our net cash flows generated from operating activities for the year ended December 31, 2017 was ₱1,349.5 million, which comprised operating income before working capital changes of ₱1,992.5 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, other current assets and trade and other payables and decrease in noncurrent liabilities.

Net cash flows used in investing activities

For the year ended December 31, 2019, net cash flows used in investing activities was ₱2,480.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to ₱1,942.4 million, increase in other noncurrent assets by ₱266.7 million due to advance payments to suppliers for purchases of property and equipment, and increase in short-term investments by ₱271.1 million.

For the year ended December 31, 2018, net cash flows used in investing activities was ₱1,352.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to ₱1,447.7 million and increase in other noncurrent assets by ₱434.7 million due to advance payments to suppliers for purchases of property and equipment, and offset by the decrease in short-term investments by ₱396.8 million and proceeds from insurance claims on property and equipment by ₱133.4 million.

For the year ended December 31, 2017, net cash flows used in investing activities was ₱763.0 million, which resulted from the increase in short-term investment 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 ₱86.5 million.

Net cash flows used in financing activities

Net cash flows used in financing activities was ₱1,506.1 million for the year ended December 31, 2019, as a result of payments of lease liabilities amounting to ₱1,300.3 million and payment of cash dividends amounting to ₱205.8 million declared on March 18, 2019.

Net cash flows used in financing activities was ₱219.6 million for the year ended December 31, 2018, as a result of payments of finance lease liability amounting to ₱13.9 million and payment of cash dividends amounting to ₱205.8 million declared on March 16, 2018.

Net cash flows used in financing activities was ₱202.6 million for the year ended December 31, 2017, 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.

Indebtedness

We have nil outstanding loans as of December 31, 2019, 2018 and 2017.

Key Performance Indicators

	For the years ended December 31,		
	2019	2018	2017
The Company			
Net Sales[(1)] (₱ millions)	36,790.2	33,050.1	35,015.7
Average Basket Size[(2)] (₱)	622.5	590.2	594.5
Same store sales growth[(3)] (%)	2.2%	5.1%*	-0.7%
Number of Stores	57*	53*	52
Net selling area[(4)] (sqm)	234,893	194,536	228,980

excludes discontinued operations and temporary closure of stores

Notes:
(1) Net sales are gross sales, net of discounts and returns.
(2) Average basket size is the amount of net sales divided by the number of transactions for a given period.
(3) 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.
(4) 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 26 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	2019	2018	2017
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	₱2,079,000	₱2,079,000	₱1,890,000
Professional Fees related to the Initial Public Offering	–	–	–
Fees for tax-related services	150,000	–	–
All Other Fees	–	145,000	–
Total	**₱2,229,000**	**₱2,224,000**	**₱1,890,000**

All Other Fees pertains to fees paid by the Company for the certification of Company's Disbursement of Proceeds and Progress Report in 2018.

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, 2019, 2018, and 2017.

The Audit and Risk Committee approves any engagement for the services of the external auditor. After reviewing the need for the services of the external auditor, the Audit and Risk Committee shall review the engagement proposal submitted. If the Audit and Risk Committee finds the engagement proposal acceptable, the Audit and Risk 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 and Risk 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	62	Filipino	Chairman
2. Jack S. Gaisano	66	Filipino	Director
3. Edward S. Gaisano	64	Filipino	Director
4. Margaret G. Ang	68	Filipino	Director
1. Manuel C. Alberto	54	Filipino	Director
6. Guillermo L. Parayno, Jr.	71	Filipino	Independent Director
7. Ricardo Nicanor N. Jacinto	59	Filipino	Independent Director

Messrs. Frank S. Gaisano, Jack S. Gaisano, Edward S. Gaisano, and Ms. Margaret G. Ang have served their respective offices since the incorporation of the Company on August 2003. Mr. Manuel C. Alberto was elected as Director on December 17, 2018, and assumed the position effective January 1, 2019, to fill in the vacancy in the Board due to the retirement of Mr. Arthur Emmanuel. The independent directors, Mr. Guillermo L. Parayno, Jr. and Mr. Ricardo Nicanor N. Jacinto, were elected on July 16 and 27, 2015, respectively. All Board Members were re-elected to the Board during the last Annual Stockholders' Meeting held on May 3, 2019.

There are no other directors who 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.

Board of Directors – Brief Description and Experience for the Last Five (5) Years

Frank S. Gaisano, 62, 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 and Pacific Mall Corporation. 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, 66, 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. Inc. He is the President and Vice-Chairman of HTLand, Inc. He is also a Director of Vicsal Development Corporation and Pacific Mall Corporation.

Edward S. Gaisano, 64, 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, Inc. 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 a member of the Society of Fellows of the Institute of Corporate Directors.

Margaret G. Ang, 68, 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, Corporate Secretary and Treasurer 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.

Manuel C. Alberto, 54, was elected as Director of the Company, and appointed as President and Chief Operating Officer, on December 17, 2018, and assumed the position effective January 1, 2019, replacing Mr. Arthur Emmanuel who retired on December 31, 2018. Before his election/appointment as President and Chief Operating Officer, he served as the Company's Chief Merchandising and Marketing Officer. He earned his Bachelor of Arts in Communication (1989) from Santa Clara University, California, USA and obtained his Master's degree in Management (1998) from the Asian Institute of Management. Before joining the Company, he served as President & General Manager of Philippine FamilyMart Inc. (2014-2018), VP & Business Unit Head (2013-2015) & VP of Operations (2001-2010) of Rustan Supercenters, Inc., National Operation Director of Jollibee Foods Corp (2010-2013), Store General Manager of Pilipinas Makro Inc. (1998-2001) and Store Manager of Stroud's Linen, USA.

Ricardo Nicanor N. Jacinto, 59, 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 an Executive Director of Torre Lorenzo Development Corp, a Director of SBS Philippines Corporation, and SBS Holdings and Enterprises Corporation, an Independent Director of Maybank ATR Kim Eng and Etiqa Life and General Assurance Philippines, Inc., and the Treasurer/Trustee of the Judicial Reform Initiative. Mr. Jacinto previously served as CEO of the Institute of Corporate Directors (2012-2017) and Managing Director of Ayala Corporation (1997-2011). During the last two years of his tenure at Ayala Corporation, he was seconded to Habitat for Humanity as its Executive Director.

Guillermo L. Parayno, Jr., 71, 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.

2. Executive Officers

The following are the names, ages, positions and citizenships of the incumbent officers of the Company:

Name	Age	Nationality	Position
Frank S. Gaisano	62	Filipino	Chairman & Chief Executive Officer
Manuel C. Alberto	54	Filipino	President & Chief Operating Officer
Joselito G. Orense	54	Filipino	Treasurer & Chief Financial Officer
Vincent E. Tomaneng	52	Filipino	Corporate Secretary and Chief Legal Counsel
Tara Tsarina B. Perez-Retuya	36	Filipino	Assistant Corporate Secretary & Compliance Officer

Brief Description - Officers

Joselito G. Orense, 54, 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's degree 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, 52, 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, and Corporate Secretary of HTLand, Inc. from 2014, a Director of Pacific Mall Corporation from 2010, and the Corporate Secretary of Vicsal Foundation, Incorporated since February 2020.

Tara Tsarina B. Perez-Retuya, 36, 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).

(B) Significant Employees

The Company has no significant employee or personnel who is 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, Chairman of the Board of Directors, 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, 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 Report: (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 was one (1) filed complaint before the Office of the Ombudsman where he has been named as a respondent in his previous capacity as the former Commissioner of Customs. As of June 22, 2018, the pending case was already dismissed, and the corresponding Clearance No. 03943407 was issued by the National Bureau of Investigation on July 11, 2018.

There are no material pending legal proceedings to which the Company is a party.

Item 9 Executive Compensation

<u>*Summary Compensation Table*</u>

The following table sets out the Company's Chairman and Chief Executive Officer and four most highly compensated senior officers of the Company for the last three (3) years and projected for the ensuing year (2020):

<table>
<tr><th>Name</th><th>Position</th><th>Year</th><th>Aggregate Salary (Annual)</th><th>Bonus</th><th>Other Annual Compensation</th></tr>
<tr><td>Frank S. Gaisano</td><td>Chairman and Chief Executive Officer</td><td>2019</td><td rowspan="5">Php 55,378,513.98</td><td rowspan="5">–</td><td rowspan="5">6,159,231.46</td></tr>
<tr><td>Manuel C. Alberto</td><td>President and Chief Operating Officer</td><td>2019</td></tr>
<tr><td>Conchita G. Lazaro</td><td>Deputy Chief Marketing and Merchandising Officer</td><td>2019</td></tr>
<tr><td>Joselito G. Orense</td><td>Chief Financial Officer and Treasurer</td><td>2019</td></tr>
<tr><td>Jonathan Juan DC Moreno</td><td>Chief Strategy and Governance Officer</td><td>2019</td></tr>
<tr><td colspan="2">All Other Officers and Directors as a Group Unnamed</td><td>2019</td><td>Php 4,032,179.30</td><td>–</td><td>–</td></tr>
</table>

The following table identified and summarizes the aggregated 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 2017, 2018, and 2019 and for the ensuing year 2020:

<table>
<tr><td rowspan="5">Chairman and Chief Executive Officer and the four most highly compensated executive officers named
Above</td><td>Year</td><td>Total (in Php)</td></tr>
<tr><td>2017 (Actual)</td><td>47,800,986.36</td></tr>
<tr><td>2018 (Actual)</td><td>58,046,455.00</td></tr>
<tr><td>2019 (Actual)</td><td>61,897,745.44</td></tr>
<tr><td>2020 (Projected)</td><td>61,897,745.44</td></tr>
<tr><td rowspan="4">All other Officers and Directors as a Group Unnamed</td><td>2017 (Actual)</td><td>3,663,710.90</td></tr>
<tr><td>2018 (Actual)</td><td>4,227,222.34</td></tr>
<tr><td>2019 (Actual)</td><td>4,032,179.30</td></tr>
<tr><td>2020 (Projected)</td><td>4,070,512.82</td></tr>
</table>

Standard Arrangements

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, as follows:

	FIXED REMUNERATION	PER DIEM ALLOWANCE – Per BOD Meeting	PER DIEM ALLOWANCE – Per Committee Meeting
Executive Directors	Fixed monthly compensation	Nominal per diem of Php10,000.00 (net of tax)	Nominal per diem of Php10,000.00 (net of tax)
Non-Executive Directors	None	Nominal per diem of Php10,000.00 (net of tax)	Nominal per diem of Php10,000.00 (net of tax)
Independent Directors	None	₱150,000.00 (gross of tax)	Chairman: ₱45,000.00 (gross of tax) Member: ₱40,000.00 (gross of tax)

The total director's fee paid for each of the Company's director as of December 31, 2019 is as follows:

Name of Director	**Total Director's Fee** (in Php)
Frank S. Gaisano *Chairman & Chief Executive Officer*	76,923.05
Jack S. Gaisano *Director*	33,333.30
Edward S. Gaisano *Director*	55,555.50
Margaret G. Ang *Director*	55,555.50
Manuel C. Alberto *President & Chief Operating Officer*	76,923.05
Guillermo L. Parayno, Jr. *Independent Director*	1,355,000.00
Ricardo Nicanor N. Jacinto *Independent Director*	1,530,000.00

Other Arrangements

Except for Mr. Frank S. Gaisano and Mr. Manuel C. Alberto, 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.

Employment Contracts

The Company has existing employment contracts with its executive officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Company in the event of a change in control.

Warrants and Options Outstanding

As of the date of this Report, there are no outstanding warrants or options held by the Chief Executive Officer, and President & Chief Operating Officer, and the named key executive and managerial officers, and all officers and directors as a group. However, the Board of Directors 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. The specific terms of such stock option plan have not yet been established by the Company's Nomination and Compensation Committee.

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, 2019

As of December 31, 2019, the Company knows no one who beneficially owns in excess of 5% of the Company's common stock except 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	2,627,427,300	76.62%
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	645,058,621	18.81%
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	131,842,101	3.84%

Notes:

1. Vicsal Development Corporation (VDC) is the principal stockholder of the Company.

2. 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, 2019:

Name of Participant	Shareholdings	Shareholdings
COL Financial Group, Inc.	111,404,272	14.34%
AB Capital Securities, Inc.	108,906,406	14.02%
Banco De Oro – Trust Banking Group	92,201,181	11.87%
BPI Securities Corporation	78,236,416	10.07%
Abacus Securities Corporation	45,336,352	5.84%
The Hongkong and Shanghai Bank Corp. Ltd. –Client's Acct	42,084,200	5.41%
Citibank N.A.	41,330,614	5.32%

(B) Security Ownership of Management as of December 31, 2019

Title of Class	Name of Beneficial Owner	Position	Amount and Nature of Beneficial Ownership		Citizenship	% to Total Out-standing
			Direct	Indirect		
Common	Frank S. Gaisano	Chairman and Chief Executive Officer	2	30,448,000	Filipino	.89%
Common	Edward S. Gaisano	Director	75,002	0	Filipino	0
Common	Margaret G. Ang	Director	2	6,834,000	Filipino	.2%
Common	Jack S. Gaisano	Director	2	0	Filipino	0
Common	Manuel C. Alberto	President and Chief Operating Officer	1	0	Filipino	0
Common	Ricardo Nicanor N. Jacinto	Independent Director	500,001	0	Filipino	.01%
Common	Guillermo L. Parayno, Jr.	Independent Director	1	0	Filipino	0
Common	Joselito G. Orense	Treasurer/ Chief Finance Officer	0	0	Filipino	0
Common	Vincent E. Tomaneng	Corporate Secretary	500,000	0	Filipino	0.01%
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, 2019

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, 2019, 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 21 of the Financial Statements for the Related Party Transactions.

PART IV CORPORATE GOVERNANCE

Item 12. Corporate Governance

Please refer to the attached 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, 2019	
DATE	**SUBJECT**
March 18, 2019	Approval of cash dividends amounting to Php 205,762,500

Item 14 Use of Proceeds

Please refer to the attached Company's Disbursement of Proceeds and Progress Report as of December 31, 2019 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 March 18, 2020.

By:

FRANK S. GAISANO
Chairman and Chief Executive Officer

MANUEL C. ALBERTO
President and Chief Operating Officer

JOSELITO G. ORENSE
Treasurer and Chief Financial Officer

VINCENT E. TOMANENG
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ______day of_______20__affiants exhibiting to me their respective Philippine passports as follows.

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	[redacted]		
Manuel C. Alberto			
Joselito G. Orense			
Vincent E. Tomaneng			

Doc. No. _______
Page No. _______
Book No. _______
Series of 2020

SUSTAINABILITY REPORT
2019

Company Details	
Name of Organization	Metro Retail Stores Group, Inc. (MRSGI)
Location of Headquarters	Vicsal Building, corner of C.D. Seno and W.O. Seno Streets, Guizo, North Reclamation Area, Mandaue City, Cebu, Philippines
Location of Operations	Various location across Luzon and Visayas
Report Boundary: Legal entities (e.g. subsidiaries) included in this report	Limited to Metro Retail Stores Group, Inc.
Business Model (including primary activies, brands, products, and services)	To buy, sell, trade, deal in and deal with goods, wares and merchandise of every kind and description, and to carry on such business as wholesalers, retailers, importers and exporters; to acquire all such merchandise, supplies, materials, and other articles as shall be necessary in the conduct or to carry on the business of a supermarket and department store operator.
Reporting Period	2019
Highest Ranking Person responsible for this report	Chief Strategy and Governance Officer

**If you are a holding company, you could have an option whether to report on the holding compnay only or include the subsidiaries. However, please consider the principle of materiality when defining your report boundary*

Materiality Process
Explain how you applied the materiality principle (or materiality process) in identifying your material topics
MRSGI's primary operation is retail operations through its Metro Department Stores, Metro Supermarket, and Super Metro Hypermarket brand. Materiality is limited to operational matters which have actual and relevant impact on environment, social, and community. Economic, environmental, and social impacts that influence the decision of stakeholders were considered in identifying material topics.

Economic Performance
Direct Economic Value Generated and Distributed

Disclosure	Amount	Units
Direct economic value generated (revenue)	37,045,988,019	PhP
Direct economic value distributed:		
a. Operating costs	4,679,286,211	PhP
b. Employee wages and benefits	2,283,189,777	PhP
c. Payments to supplier, other operating costs	30,497,045,104	PhP
d. Dividends given to stockholders and interest payments to loan providers	207,668,957	PhP
e. Taxes given to government	878,206,528	PhP
f. Investments to community (e.g. donations, CSR)	7,548,287	PhP

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach (Solution)
Primary business operations; Impact is caused by the Company's business relationship	Employees, Customers, Suppliers, and Government	The Company always strive to provide quality products and customer experience through its stores. MRSGI also aims to be a responsible corporate citizen by providing career development to our employees, mutually beneficial relationship with our suppliers, and compliant corporate entity.
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach (Solution)**
Risk of loss of business due to competition	Employees, Customers, Suppliers, and Government	The Company's internal policies ensures that our stores are efficiently run, prices of goods remain competitive, and agreements & requirements are met/fulfilled.
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach (Solution)**
Opportunity to provide better Customer and Partner Experience	Employees, Customers, Suppliers, and Government	The Company's Management team regulalry conducts internal assessments on how to improve corporate & in-store experience as well as our relationship with suppliers and regulators.

Climate-related risks and opportunities

We note that the Company currently does not have sufficient information to fully assess its climate-related risks and opportunities. The Company have yet to implement an integrated program that will monitor and measure climate-related risks and opportunities through a pre-agreed set of metrics and milestones.

Governance	**Strategy**	**Risk Management**	**Metrics and Targets**
Not applicable.	*Not applicable.*	*Not applicable.*	*Not applicable.*
Recommended Disclosures			
Not applicable.	*Not applicable.*	*Not applicable.*	*Not applicable.*
Not applicable.	*Not applicable.*	*Not applicable.*	*Not applicable.*
Not applicable.	*Not applicable.*	*Not applicable.*	*Not applicable.*

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	For Trade items: MRSGI Sales is generated at around 93% for local suppliers; 7% for import.	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
MRSGI's suppliers base is diversified between local suppliers and multinational corporations.	Suppliers	Maintain its close relationship with its concessionaires and suppliers to ensure continuous offering of broad range of products.
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
No risk identified.	Not applicable.	Not applicable.
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Product offering will not be limited.	Customers	Non-dependency on single supplier.

Anti-corruption

We note that the Company does not have sufficient information to accurately assess the impact of this category. However, the Company implements stringent policies and mecahnisms such as: Whistleblower Policy, Related-party Transaction Policy, No-gift Policy, among others; aimed at curbing and/or subdue corrupt practices.

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100%	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100%	%
Percentage of directors and management that have received anti-corruption training	100%	%
Percentage of employees that have received anti-corruption training	100%	%

Training on Anti-corruption Policies and Procedures (*cont.)*

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Primary Business of Operations	Employees, Supplier, and Government	MRSGI implements stringent policies and mecahnisms such as: Whistleblower Policy, Related-party Transaction Policy, No-gift Policy, among others;
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Risk of MRSGI employees and engaging in corrupt business practices	Employees, Supplier, and Government	The Company policies are routinely cascaded to employees and suppliers and are posted around the Corporate Offices; these policies are also dicussed during new employee on-boarding.
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Incidents of Corruption

Disclosure	**Quantity**	**Units**
Number of incidents in which directors were removed or disciplined for corruption	*nil*	*nil*
Number of incidents in which employees were dismissed or disciplined for corruption	*nil*	*nil*
Number of incidents when contracts with business partners were terminated due to incidents of corruption	*nil*	*nil*

Incidents of Corruption *(cont.)*

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Primary Business of Operations	Employees, Supplier, and Government	MRSGI implements stringent policies and mecahnisms such as: Whistleblower Policy, Related-party Transaction Policy, No-gift Policy, among others;
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Risk of MRSGI employees and engaging in corrupt business practices	Employees, Supplier, and Government	The Company policies are made available through on-boarding activities, email, physical post on bulletin boards in the Corporate Offices; these policy employs strict penalties against any employees who engages in corrupt practices
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Environment

Resource Management

Energy consumption within the organization:

Disclosure	Quantity (2019)	Units
Energy consumption (renewable sources)	600,000	kWh
Energy consumption (gasoline)	*nil*	GJ
Energy consumption (LPG)	41,314	*Kg*
Energy consumption (diesel)	202,015	*Kg*
Energy consumption (electricity)	93,351,611	*kWh*

Reduction of energy consumption

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

Disclosure	Quantity (2019)	Units
Energy reduction (gasoline)	*nil*	GJ
Energy reduction (LPG)	*nil*	GJ
Energy reduction (diesel)	*nil*	GJ
Energy reduction (electricity)	*nil*	kWh
Energy reduction (gasoline)	*nil*	GJ

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Water consumption within the organization

Disclosure	Quantity (2019)	Units
Water withdrawal	124,003	cubic meters
Water consumption	559,560	cubic meters
Water recycled and reused	*nil*	cubic meters

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Materials used by the organization

Disclosure	Quantity (2019)	Units
Materials used by weight or volume	*nil*	
Renewable	*nil*	kg/liters
Non-renewable	*nil*	kg/liters
Percentage of recycled input materials used to	*nil*	%

Materials used by the organization *(cont.)*

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	**Quantity (2019)**	**Units**
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	*nil*	*nil*
Habitats protected or restored	*nil*	*nil*
IUCN Red List species and national conservation list species with habitats in areas affected by operations	*nil*	*nil*

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine) *(cont.)*

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Environmental impact management

Air Emissions

GHG

Disclosure	**Quantity (2019)**	**Units**
Direct (Scope 1) GHG Emissions	*nil*	Tonnes CO_2e
Energy indirect (Scope 2) GHG Emissions	*nil*	Tonnes CO_2e
Emissions of ozone-depleting substances (ODS)	*nil*	Tonnes

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Air pollutants

Disclosure	**Quantity (2019)**	**Units**
No_x	*nil*	kg
So_x	*nil*	kg
Persistent organic pollutants (POPs)	*nil*	kg
Volatile organic compounds (VOCs)	*nil*	kg
Hazardous air pollutants (HAPs)	*nil*	kg
Particulate matter (PM)	*nil*	kg

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Solid and Hazardous Wastes

Solid Waste

Disclosure	Quantity (2019)	Units
Total solid waste generated	3,456,345	*kg*
Reusable	*nil*	*kg*
Recyclable	2,481,934	*kg*
Composted	*nil*	*kg*
Incinerated	*nil*	*kg*
Residuals/Landfilled	974,411	*kg*

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Hazardous Waste

Disclosure	Quantity (2019)	Units
Total weight of hazardous waste generated	38,689	kg
Total weight of hazardous waste transported	13,362	kg

Hazardous Waste *(cont.)*

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Effluents

Disclosure	**Quantity (2019)**	**Units**
Total volume of water discharges	279,972	*cubic meters*
Percent of wastewater recycled	0.49%	*%*

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Environmental Compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity (2019)	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	7,256,760	*PhP*
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	4	#
No. of cases resolved through dispute resolution mechanism	3	#

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Risk/s identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*
What are the Opportunity/ies identified?	**Which stakeholders are affected?**	**Management Approach**
Not applicable.	*Not applicable.*	*Not applicable.*

Social

Employee Management - Hiring and Benefits

Employee Data

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to maximize its integrated HR system that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

Disclosure	**Quantity**	**Units**
Total Number of Employees	7,086	#
a. Number of Female Employees	3,653	#
b. Number of Male Employees	3,433	#
Attrition Rate	*nil*	%
Rate of Lowest Paid employee against minimum wage	Lowest paid is at min. wage; no lower than that.	#

Employee Benefits

List of Benefits	**Y/N**	**% of female employees who availed for the year**	**% of male employees who availed for the year**
SSS	YES	1,265 employees	
PhilHealth	YES	8,883 total average # of employees	
Pag-Ibig	YES	3,340 employees	
Parental leaves	YES	2,525 total # of employees	
Vacation leaves	YES	8,927 total average # of employees	
Sick leaves	YES	2,102	2,372
Medical benefits (aside from PhilHealth)	YES	39	151
Housing Assistance (aside from Pag-Ibig)	YES	2,613	2,839
Retirement Fund (aside from SSS)	YES	2,594	2,823
Further education support	YES (2019-2020) as of January	7,539 total # of employees enrolled	
Company stock options	NO		
Telecommuting	NO		
Flexible working hours	NO		
(Others)	YES	892	668

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
Primary business operations; around 80% of our employees are in operations	Maintain a dynamic employee who are guided by Metro core values
What are the Risk/s identified?	**Management Approach**
Not applicable. *MRSGI has no significant employee or personnel who is not an executive officer but is expected to make a significant contribution to the business.*	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Employee Training and Development

Disclosure	Quantity (2019)	Units
Total training hours provided to employees		
a. Female employees	*8,805*	*hours*
b. Male employees	*8,578*	*hours*
Average training hours provided to employees		
a. Female employees	*8*	*hours/employee*
b. Male employees	*8*	*hours/employee*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Primary business operations	MRSGI always placed high value on training and retention. Employee training and development supports business operations by:1) equipping employees of the necessary knowledge, skills and abilities to deliver its role/function, 2) closing the identifed skills gaps to improve performance, and 3) providing leadership development programs to incumbent and hi-potential employees eyed for future succession to higher roles.
What are the Risk/s identified?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Labor Management Relations

Disclosure	Quantity (2019)	Units
% of employees covered with Collective Bargaining Agreements	*Not applicable*	%
Number of consultations conducted with employees concerning employee-related policies	*Not applicable*	#

Labor Management Relations *(cont.)*

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Not applicable.	*Not applicable.*
What are the Risk/s identified?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Diversity and Equal Opportunity

Disclosure	Quantity (2019)	Units
% of female workers in the workforce	50.90%	%
% of male workers in the workforce	49.10%	%
Number of employees from indigenous communities and/or vulnerable sector	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Not applicable.	*Not applicable.*
What are the Risk/s identified?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

We note that the Company does not have sufficient information to accurately assess the impact of this category.

Disclosure	**Quantity (2019)**	**Units**
Safe Man-Hours	*nil*	Man-hours
No. of Work-related Injuries	*25*	#
No. of Work-related Fatalities	*0*	#
No. of Work-related ill-health	*0*	#
No. of safety drills	*4*	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Risk/s identified?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Labor Laws and Human Rights

Disclosure	**Quantity**	**Units**
No. of legal actions are employee grievances involving forced or child labor	*nil*	#
Topic	**Y/N**	**If Yes, cite reference in the company policy**
Forced Labor	No	
Child Labor	No	
Human Rights	No	

Labor Laws and Human Rights *(cont.)*

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
Not applicable	*Not applicable.*
What are the Risk/s identified?	**Management Approach**
Not applicable	*Not applicable*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable	*Not applicable*

Supply Chain Management

Topic	**Y/N**	**If Yes, cite reference in the supplier policy**
Environmental performance	No	
Forced labor	No	
Human rights	No	
Bribery and corruption	Yes	Procurement Policy, No-Gift Policy, among others set out by MRSGI's Standard Operating Procedures

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
Not applicable	*Not applicable*
What are the Risk/s identified?	**Management Approach**
Not applicable	*Not applicable*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable	*Not applicable*

Relationship with community

Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations)	Location	Vulnerable groups (if applicable)	Does the particular operation have impacts on indigenous people (Y/N)?	Collective or individual rights that have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Not applicable.	*Not applicable.*	*Not applicable.*	*Not applicable.*	*Not applicable.*	*Not applicable.*

For operations that are affecting Ips, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available:_______________

Certificates	Quantity (2019)	Units
FPIC process is still undergoing	*nil*	#
CP secured	*nil*	#

What are the Risk/s identified?	Management Approach
Not applicable.	*Not applicable.*
What are the Opportunity/ies	**Management Approach**
Not applicable.	*Not applicable.*

Customer Management

Customer Satisfaction

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	*nil*	No

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Primary business operations	MRSGI through its stores and internal policies are geared towards providing the best-in-class shopping experience and value for our customers.
What are the Risk/s identified?	**Management Approach**
Not applicable	*Not applicable*
What are the Opportunity/ies	**Management Approach**
Not applicable	*Not applicable*

Health and Safety

Disclosure	Quantity (2019)	Units
No. of substantiated complaints on product or service health and safety	*nil*	#
No. of complaints addressed	*nil*	#

Health and Safety *(cont.)*

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Not applicable	*Not applicable*
What are the Risk/s identified?	**Management Approach**
Not applicable	*Not applicable*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable	*Not applicable*

Marketing and labelling

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

Disclosure	Quantity (2019)	Units
No. of substantiated complaints on marketing and labelling	*nil*	#
No. of complaints addressed	*nil*	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Not applicable	*Not applicable*
What are the Risk/s identified?	**Management Approach**
Not applicable	*Not applicable*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable	*Not applicable*

Customer Privacy

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

Disclosure	**Quantity (2019)**	**Units**
No. of substantiated complaints on customer privacy	*nil*	#
No. of complaints addressed	*nil*	#
No. of customers, users and account holders whose information is used for secondary purposes	*nil*	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Risk/s identified?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Data Security

We note that the Company currently does not have sufficient information to fully assess the impact of this category. The Company have yet to implement an integrated program that will monitor and measure risks and opportunities on sustainability through a pre-agreed set of metrics and milestones.

Disclosure	**Quantity (2019)**	**Units**
No. of data breaches, including leaks, thefts and losses of data	*nil*	#

What is the impact and where does it occur? What is	**Management Approach**
Not applicable.	*Not applicable.*
What are the Risk/s identified?	**Management Approach**
Not applicable.	*Not applicable.*
What are the Opportunity/ies identified?	**Management Approach**
Not applicable.	*Not applicable.*

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value/ Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Metro Dept. Stores Metro Supermarket Super Metro Hypermarket Ancillary Businesses	Poverty Reduction Decent and economic growth Sustainable Cities and Communities Reduced inequalities	Possibility of missed opportunities to serve the needs of communities	MRSGI continous to expand into areas where it can serve the needs of far-flung communities and sustain its development
MRSGI CSR Prorgrams	Partnerships for the goals	Possibility of being unable to serve the needs of the more vulnerable sector	MRSGI, through its Corporate Affairs Department, implements various community related programs.

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, 2019 and 2018, 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 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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
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March 18, 2020

SUBSCRIBED AND SWORN to before me this MAR 2 6 2020 affiants exhibiting to me their respective Philippine passports as follows:

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	P5597665A	12 JAN 2018	DFA NCR South
Joselito G. Orense	P8825848A	20 SEP 2018	DFA NCR South

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Book No. LIX
Series of 2020

VINCENT E. TOMANENG
NOTARY PUBLIC FOR CEBU CITY
COMMISSION UNTIL DEC.31, 2020
ROLL OF ATTORNEY NO. 39448
IBP LIFETIME NO. 1029091, CEBU CITY
PTR NO. 1571548 1/7/20 CEBU CITY
MCLE COMPLIANCE NO. VI-0011298
SUITE 210 2ND FLOOR THE WALK, CEBU IT PARK
LAHUG, CEBU CITY

METRO
RETAIL STORES GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN

The Management of METRO RETAIL STORES GROUP, INC. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2019. Management is likewise responsible for all *information* and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2019 and the accompanying Annual Income Tax Return are in accordance with the books and records of METRO RETAIL STORES GROUP, INC., complete and correct in all materials respects. Management likewise affirms that:

a. The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

b. Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation f the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

c. METRO RETAIL STORES GROUP, INC. has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 18, 2020

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LARGE TAXPAYERS DIVISION-CEBU
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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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 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 matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adoption of PFRS 16, *Leases*

Effective January 1, 2019, the Company adopted Philippine Financial Reporting Standard (PFRS) 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Company's accounting policy for leases. The Company's adoption of PFRS 16 is significant to our audit because the Company has high volume of lease agreements; the recorded amounts are material to the financial statements; and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Company is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right of use assets and lease liability amounting to ₱8,259.01 million and ₱8,044.06 million, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱1,241.45 million and ₱590.15 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Note 2 to the financial statements.

Audit response
We obtained an understanding of the Company's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

We tested the population of lease agreements by comparing the number of locations per operations report against lease contract listing of the Company.

On a test basis, we inspected lease agreements, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Company will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and other disclosures as required by PFRS 16.

Existence and completeness of merchandise inventories

The Company's inventories comprise 20% of its total assets as at December 31, 2019. The Company operates 58 stores (consisting of department stores, supermarkets and hypermarkets) and 9 warehouses in Luzon and Visayas. We focused on this area since inventories are material to the financial statements and are located in various sites across the country.

The Company's disclosures about inventories are included in Note 7 to the financial statements.

Audit Response
We observed the conduct of inventory count at selected stores and warehouses and performed test counts. We traced the results of the test counts to the inventory compilation to determine if the inventory compilation reflects actual inventory count results. We reviewed the reconciliation of the valued physical inventory compilation with the general ledger account balances and tested reconciling item. On a sampling basis, we tested the rollforward and rollback procedures on inventory quantities from the date of inventory count to reporting date.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our 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, 2019 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 29 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

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125272, January 7, 2020, Makati City

March 18, 2020

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METRO RETAIL STORES GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 26)	**₱2,909,123,300**	₱3,606,179,404
Short-term investments (Notes 5 and 26)	**629,574,974**	358,438,404
Receivables (Notes 6 and 26)	**1,149,127,596**	1,371,593,749
Merchandise inventories (Note 7)	**4,636,576,270**	3,589,605,171
Other current assets (Note 8)	**491,626,178**	495,107,374
Total Current Assets	**9,816,028,318**	9,420,924,102
Noncurrent Assets		
Property and equipment (Note 9)	**4,700,483,138**	3,286,048,181
Right-of-use assets (Note 23)	**7,512,796,866**	–
Deferred tax assets - net (Note 22)	**309,275,514**	152,995,229
Other noncurrent assets (Note 10)	**1,026,033,995**	1,008,491,592
Total Noncurrent Assets	**13,548,589,513**	4,447,535,002
TOTAL ASSETS	**₱23,364,617,831**	₱13,868,459,104
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 26)	**₱5,409,499,852**	₱4,392,287,409
Contract liabilities (Note 12)	**103,525,837**	103,195,660
Income tax payable	**230,178,863**	158,339,929
Lease liabilities - current portion (Notes 23 and 26)	**949,045,108**	–
Finance lease liability - current portion (Notes 23 and 26)	–	36,744,720
Total Current Liabilities	**6,692,249,660**	4,690,567,718
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 23 and 26)	**6,870,042,722**	–
Finance lease liability - net of current portion (Notes 23 and 26)	–	28,648,744
Retirement benefit obligation (Note 20)	**500,623,022**	393,006,901
Other noncurrent liabilities (Note 13)	**65,737,958**	53,216,403
Total Noncurrent Liabilities	**7,436,403,702**	474,872,048
Total Liabilities	**14,128,653,362**	5,165,439,766
Equity		
Capital stock (Note 14)	**3,429,375,000**	3,429,375,000
Additional paid-in capital (Note 14)	**2,455,542,149**	2,455,542,149
Retained earnings (Note 14)	**3,345,357,261**	2,775,475,030
Remeasurement gains on defined benefit obligation (Note 20)	**5,690,059**	42,627,159
Total Equity	**9,235,964,469**	8,703,019,338
TOTAL LIABILITIES AND EQUITY	**₱23,364,617,831**	₱13,868,459,104

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Net sales (Note 15)	**₱36,790,177,798**	₱33,050,084,154	₱35,015,740,598
Rentals (Notes 21 and 23)	**255,810,221**	233,751,621	299,880,342
	37,045,988,019	33,283,835,775	35,315,620,940
COSTS AND EXPENSES			
Cost of sales (Note 17)	**28,592,544,037**	25,650,018,422	27,443,433,483
Operating expenses (Note 18)	**7,390,186,363**	6,758,799,769	6,596,907,791
	35,982,730,400	32,408,818,191	34,040,341,274
OPERATING INCOME	**1,063,257,619**	875,017,584	1,275,279,666
OTHER INCOME (CHARGES) (Note 16)			
Interest and other income	**709,303,783**	490,605,042	138,020,790
Finance costs	**(607,483,396)**	(19,041,131)	(17,576,617)
	101,820,387	471,563,911	120,444,173
INCOME BEFORE INCOME TAX	**1,165,078,006**	1,346,581,495	1,395,723,839
PROVISION FOR INCOME TAX (Note 22)			
Current	**529,883,374**	384,326,979	451,008,374
Deferred	**(140,450,099)**	(3,123,004)	(32,241,844)
	389,433,275	381,203,975	418,766,530
NET INCOME	**775,644,731**	965,377,520	976,957,309
OTHER COMPREHENSIVE (LOSS) INCOME			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement (losses) gains on defined benefit obligation (Note 20)	**(52,767,286)**	199,860	(10,669,847)
Income tax effect (Note 22)	**15,830,186**	(59,958)	3,200,954
	(36,937,100)	139,902	(7,468,893)
TOTAL COMPREHENSIVE INCOME	**₱738,707,631**	₱965,517,422	₱969,488,416
Basic/Diluted Earnings Per Share (Note 24)	**₱0.23**	₱0.28	₱0.28

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2019, 2018 and 2017

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Retained Earnings (Note 14)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 20)	Total
Balances at January 1, 2019	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,775,475,030**	**₱42,627,159**	**₱8,703,019,338**
Net income for the year	**–**	**–**	**775,644,731**	**–**	**775,644,731**
Other comprehensive loss	**–**	**–**	**–**	**(36,937,100)**	**(36,937,100)**
Total comprehensive income	**–**	**–**	**775,644,731**	**(36,937,100)**	**738,707,631**
Declaration of dividends (Note 14)	**–**	**–**	**(205,762,500)**	**–**	**(205,762,500)**
Balances at December 31, 2019	**₱3,429,375,000**	**₱2,455,542,149**	**₱3,345,357,261**	**₱5,690,059**	**₱9,235,964,469**
Balances at January 1, 2018	₱3,429,375,000	₱2,455,542,149	₱2,015,860,010	₱42,487,257	₱7,943,264,416
Net income for the year	–	–	965,377,520	–	965,377,520
Other comprehensive income	–	–	–	139,902	139,902
Total comprehensive income	–	–	965,377,520	139,902	965,517,422
Declaration of dividends (Note 14)	–	–	(205,762,500)	–	(205,762,500)
Balances at December 31, 2018	₱3,429,375,000	₱2,455,542,149	₱2,775,475,030	₱42,627,159	₱8,703,019,338
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 14)	–	–	(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

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,165,078,006**	₱1,346,581,495	₱1,395,723,839
Adjustments for:			
Depreciation - ROU assets (Note 23)	**1,241,452,884**	–	–
Depreciation and amortization - PPE (Note 9)	**480,904,170**	490,362,102	519,524,410
Finance costs (Notes 11 and 23)	**607,483,396**	19,041,131	17,576,617
Net gain on insurance claims (Notes 6, 7, 9 and 16)	**(538,743,310)**	(350,681,819)	–
Interest income (Note 16)	**(101,905,155)**	(75,072,483)	(55,627,487)
Retirement benefits costs (Note 20)	**58,373,098**	47,134,866	36,352,996
Foreign currency exchange losses (gains) (Note 16)	**8,451,855**	(20,721,700)	(16,345,152)
Provision for impairment of assets (Notes 8, 9, and 10)	**6,226,119**	26,859,905	64,977,300
Write off of assets	**4,662,102**	11,344,445	4,729,610
Loss on retirement of property and equipment (Note 9)	**2,999,513**	25,804	31,618
Provision for probable loss (Notes 11 and 18)	–	–	23,467,777
Provision for impairment of receivables (Note 6)	–	–	2,124,156
Reversal of impairment loss (Note 9)	–	(155,972)	–
Operating income before working capital changes	**2,934,982,678**	1,494,717,774	1,992,535,684
Decrease (increase) in:			
Receivables	**(127,412,928)**	(44,069,074)	(39,000,629)
Merchandise inventories	**(1,046,971,099)**	112,403,617	12,231,756
Other current assets	**(880,141)**	(184,399,088)	(81,542,027)
Increase (decrease) in:			
Trade and other payables	**1,016,713,991**	221,712,387	200,202,890
Contract liabilities	**330,177**	103,195,660	–
Other noncurrent liabilities	**12,521,555**	(413,808)	(311,488,228)
Cash flows generated from operations	**2,789,284,233**	1,703,147,468	1,772,939,446
Proceeds from insurance claims on merchandise inventory and business interruption	**890,004,510**	111,323,800	–
Income tax paid	**(458,044,440)**	(416,041,698)	(463,314,481)
Interest received	**96,819,732**	75,739,031	55,609,537
Interest paid	**(16,835,233)**	(16,348,371)	(14,270,100)
Retirement benefits paid	**(3,524,263)**	(7,635,456)	(1,464,085)
Net cash provided by operating activities	**3,297,704,539**	1,450,184,774	1,349,500,317
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 9)	**(1,942,356,492)**	(1,447,741,077)	(446,290,592)
Decrease (increase) in short-term investments	**(271,136,570)**	396,765,867	(230,204,271)
Proceeds from insurance claims on property, plant and equipment (Note 9)	–	133,408,200	–
Increase in other noncurrent assets	**(266,733,530)**	(434,681,564)	(86,547,605)
Net cash used in investing activities	**(2,480,226,592)**	(1,352,248,574)	(763,042,468)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of:			
Principal portion of lease liabilities (Note 23)	**(710,169,984)**	–	–
Interest portion of lease liabilities (Note 23)	**(590,149,820)**	–	–
Cash dividends (Note 14)	**(205,762,392)**	(205,754,341)	(171,468,750)
Finance lease liability (Note 23)	–	(13,876,863)	(31,133,701)
Net cash used in financing activities	**(1,506,082,196)**	(219,631,204)	(202,602,451)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(688,604,249)**	(121,695,004)	383,855,398
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 16)	**(8,451,855)**	20,721,700	16,345,152
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,606,179,404**	3,707,152,708	3,306,952,158
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,909,123,300**	₱3,606,179,404	₱3,707,152,708

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 76.62%-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 14).

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.

On February 18, 2019, MRSGI signed a Joint Venture Agreement with the Provincial Government of Samar for the development, construction and operation of a commercial business and government center to be to be erected at Barangay 07, Poblacion, Catbalogan City, Samar. As of December 31, 2019, there are no significant updates on this project.

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were approved and authorized for issue by the Board of Directors (BOD) on March 18, 2020.

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 are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated:

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

  The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

  The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

	Increase/ (decrease)
Statement of financial position:	
Property, plant and equipment – net	(₱67,746,362)
Right-of-use assets (Note 23)	8,259,006,483
Other assets*	(212,591,666)
Lease liabilities (Note 23)	8,044,061,918
Finance lease liability	(65,393,463)

**Pertains to Prepayments included under "Other current assets" and Deposits and Deferred charges included under "Other noncurrent assets"*

Set out below, are the amounts by which each financial statement line item is affected as of and for the year ended December 31, 2019 as a result of the adoption of PFRS 16:

Statement of comprehensive income:

	As reported	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Rental	₱492,153,089	₱1,802,189,798	(₱1,310,036,709)
Depreciation and amortization	1,721,709,572	480,256,688	1,241,452,884
Finance costs	607,483,396	19,276,829	588,206,567*
Net income	775,644,732	1,139,380,651	(363,735,919)

**Exclusive of the finance costs arising from the finance lease liability amounting to P1.94 million which did not change upon adoption of PFRS 16.*

Statement of financial position:

	As reported	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Property, plant and equipment	₱4,700,483,138	₱ 4,741,460,652	(₱40,977,514)
Right-of-use assets, net of accumulated depreciation	7,512,796,866	–	7,512,796,866
Other assets*	1,517,660,173	1,730,274,231	(212,614,058)
Deferred tax assets - net	309,275,514	157,715,051	151,560,463
Lease liabilities	₱7,819,087,830	–	7,819,087,830
Finance lease liability	–	55,240,361	(55,240,361)
Retained earnings	3,345,357,261	3,709,093,180	(363,735,919)

**Pertains to Prepayments included under "Other current assets" and Deposits and Deferred charges included under "Other noncurrent assets"*

Statement of cash flows:

	As reported	Balances without adoption of PFRS 16	Effect of change Increase/(Decrease)
Payment of:			
Principal portion of lease liabilities/finance lease liability	₱710,169,984	₱12,068,298	₱698,101,686
Interest portion of lease liabilities/finance lease liability	590,149,820	1,943,253	588,206,567
Net increase in cash flows used in financing activities	₱1,300,319,804	₱14,011,551	₱1,286,308,253

The Company has lease agreements for its stores, warehouses and corporate office space. Before the adoption of PFRS 16, the Company classified its leases (as lessee) at the inception date as operating lease. The Company also has a lease arrangement covering various computer equipment used in the operations. Before the adoption of PFRS 16, the Company classified this lease (as lessee) as finance lease. Refer to Summary of Significant Accounting Policies for the accounting policy on leases prior to January 1, 2019.

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases using the lease-by-lease approach except for short-term leases and leases of low-value assets. Refer to Summary of Significant Accounting Policies for the accounting policy on leases beginning January 1, 2019.

Leases previously classified as finance leases
The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 were applied to these leases from January 1, 2019.

Leases previously accounted for as operating leases
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid lease payments, advance rentals and deferred charges previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as of January 1, 2019:

- Right-of-use assets of ₱8,259.01 million were recognized and presented separately in the statement of financial position. This includes reclassification of Property, plant and equipment amounting to ₱67.75 million, net of accumulated depreciation, pertaining to portion of leased assets under the finance lease in the prior year.
- Lease liabilities amounting to ₱8,044.06 million were recognized and presented separately in the statement of financial position. This includes reclassification of Finance lease liability amounting to ₱65.39 million, pertaining to the finance lease in the prior year.
- Prepayments of ₱212.59 million related to advance rentals and deferred charges representing excess of principal amount of the security deposits over its fair value were reclassified to right-of-use assets.

The lease liability as of January 1, 2019 as can be reconciled to the operating lease commitments as of 31 December 2018, are as follows:

Minimum lease payments under operating leases as of December 31, 2018	₱20,225,300,213
Weighted average incremental borrowing rate	7.25%
Discounted operating lease commitments at January 1, 2019	10,676,597,785
Less: Commitments relating to short term leases	(2,697,929,330)
Add: Commitments relating to leases previously classified as finance leases	65,393,463
Lease liabilities recognized at January 1, 2019	₱8,044,061,918

Due to the adoption of PFRS 16, the Company's operating income in 2019 will improve, while its finance cost on lease liabilities will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17 which are recorded under "Operating expenses" in the statement of comprehensive income.

The adoption of PFRS 16 will not have an impact on equity as of January 1, 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments, advance rentals and deferred charges relating to that lease recognized in the statement of financial position immediately before the date of initial application.

- 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, *Income Taxes,* 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
- How an entity considers changes in facts and circumstances

An entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. An entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Company's assessment, it has no material uncertain tax treatments. Accordingly, the adoption of the Interpretation has no significant impact on the financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the financial statements of the Company as it does not have any debt instruments with negative compensation payment features.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments had no impact on the financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  These amendments had no impact on the financial statements as the Company.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

  These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  The amendments did not have an impact on the Company's financial statements as it did not have borrowings at the time of adoption.

<u>Standards and interpretation issued but not yet effective</u>
Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  The Company plans to apply these amendments on the required effective date.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, 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. 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

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 of 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 of 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, respectively.

Cash and Cash Equivalents
Cash pertains to cash on hand and in banks. Cash in banks represent 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 assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a FVPL, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in the profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include cash and cash equivalents, short-term investments, trade receivables, rentals and receivable from related parties, other receivables (Claims from insurers and accrued interest receivable) and security deposits under "Other current assets" and lodged in "Deposits" under "Other noncurrent assets".

Financial assets at fair value through OCI (debt instrument)
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Company has no debt instruments measured at fair value through OCI.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company has no financial assets designated at fair value through OCI.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the profit or loss.

The Company has no financial assets measured at FVPL.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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.

Impairment of financial assets effective January 1, 2018
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward looking information that is available without undue cost or effort.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Company considers a financial asset to have low credit risk when it has an internal or external credit rating of “investment grade” as per globally understood definition.

Definition of default
The Company considers that default has occurred when a financial asset is more than 90 days past due and when an internally developed information indicate that the debtor is unlikely to pay the Company in full unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write-off policy
The Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PAS 17, *Leases*.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Impairment of financial assets prior to January 1, 2018
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.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowing, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables (excluding statutory payables), lease liabilities, finance lease liability and other noncurrent liabilities.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss only if the criteria in PFRS 9 are satisfied.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Company has not designated any financial liability at FVPL.

Financial liabilities at amortized cost
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rates (EIR) method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the profit or loss. This category generally applies to trade and other payables (excluding statutory payables), lease liabilities, finance lease liability and other noncurrent liabilities.

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

<u>Fair Value Measurement</u>
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 26.

<u>Offsetting of Financial Assets and Financial Liabilities</u>
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.

<u>Merchandise Inventories</u>
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.

<u>Other Assets</u>
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.

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.

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.

Leases effective January 1, 2019

Company as Lessee
Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow.

	Years
Land	4 to 41
Building	2 to 27
IT equipment	5
Others	2

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below P250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Company as Lessor
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Leases prior to January 1, 2019

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.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that other current assets (excluding security deposits), property and equipment, right-of-use assets and other noncurrent assets (excluding security deposits - noncurrent) 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 accumulated 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 effective January 1, 2018

The Company recognized revenue from sale of goods to retail customers, including the related loyalty program. Sale of goods includes food, beverage, grocery items, fashion items (e.g. shoes, bags, clothing, cosmetics), household items, home improvement products, consumer electronics and appliances, toys, and prescription and over-the-counter pharmaceutical products.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

Sale of goods
The Company sells goods directly to customers through its own stores.

For sale of goods through stores, revenue is recognized when the control of the goods has transferred to the customer, being at the point the customer purchases the goods at the store. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Sale of loyalty points, gift checks and stored value cards.
The Company operates a loyalty program where retail customers accumulate points for purchases made at the Company's stores that can be redeemed against any future purchases at any of the Company's stores, subject to a minimum number of points obtained. The Company also sells gift checks and stored value cards which can be used to redeem goods.

The Company allocates the consideration received to loyalty points, gift checks and stored value cards. This allocation is based on the relative stand-alone selling prices. The stand-alone selling price is estimated based on the equivalent value given when the points are redeemed by the customer and the likelihood of redemption, as evidenced by the Company's historical experience. The amount allocated to these items is deferred and is recognized as revenue when redeemed or the likelihood of the customer redeeming becomes remote. The deferred revenue is included in contract liabilities.

Contract Balances

Receivables
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

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, insurance recovery and other miscellaneous income. Other income is recognized upon completion of the earning process and the collectability of the amount is reasonably assured.

Revenue recognition prior to January 1, 2018
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.

Deferred Revenue
Aside from the customer loyalty points, 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.

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.

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 carry-forward 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.

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 25 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 (see Note 28).

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:

Recognition of insurance recovery
The Company has recognized insurance recovery from its business interruption claim and inventory loss claims. For the amount recognized, the Company has determined that the likelihood of receiving insurance recovery is virtually certain and its recognition in the period is appropriate considering the following:

- There is a valid insurance policy for the incident;
- The advanced status of the Company's discussion with the adjuster and insurers regarding the claim; and
- The subsequent information that conform the status of the claim as of the reporting date.

Determination of lease term of contracts with renewal and termination options – Company as a lessee
The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Company included the renewal period as part of the lease term for some leases of land and building with shorter non-cancellable period. The Company exercised its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available.

Finance Lease - Company as a Lessee
The Company has entered into a lease agreement as lessee. This agreement is 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 liability pertaining to leased computer equipment amounted to ₱65.39 million as of December 31, 2018 (see Notes 9 and 23).

Determining whether the loyalty points, gift checks and stored value cards provide material rights to customers
The Company has a loyalty points program which allows customers to accumulate points that can be redeemed for future purchases at any of the Company's stores, subject to a minimum number of points obtained. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. Transaction price is allocated to these items issued to customers based on relative stand-alone selling price and recognized as a contract liability until these are redeemed. Revenue is recognized upon redemption of products by the customer. The Company also has gift checks and stored value cards which can be redeemed for future purchases at any of the Company's stores.

Contract liabilities amounted to ₱103.53 million and ₱103.20 million as of December 31, 2019 and 2018, respectively (see Note 12).

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 2019 and 2018.

<u>Estimates and Assumptions</u>
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 ₱4,636.58 million and ₱3,589.61 million as of December 31, 2019 and 2018, respectively (see Note 7).

Provision for expected credit losses of trade receivables and security deposits effective January 1, 2018
The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of customer segment that have similar loss patterns (i.e., customer type and guarantor).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Allowance for impairment losses of receivables amounted to ₱11.61 million as of December 31, 2019 and 2018. The carrying amount of receivables, net of valuation allowance, amounted to ₱1,149.13 million and ₱1,371.59 million as of December 31, 2019 and 2018, respectively (see Note 6).

In 2017, the Company recognized allowance for impairment losses amounting to ₱28.17 million pertaining to security deposits which may not be recoverable due to the acceleration of lease termination date from a planned closure in 2018 of a non-performing store. In 2018, the Company completed the closure but there were no final agreement yet as to the security deposit, thus the non-reversal of allowance for impairment loss. The carrying amount of security deposit, net of impairment losses, amounted to ₱316.23 million and ₱360.57 million as of December 31, 2019 and December 31, 2018, respectively (see Notes 8 and 10).

Assessing Impairment for Financial Assets prior to January 1, 2018
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.

Allowance for impairment losses of receivables amounted to ₱11.61 million as of December 31, 2017 (Note 6).

In 2017, the Company recognized allowance for impairment losses pertaining to security deposits which is not recoverable due to the acceleration of lease termination date from a planned closure of a non-performing store amounting to ₱28.17 million for the year ended December 31, 2017.

Evaluation of Impairment of Nonfinancial Assets
The Company reviews other current assets (excluding security deposits), property and equipment, right-of-use assets and other noncurrent assets (excluding security deposits - noncurrent) with definite lives for impairment of value.

The Company estimates the recoverable amount as the higher of the fair value les 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, 2019 and 2018, the carrying value of the Company's nonfinancial assets are, as follows:

	2019	2018
Other current assets* (Note 8)	**₱480,436,188**	₱491,918,590
Property and equipment (Note 9)	**4,700,483,138**	3,286,048,181
Right-of-use assets (Note 23)	**7,512,796,866**	–
Other noncurrent assets** (Note 10)	**720,996,277**	651,107,355
	₱13,414,712,469	₱4,429,074,126

**excluding security deposits*
***excluding security deposits, net of allowance*

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 in 2018 of a non-performing store. In 2018, the Company completed the retirement of the store's property and equipment with carrying value of ₱36.65 million, resulting to a reversal of impairment loss of ₱0.16 million (see Note 9).

The Company recognized provision for impairment losses amounting to ₱5.98 million in 2018 which pertains to long outstanding advances to third party trade suppliers (see Note 8).

The Company recognized provision for impairment losses amounting to ₱6.23 million and ₱20.88 million in 2019 and 2018, respectively, which pertains to the long outstanding advances to nontrade suppliers (see Note 10).

Leases - Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating).

The Company's lease liabilities amounted to ₱7,819.09 million as of December 31, 2019 (see Note 23).

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 20 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 ₱58.37 million, ₱47.13 million and ₱36.35 million in 2019, 2018 and 2017, respectively. Retirement benefits obligation amounted to ₱500.62 million and ₱393.01 million as of December 31, 2019 and 2018, respectively (see Note 20).

4. **Cash and Cash Equivalents**

This account consists of:

	2019	2018
Cash on hand	**₱156,930,765**	₱136,731,652
Cash in banks	**2,323,026,855**	1,487,443,196
Cash equivalents	**429,165,680**	1,982,004,556
	₱2,909,123,300	₱3,606,179,404

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 that range from 0.10% to 7.38% in 2019 and 2018 and 2.13% to 3.25% in 2017.

Interest income earned from cash and cash equivalents amounted to ₱80.00 million, ₱57.16 million and ₱40.77 million in 2019, 2018 and 2017, respectively (see Note 16).

5. Short-term Investments

This account pertains 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 range from 4.0% to 6.6%, 3.9% to 6.3% and 2.4% to 3.0% in 2019, 2018 and 2017, respectively.

Short term investments as of December 31, 2019 and 2018 amounted to ₱629.57 million and ₱358.44 million, respectively.

Interest income earned from short-term investments amounted to ₱14.77 million, ₱14.84 million and ₱14.86 million in 2019, 2018 and 2017, respectively (see Note 16).

6. Receivables

This account consists of:

	2019	2018
Trade		
Third parties	**₱952,711,790**	₱838,558,786
Related parties (Note 21)	**1,409,351**	420,314
Nontrade		
Receivable from insurance	**104,364,149**	455,625,348
Rentals	**37,449,489**	29,838,612
Related parties (Note 21)	**20,934,612**	24,295,195
Accrued interest receivable (Note 16)	**14,518,808**	9,433,385
Advances to employees and officers	**4,176,287**	4,224,559
Others	**25,175,522**	20,809,962
	1,160,740,008	1,383,206,161
Less allowance for expected credit losses	**11,612,412**	11,612,412
	₱1,149,127,596	₱1,371,593,749

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 - 90 days.

Receivable from insurance consists of insurance claims for inventory loss due to fire amounting to ₱104.36 million as of December 31, 2019 and business interruption claim amounting to ₱455.63 million as of December 31, 2018.

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 and are normally settled through liquidation within 30 days.

Others consist of construction cash bond for store fit-outs and receivable from Social Security System (SSS) and are collectible on demand.

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

	2019	2018	2017
Beginning of year	**₱11,612,412**	₱11,612,412	₱9,488,256
Provision for impairment of receivables (Note 18)	–	–	2,124,156
End of year	**₱11,612,412**	₱11,612,412	₱11,612,412

The Company has directly written off receivables which are deemed uncollectible amounting to ₱3.70 million, ₱5.89 million, and ₱4.73 million in 2019, 2018 and 2017, respectively (Note 18).

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2019	2018	2017
Beginning inventory at cost	**₱3,589,605,171**	₱4,002,495,549	₱4,014,727,305
Add purchases - net	**29,601,659,711**	25,497,242,262	27,391,644,395
Cost of goods available for sale	**33,191,264,882**	29,499,737,811	31,406,371,700
Less cost of merchandise sold (Note 17)	**(28,554,688,612)**	(25,609,645,879)	(27,403,876,151)
Inventory loss due to fire (Note 16)	–	(300,486,761)	–
Ending inventory at cost	**₱4,636,576,270**	₱3,589,605,171	₱4,002,495,549

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

In January 2018, a department store and supermarket of the Company were seriously damaged by fire. The net book value of the damaged inventory amounted to ₱300.49 million.

The Company received insurance proceeds for the inventory damaged by fire amounting to ₱61.61 million and ₱111.32 million in 2019 and 2018, respectively (see Note 16).

No inventories have been used or pledged as security for the Company's obligations in 2019 and 2018.

No allowance for obsolescence had been recognized in 2019 and 2018.

The Company does not have any purchase commitments as of December 31, 2019 and 2018.

8. **Other Current Assets**

This account consists of:

	2019	2018
Prepayments	**₱99,953,762**	₱82,302,483
Deferred input VAT - current	**70,964,241**	60,903,530
Supplies	**61,266,986**	58,822,792
Advances to trade suppliers		
Related parties (Note 21)	**234,245,539**	288,563,247
Third parties	**14,047,446**	7,311,341
Security deposits - current	**11,189,990**	3,188,784
	491,667,964	501,092,177
Less allowance for impairment losses (Note 18)	**41,786**	5,984,803
	₱491,626,178	₱495,107,374

Prepayments consist of prepaid insurance and advance rental payments on short-term leases.

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

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

Security deposits - current pertains to leases with remaining lease period of one year or less from reporting period.

Allowance for impairment losses pertains to long outstanding advances to third party trade suppliers.

Movements in the allowance for impairment losses for other current assets follow:

	2019	2018
Beginning of year	**₱5,984,803**	₱–
Provision for impairment losses (Note 18)	**–**	5,984,803
Write-off	**(5,943,017)**	–
End of year	**₱41,786**	₱5,984,803

The Company has directly written off security deposits amounting to ₱0.96 million and ₱5.45 million in 2019 and 2018, respectively (Note 18).

9. **Property and Equipment**

The rollforward analysis of this account follows:

2019

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	**₱162,328,087**	**₱1,675,787,293**	**₱1,198,949,853**	**₱350,058,247**	**₱1,381,009,794**	**₱1,328,418,313**	**₱6,096,551,587**
Effect of adoption of PFRS 16 (Notes 2 and 23)	**–**	**–**	**(112,675,698)**	**–**	**–**	**–**	**(112,675,698)**
Additions	**36,053,420**	**300,040,980**	**66,980,295**	**40,516,498**	**180,599,577**	**1,341,894,232**	**1,966,085,002**
Retirements	**–**	**(4,074,364)**	**(3,932,735)**	**(136,457)**	**–**	**–**	**(8,143,556)**
Reclassifications	**131,810,791**	**179,850,396**	**–**	**6,471,098**	**855,591,968**	**(1,173,724,253)**	**–**
At end of year	**330,192,298**	**2,151,604,305**	**1,149,321,715**	**396,909,386**	**2,417,201,339**	**1,496,588,292**	**7,941,817,335**
Less Accumulated Depreciation and Amortization:							
At beginning of year	**₱68,930,457**	**₱1,241,340,915**	**₱898,140,913**	**₱164,700,626**	**₱437,390,495**	**₱–**	**2,810,503,406**
Effect of adoption of PFRS 16 (Notes 2 and 23)	**–**	**–**	**(44,929,336)**	**–**	**–**		**(44,929,336)**
Depreciation and amortization (Notes 17 and 18)	**22,259,653**	**170,195,000**	**95,705,184**	**62,070,378**	**130,673,955**	**–**	**480,904,170**
Retirements	**–**	**(2,427,503)**	**(2,609,649)**	**(106,891)**	**–**	**–**	**(5,144,043)**
At end of year	**91,190,110**	**1,409,108,412**	**946,307,112**	**226,664,113**	**568,064,450**	**–**	**3,241,334,197**
Net Book Value	**₱239,002,188**	**₱742,495,893**	**₱203,014,603**	**₱170,245,273**	**₱1,849,136,889**	**₱1,496,588,292**	**₱4,700,483,138**

2018

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning 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
Additions	–	179,720,859	75,148,596	27,491,359	7,061,134	1,165,644,577	1,455,066,525
Retirements	(12,162,576)	(107,496,229)	(26,084,384)	(1,107,070)	(107,819,532)	–	(254,669,791)
At end of year	162,328,087	1,675,787,293	1,198,949,853	350,058,247	1,381,009,794	1,328,418,313	6,096,551,587
Accumulated Depreciation and Amortization:							
At beginning of year	55,675,722	1,156,258,450	786,757,788	107,759,565	382,492,494	–	2,488,944,019
Depreciation and amortization (Notes 17 and 18)	17,147,667	166,198,354	134,746,105	57,996,641	114,273,335	–	490,362,102
Retirements	(3,892,932)	(81,115,889)	(23,362,980)	(1,055,580)	(59,375,334)	–	(168,802,715)
At end of year	68,930,457	1,241,340,915	898,140,913	164,700,626	437,390,495	–	2,810,503,406
Net Book Value	₱93,397,630	₱434,446,378	₱300,808,940	₱185,357,621	₱943,619,299	₱1,328,418,313	₱3,286,048,181

The Company leases computer equipment which was accounted for as finance lease under PAS 17. Upon adoption of PFRS 16, the Company reclassified a portion of the carrying amount of the computer equipment to right-of-use assets amounting to ₱67.75 million (see Note 2).

Construction-in-progress pertains to ongoing construction of leasehold improvement on stores, installation and related activities of certain leasehold improvements or other equipment 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.

In January 2018, a department store and supermarket of the Company were seriously damaged by fire. The net book value of the damaged property and equipment amounted to ₱49.19 million. In April 2018, the Company received insurance proceeds amounting to ₱133.41 million for the property and equipment damaged by fire (see Note 16).

In March 2018, the Company closed a non-performing hypermarket store. The Company completed the retirement of the store's property and equipment with carrying value of ₱36.65 million. An allowance for impairment losses of ₱36.81 million was previously recognized in 2017.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2019 and 2018.

There are no contractual purchase commitments for property and equipment as of December 31, 2019 and 2018.

10. **Other Noncurrent Assets**

This account consists of:

	2019	2018
Deposits	**₱464,311,328**	₱506,712,406
Advances to nontrade suppliers		
Third parties	**242,260,895**	203,816,267
Related parties (Note 21)	**213,594,590**	206,194,971
Deferred input VAT	**142,808,254**	130,945,400
Deferred charges	**–**	9,866,474
	1,062,975,067	1,057,535,518
Less allowance for impairment losses (Note 18)	**36,941,072**	49,043,926
	₱1,026,033,995	₱1,008,491,592

Deposits are payments to lessors for advance rental and security deposits and utility companies for meter deposits. In 2019, the Company paid security deposits pertaining to new lease contracts and existing contracts amounting to ₱68.46 million and ₱29.56 million, respectively. Security deposits, less any unpaid rent and other charges, are refundable to the Company at the end of contract term.

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.

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.

Accretions of the security deposits amounted to ₱7.14 million and ₱3.07 million in 2019 and 2018, respectively and are presented under “Interest and other income” of the statement of comprehensive income (see Note 16).

Deferred charges represent the excess of the principal amount of the security deposits over its fair value. Upon adoption of PFRS 16, this amount is accounted for as prepaid lease payment and reclassified to right-of-use assets.

Allowance for impairment losses pertains to long outstanding advances to nontrade suppliers and security deposits which is not recoverable due to the acceleration of lease termination date as a result of the closure of a non-performing store in 2018.

Movements in the allowance for impairment losses for other noncurrent assets follow:

	2019	2018
Beginning of year	**₱49,043,926**	₱28,168,824
Provision for impairment losses (Note 18)	**6,226,120**	20,875,102
Write-off	**(18,328,974)**	–
End of year	**₱36,941,072**	₱49,043,926

11. Trade and Other Payables

This account consists of:

	2019	2018
Trade		
Third parties	**₱3,559,741,196**	₱3,023,314,615
Related parties (Note 21)	**66,477,560**	73,333,005
Nontrade		
Third parties	**818,801,631**	400,728,580
Related parties (Note 21)	**6,582,946**	–
Accrued expenses	**384,938,764**	297,442,442
Credit cash bonds	**328,537,168**	328,163,607
Output VAT - net	**115,835,443**	182,599,123
Others	**128,585,144**	86,706,037
	₱5,409,499,852	₱4,392,287,409

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

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

Accrued expenses consist of:

	2019	2018
Suppliers and contractors	**₱107,416,515**	₱80,342,977
Utilities	**67,493,995**	63,502,862
Rentals	**61,595,227**	63,180,353
Marketing-related cost	**37,418,704**	26,235,151
Professional fees	**13,370,954**	12,288,843
Other accruals	**97,643,369**	51,892,256
	₱384,938,764	₱297,442,442

Other accruals pertain to sick leave and vacation leave credits, government remittances, and other operating related expenses, which include accrued expenses related to the closure of non-performing store in 2018 (Note 18)

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 1% to 6% based on accumulated cash bond and purchases volume.

Finance cost included in profit or loss pertaining to cash bonds amounted to ₱15.43 million, ₱16.57 million and ₱14.68 million in 2019, 2018 and 2017, respectively. These were settled through deduction in the credit account holders' receivable balance (Note 16).

Others include amounts payable to government agencies for mandatory contributions and payments to the SSS, Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF), withholding tax payables, and other sundry payables.

12. Contract Liabilities

This account consists of:

	2019	2018
Gift check outstanding	**₱51,457,929**	₱47,092,121
Stored value cards	**26,719,703**	29,235,254
Accrued customer loyalty reward	**25,348,205**	26,868,285
	₱103,525,837	₱103,195,660

These items can only be redeemed from the Company's own stores.

The rollforward analysis of this account follows:

	2019	2018
Beginning of year	**₱103,195,660**	₱144,484,224
Deferred during the year	**3,150,688,470**	3,165,169,755
Recognized as revenue during the year	**(3,150,358,293)**	(3,206,458,319)
End of year	**₱103,525,837**	₱103,195,660

13. Other Noncurrent Liabilities

Other noncurrent liabilities pertain to security deposits from tenants for the lease of space in the Company's stores. These security deposits are refundable to the tenants upon termination of contract.

Other noncurrent liabilities as of December 31, 2019 and 2018 amounted to ₱65.74 million and ₱53.22 million, respectively.

14. **Equity**

Capital Stock
The Company's authorized, issued and outstanding shares as of December 31, 2019 and 2018 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.

As of December 31, 2019 and 2018, the Company has 23 and 22 existing shareholders, 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, 2019 and 2018.

Retained Earnings
On March 18, 2019, the BOD approved the declaration of cash dividends amounting to ₱205.76 million out of the Company's retained earnings as of December 31, 2018 to stockholders of record as of April 15, 2019 to be paid on May 2, 2019.

On March 16, 2018, the BOD approved the declaration of cash dividends amounting to ₱205.76 million or ₱0.06 per share, out of the Company's retained earnings as of December 31, 2017 to stockholders of record as of April 13, 2018 and was paid on May 2, 2018.

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.

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, 2019 amounted to ₱3,033.59 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, 2019 and 2018. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2019	2018
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**3,345,357,261**	2,775,475,030
	₱9,230,274,410	₱8,660,392,179

15. **Net sales**

All of the Company's net sales are revenue from contracts with customers recognized at a point in time or when it transfers control of a product to a customer.

The following table disaggregates the Company's revenue by geographical markets and major goods or service lines for the year ended December 31, 2019 and 2018:

	2019	2018
Geographical markets		
Luzon	**₱14,635,972,380**	₱13,846,959,038
Visayas	**22,154,205,418**	19,203,125,116
Total revenue from contracts with customers	**₱36,790,177,798**	₱33,050,084,154
Major goods/service lines		
Food retail	**₱24,160,819,141**	₱21,058,429,818
General Merchandise	**12,629,358,657**	11,991,654,336
Total revenue from contracts with customers	**₱36,790,177,798**	₱33,050,084,154

The comparative information for the year ended 2017 has not been presented as it continues to be reported under the accounting standards in effect for this period.

16. **Other income (Charges)**

Interest and other income

	2019	2018	2017
Gain on insurance claims - net (Notes 6, 7 and 9)	**₱538,743,310**	₱350,681,819	₱–
Interest income (Notes 4, 5 and 10)	**101,905,155**	75,072,483	55,627,487
Foreign currency exchange (loss) gain	**(8,451,855)**	20,721,700	16,345,152
Scrap sales	**7,938,388**	11,167,237	12,018,292
Others	**69,168,785**	32,961,803	54,029,859
	₱709,303,783	₱490,605,042	138,020,790

In 2018, gain on insurance claims pertain to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims amounting to ₱700.36 million, net of total costs of damaged properties amounting to ₱349.68 million (Notes 7 and 9). The business interruption fixed expenses incurred in 2018, relating to the damaged store amounting to ₱231.57 million were recognized under various operating expenses (see Note 18).

In 2019, additional gain on insurance claims was recognized which pertain to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims amounting to ₱165.97 million and ₱372.78 million, respectively.

Interest income pertains to the interest earned from deposits in banks, cash placements and finance charges earned from short-term installment receivables from guarantors and employees.

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

Others include income from various sources such as parking income, lotto operations, penalties and others.

Finance costs

	2019	2018	2017
Finance cost on lease liabilities (Note 23)	**₱590,149,819**	₱–	₱–
Interest expense on cash bond (Note 11)	**15,427,012**	16,571,184	14,678,367
Finance cost on finance lease liability (Note 23)	**–**	2,469,947	2,527,058
Interest expense from short-term bank loans	**1,906,565**	–	371,192
	₱607,483,396	₱19,041,131	₱17,576,617

17. Cost of Sales

	2019	2018	2017
Cost of merchandise sold (Note 7)	**₱28,554,688,612**	₱25,609,645,879	₱27,403,876,151
Others (Notes 9, 18 and 19)	**37,855,425**	40,372,543	39,557,332
	₱28,592,544,037	₱25,650,018,422	₱27,443,433,483

Others pertain to the direct labor and other overhead costs.

Depreciation and amortization charged to cost of sales amounted to ₱0.64 million, ₱1.85 million and ₱3.06 million in 2019, 2018 and 2017, respectively.

18. **Operating Expenses**

	2019	2018	2017
Personnel cost (Note 19)	**₱2,283,189,777**	₱2,148,349,706	₱2,092,246,328
Depreciation and amortization of right-of-use assets (Note 23)	**1,241,452,884**	–	–
Light, water and communication	**836,149,002**	771,554,452	775,924,103
Rental (Notes 21 and 23)	**492,153,089**	1,655,368,522	1,546,596,778
Depreciation and amortization of property, plant and equipment (Note 9)	**480,256,688**	488,510,195	516,456,796
Taxes and licenses	**420,162,088**	335,216,318	300,832,944
Contracted services	**359,636,298**	323,312,764	346,710,142
Repairs and maintenance	**282,022,862**	228,491,256	198,983,414
Supplies	**213,340,903**	182,115,321	173,321,819
Advertising	**191,018,105**	172,889,025	204,941,649
Professional fees	**141,486,717**	91,367,699	48,941,711
Transportation and travel	**102,071,703**	102,573,301	89,413,195
Commission	**101,935,047**	84,837,363	102,438,162
Insurance	**95,196,363**	62,853,099	31,557,777
Subscriptions	**66,698,919**	40,791,458	45,256,831
Write-off of assets (Notes 6 and 8)	**4,662,102**	11,344,445	4,729,610
Provision for:			
Impairment of assets (Notes 8 and 10)	**6,226,120**	26,859,905	64,977,300
Impairment of receivables (Note 6)	–	–	2,124,156
Probable loss (Note 11)	**–**	–	23,467,777
Others	**72,527,696**	32,364,940	27,987,299
	₱7,390,186,363	₱6,758,799,769	₱6,596,907,791

Write-off of assets pertain to receivables, advances to suppliers where there is no reasonable expectation of recovery and nonrefundable security deposits relating to lease agreements that are already terminated.

Impairment of assets pertains to long outstanding advances to supplier and security deposits of pre-terminated and terminated contracts.

Others pertain to representation, entertainment, donations and contributions.

19. **Personnel Cost**

	2019	2018	2017
Salaries and wages	**₱1,925,955,546**	₱1,793,136,308	₱1,741,795,649
Retirement benefits costs (Note 20)	**58,373,098**	47,134,866	36,352,996
Other employee benefits	**362,643,778**	353,384,477	339,636,308
	₱2,346,972,422	₱2,193,655,651	₱2,117,784,953

Personnel cost that were recognized as cost of sales amounted to ₱27.04 million, ₱26.90 million and ₱25.54 million in 2019, 2018 and 2017, respectively.

Personnel cost that were capitalized as part of construction-in-progress amounted to ₱36.74 million and ₱18.40 million in 2019 and 2018, respectively (see Note 9).

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

20. Retirement Benefit Obligation

The Company has a 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:

	2019	2018	2017
Current service cost	**₱28,111,567**	₱25,558,718	₱17,564,470
Interest cost	**30,261,531**	21,576,148	18,788,526
	₱58,373,098	₱47,134,866	₱36,352,996

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

	2019	2018	2017
Actuarial (loss) gain due to:			
Changes in financial assumptions	**(₱62,890,118)**	(₱13,480,268)	14,851,463
Experience adjustments	**10,122,832**	13,680,128	(₱25,521,310)
	(₱52,767,286)	₱199,860	(₱10,669,847)

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

	2019	2018
Balance at beginning of year	**₱393,006,901**	₱353,707,351
Current service cost	**28,111,567**	25,558,718
Interest cost	**30,261,531**	21,576,148
Benefits paid	**(3,524,263)**	(7,635,456)
Actuarial (gain) loss due to:		
Changes in financial assumptions	**62,890,118**	13,480,268
Experience adjustments	**(10,122,832)**	(13,680,128)
Balance at end of year	**₱500,623,022**	₱393,006,901

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

	2019	2018	2017
Salary increase rate	**4.00%**	**5.00%**	3.00%
Discount rate	**5.40%**	**7.70%**	6.10%

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.

	2019		2018	
	Increase (decrease)	**Net Retirement benefit liability**	Increase (decrease)	Net Retirement benefit liability
Discount Rates	**+0.5%**	**(₱25,349,212)**	+0.5%	(₱18,820,579)
	-0.5%	**27,652,247**	-0.5%	20,430,769
Salary increase rate	**+0.5%**	**₱26,529,004**	+0.5%	₱19,825,737
	-0.5%	**(24,547,058)**	-0.5%	(18,415,616)

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:

	2019	2018
1 year and less	**₱–**	₱–
More than one year to 5 years	**172,413,195**	124,304,913
More than 5 years to 10 years	**197,773,022**	198,397,643
More than 10 years to 15 years	**402,914,539**	436,970,053
More than 15 years to 20 years	**3,026,805,120**	3,775,078,887
	₱3,799,905,876	₱4,534,751,496

The weighted average duration of the defined benefit obligation is 14 years in 2019 and 2018.

21. **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, 2019 and 2018 are as follows:

December 31, 2019

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Advances (Note 6), (a)	₱20,182,674	₱2,850,946	Noninterest-bearing and due in 30 days, not impaired
Entities Under Common Control			
Sale of goods (Note 6), (d)	1,380,537	1,409,351	Noninterest-bearing and due in 30 days, not impaired
Advances and rental income (Note 6), (e)	91,660,047	18,083,666	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (Notes 8 and 10), (d)	1,028,799,563	447,840,129	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱470,184,092	

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Lease liabilities (Note 23), (c)	**₱1,701,740,198***	**(₱1,077,186,151)**	**Noninterest-bearing and payable in 30 days, unsecured**
Management fee (Note 18), (b)	**99,175,258**	**–**	**Noninterest-bearing and payable in 30 days, unsecured**
Entities Under Common Control			
Purchase of goods (Note 11), (d)	**178,242,225**	**(66,477,560)**	**Noninterest-bearing and payable in 30 days, unsecured**
Purchases of services and rent expense (Note 11), (e)	**62,938,553**	**(6,582,946)**	**Noninterest-bearing and payable in 30 days, unsecured**
Due to related parties		**(₱1,150,246,657)**	

**Due to adoption of PFRS 16*

December 31, 2018

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Advances (Note 6), (a)	₱28,599,986	5,828,210	Noninterest-bearing and due in 30 days, not impaired
Entities Under Common Control			
Sale of goods (Note 6), (d)	402,703	420,314	Noninterest-bearing and due in 30 days, unsecured
Advances and rental income (Note 6), (e)	83,238,318	18,466,985	Noninterest-bearing and payable in 30 days, unsecured
Advances to suppliers (Notes 8 and 10), (d)	621,788,498	494,758,218	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱519,473,727	

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Rental expense (Note 18), (c)	₱1,205,781,177	(₱1,293,591)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 18), (b)	52,849,506	−	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
Purchase of goods (Note 11), (d)	114,501,063	(72,039,414)	Noninterest-bearing and payable in 30 days, not impaired
Purchase of services and rent expense (Note 11), (d)	65,439,975	−	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(₱73,333,005)	

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

a. Advances to VDC pertain to expenses paid by the Company on behalf of VDC.
b. The Company entered into an agreement with VDC for legal and other services. Management fee is lodged in "Contracted services" under "Operating expenses" in the statements of comprehensive income.
c. Most of the Company's stores and warehouses are leased out from VDC. These are recorded as "Lease liabilities" and "Trade and other payables" as of December 31, 2019 and 2018, respectively.
d. The Company has short-term noninterest-bearing receivables/payables in the normal course of business pertaining to the recovery of expenses, sales and purchases of goods and services.
e. The Company has receivables/payables pertaining to rental transactions in the Company's stores. These are noninterest-bearing and are collectible within 30 days.

The Company has an approval requirement for all related party transactions. In the event that related party transactions exceed the materiality threshold, which is 10% of the Company's total assets based on its latest audited financial statements, a more extensive approval process is required.

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱1,249.04 million and ₱1,480.29 million in 2019 and 2018, respectively, which earn interest based on prevailing market interest rates amounting to ₱46.07 million and ₱23.98 million and in 2019 and 2018, respectively.

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

	2019	2018	2017
Short-term employee benefits	**₱122,494,445**	₱132,824,561	₱135,149,156
Post-employment benefits	**2,611,029**	4,483,218	3,786,384

There are no amounts due to or due from members of key management as of December 31, 2019 and 2018.

The Company has not recognized any impairment losses on amounts due from related parties in 2019 and 2018. 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.

22. **Income Taxes**

Provision for income tax consists of:

	2019	2018	2017
Current			
RCIT	**₱513,211,025**	₱370,560,574	₱440,694,207
Final	**16,672,349**	13,766,405	10,314,167
	₱529,883,374	384,326,979	451,008,374
Deferred	**(140,450,099)**	(3,123,004)	(32,241,844)
	₱389,433,275	₱381,203,975	₱418,766,530

The components of the Company's net deferred tax assets are as follows:

	2019	2018
Retirement benefit obligation (Note 20)	**₱150,186,906**	₱117,902,070
Provision for impairment of assets (Notes 8 and 10)	**2,644,210**	16,508,618
Contract liability from customer loyalty program (Note 12)	**7,604,461**	8,060,484
Provisions (Notes 10 and 11)	**19,061,580**	7,040,333
Allowance for impairment of receivables (Note 6)	**3,483,724**	3,483,724
Nontaxable excess of insurance proceeds on damaged fixed assets	**(25,265,830)**	–
Right-of-use assets (Note 23)	**(2,253,839,060)**	–
Lease liabilities (Note 23)	**2,405,399,523**	–
	₱309,275,514	₱152,995,229

The Company recognized net deferred tax asset amounting to ₱15.83 million in 2019 and deferred tax liability amounting to ₱0.06 million in 2018 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:

	2019	2018	2017
Tax at 30% on income before tax	**₱349,523,401**	₱403,974,448	₱418,717,152
Tax effects of:			
Nondeductible expenses	**25,648,551**	9,760,279	5,742,448
Income subjected to final tax	**(11,004,507)**	(7,264,922)	(5,693,070)
Nontaxable excess of insurance proceeds on damaged fixed assets	**25,265,830**	(25,265,830)	–
	₱389,433,275	₱381,203,975	₱418,766,530

23. **Lease Commitments**

Company as a lessee
The Company enters into lease agreements with third parties and related parties for Company's stores, warehouses and corporate office space. The Company also entered into lease arrangements covering various computer equipment used in the operations of the Company. These leases have terms ranging from one to 41 years and generally provide for either: (a) fixed monthly rent; or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market conditions.

The Company's obligations under its leases are subject to interest and penalty in cases of deafult of payment. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of equipment and staff-houses with lease terms of 12 months or less and leases of equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets follows:

	Land	Building	IT Equipment	Others	Total
Cost					
At January 1, as previously reported	₱–	₱–	₱–	₱–	₱–
Effect of adoption of standard (Note 2)	1,633,043,394	6,557,002,893	112,675,698	1,213,834	8,303,935,819
At January 1, as restated	1,633,043,394	6,557,002,893	112,675,698	1,213,834	8,303,935,819
Lease modification	–	–	(10,153,102)	–	(10,153,102)
Additions	38,860,506	466,535,864	–	–	505,396,370
At December 31	1,671,903,900	7,023,538,757	102,522,596	1,213,834	8,799,179,087

(Forward)

	Land	Building	IT Equipment	Others	Total
Accumulated Depreciation (Note 9)					
At January 1, as previously reported	₱–	₱–	₱–	₱–	₱–
Effect of adoption of standard (Note 9)	–	–	44,929,336	–	44,929,336
At January 1, as restated	–	–	44,929,336	–	44,929,336
Depreciation (Note 18)	265,700,612	958,408,226	16,615,746	728,300	1,241,452,884
At December 31	265,700,612	958,408,226	61,545,082	728,300	1,286,382,220
Net Book Value	₱1,406,203,288	₱6,065,130,531	₱40,977,514	₱485,534	₱7,512,796,867

The following are the amounts recognized in statement of income:

	2019
Depreciation expense of right-of-use assets (Note 18)	₱1,241,452,884
Finance cost on lease liabilities (Note 16)	590,149,820
Expenses relating to short-term leases*	64,891,435
Variable lease payments*	427,261,654
Total amount recognized in statement of income	₱2,323,755,793

**Included in "Rental" under "Operating Expenses" in the statement of comprehensive income*

The rollforward analysis of lease liabilities follows:

	2019
As at January 1, 2019, as previously reported	₱–
Effect of adoption of PFRS 16 (see Note 2)	8,044,061,918
At January 1, 2019, as restated	₱8,044,061,918
Lease modification	(10,153,102)
Additions	495,348,998
Interest expense (Note 16)	590,149,820
Payments	(1,300,319,804)
As at December 31, 2019	₱7,819,087,830

Classification of lease liabilities as of December 31, 2019 is, as follows:

Current portion	₱949,045,108
Noncurrent portion	6,870,042,722
As at December 31, 2019	₱7,819,087,830

Shown below is the maturity analysis of the undiscounted lease payments:

	2019
Within one year	₱1,422,083,013
More than one year but not more than five years	3,218,667,253
More than five years	10,860,085,882

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.

Tenants are required to pay for security deposits, subject to adjustment if minimum rent increases; refundable at the end of the lease term, after deducting the amount of damages to the leased premises and unpaid charges, if any. Security deposits amounted to ₱65.74 million and ₱53.22 million as of December 31, 2019 and 2018, respectively (Note 13). Rental income amounted to ₱255.81 million, ₱233.75 million and ₱299.88 million in 2019, 2018 and 2017, respectively.

Shown below is the maturity analysis of the undiscounted lease payments to be received:

	2019
Within one year	₱118,751,387
More than one year but not more than five years	43,662,149
More than five years	–

24. **Earnings Per Share**

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

	2019	2018	2017
Net income	**₱775,644,731**	₱965,377,520	₱976,957,309
Weighted-average number of common shares	**3,429,375,000**	3,429,375,000	3,429,375,000
Basic/Diluted EPS	**₱0.23**	₱0.28	₱0.28

There are no potentially dilutive common shares as of December 31, 2019, 2018 and 2017.

25. **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.

26. **Financial Instruments**

Fair Value of Financial Instruments
As of December 31, 2019 and 2018, 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, trade receivables, rentals and receivable from related parties, other receivables (Claims from insurers and accrued interest receivable) and security deposits under "Other current assets" approximate the carrying values at year-end.

The fair value of security deposits lodged in "Deposits" under "Other noncurrent assets" is disclosed below and is classified as Level 3 in the fair value hierarchy:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Security deposits, net of allowance for impairment losses (Note 10)	**₱305,037,717**	**₱309,936,918**	₱357,384,237	₱ 200,755,676

The fair value of security deposits lodged in "Deposits" under "Other noncurrent assets" were based on the discounted value of future cash flow using applicable interest rates ranging from 3.46% to 5.23% for 2019 and 6.81% to 7.53%in 2018. The fair value of security deposits was determined by discounting future cash flows using the applicable rate of 3.74%.

Financial Liabilities
Due to the short-term nature of trade and other payables (excluding statutory payables), current portions of lease liabilities and finance lease liability, their carrying values approximate fair value.

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

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Finance lease liability	**₱–**	**₱–**	₱65,393,463	₱63,527,692
Other noncurrent liabilities (Note 13)	**65,737,958**	**63,567,140**	53,216,403	47,874,695
	₱65,737,958	**₱63,567,140**	₱118,609,866	₱111,402,387

The fair values of the long term portion of finance lease liability were based on the discounted value of future cash flow using applicable interest rates ranging from 3.74% to 5.22% for 2018. The fair value of security deposits were determined by discounting future cash flows using the applicable rate of 3.74%.

There were no transfers between levels 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, 2019 and 2018 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, 2019

	On Demand	**Within One (1) Year**	**More than One (1) Year**	**Total**
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	**₱–**	**₱3,559,741,196**	**₱–**	**₱3,559,741,196**
Related parties	**–**	**66,477,560**	**–**	**66,477,560**
Nontrade				
Third parties	**–**	**818,801,631**	**–**	**818,801,631**
Related parties	**–**	**6,582,946**	**–**	**6,582,946**
Accrued expenses	**–**	**384,938,764**	**–**	**384,938,764**
Credit cash bonds	**–**	**328,537,168**	**–**	**328,537,168**
Lease liabilities	**–**	**1,422,083,013**	**14,078,753,135**	**15,500,836,148**
Others*	**–**	**33,629,691**	**–**	**33,629,691**
Other noncurrent liabilities	**–**	**–**	**65,737,958**	**65,737,958**
	₱–	**₱6,620,791,969**	**₱14,144,491,093**	**₱20,765,283,062**

**excluding statutory payables*

December 31, 2018

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱–	₱2,965,477,365	₱–	₱2,965,477,365
Related parties	–	73,333,005	–	73,333,005
Nontrade	–	400,728,580	–	400,728,580
Credit cash bonds	–	328,163,607	–	328,163,607
Accrued expenses	–	297,442,442	–	297,442,442
Finance lease liability	–	14,011,551	45,921,342	59,932,893
Others*	–	36,574,287	–	36,574,287
Other noncurrent liabilities	–	–	53,216,403	53,216,403
	₱–	₱4,115,730,837	₱99,137,745	₱4,214,868,582

**excluding 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:

	2019			
	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	**₱952,711,790**	**₱296,307,561**	**₱656,404,229**	**₱296,307,561**
Related parties	**1,409,351**	**–**	**1,409,351**	**–**
Nontrade				
Receivable from insurance	**104,364,149**	–	**104,364,149**	–
Rentals	**37,449,489**	**65,737,958**	**–**	**37,449,489**
Related parties	**20,934,612**	–	**20,934,612**	–
Accrued interest receivable	**14,518,808**	–	**14,518,808**	–
Others*	**15,500,741**	–	**15,500,741**	–
	₱1,146,888,940	**₱362,045,519**	**₱813,131,890**	**₱333,757,050**

**excluding receivable from SSS amounting to ₱9,674,781*

	2018			
	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	₱838,558,786	₱328,163,607	₱510,395,179	₱328,163,607
Related parties	420,314	–	420,314	–
Nontrade				
Receivable from insurance	455,625,348	–	455,625,348	–
Rentals	29,838,612	53,216,403	–	29,838,612
Related parties	24,295,195	–	24,295,195	–
Accrued interest receivable	9,433,385	–	9,433,385	–
Others*	14,407,306	–	14,407,306	–
	₱1,378,981,602	₱381,380,010	₱1,014,576,727	₱358,002,219

**excluding receivable from SSS amounting to ₱6,402,657*

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.

Impairment of financial assets
The Company has the following financial assets that are subject to the expected credit loss model:
- trade receivables to third party and related parties for sales of inventory;
- other debt instruments carried at amortized cost

Other debt instruments carried at amortized cost include cash and cash equivalents, short-term investments, accrued interest receivables, refundable security deposits and receivable from insurance. These are also subject to the impairment requirements of PFRS 9, the identified impairment losses were immaterial.

Trade receivables
The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP and the unemployment rate of the country in which it sells its goods and accordingly adjusts the historical loss rates based on expected changes in these factors.

Below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

December 31, 2019

			Days past due			
	Current	**< 30 days**	**30-60 days**	**61-90 days**	**>91 days**	**Total**
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	
Estimated total gross carrying amount at default	**780,447,898**	**8,650,114**	**13,433,677**	**7,121,041**	**40,495,255**	**850,147,985**
Expected credit loss	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**

December 31, 2018

			Days past due			
	Current	< 30 days	30-60 days	61-90 days	>91 days	Total
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	
Estimated total gross carrying amount at default	699,292,715	180,838,698	4,117,457	2,330,319	41,001,624	927,580,813
Expected credit loss	₱–	₱–	₱–	₱–	₱–	₱–

The allowances for trade receivables as of December 31, 2018 reconcile to the opening loss allowance as follows:

Balances as of January 1, 2019	₱11,612,412
Allowance recognized in profit or loss during the year	3,703,304
Receivables written off during the year	(3,703,304)
	₱11,612,412

Trade receivables are written off when there is no reasonable expectation of recovery. All of the indicators that there is no reasonable expectation of recovery should be present prior to write off which include, amongst others, the failure of a debtor to engage in a repayment plan with the Company, debtor is experiencing significant financial difficulties, and a failure to make contractual payments for a period of greater than 90 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

27. **Notes to Statements of Cash Flows**

The Company's noncash activities are as follows:

a) The Company recognized receivables pertaining to insurance claims from insurers amounting to ₱104.36 million (inventory claims) and ₱455.63 million (business interruption claims) in 2019 and 2018, respectively (see Note 6).
b) Transfers from advances to suppliers to property and equipment amounted to ₱23.73 million and ₱7.33 million for 2019 and 2018, respectively.
c) Long-outstanding advances to suppliers were written off in 2019 amounting to ₱0.96 million.
d) The Company has a remaining unpaid cash dividend amounting to ₱108 out of the ₱205.76 million declared in 2019.
e) Loss on merchandise inventories damaged due to fire amounting to ₱300.49 million was recorded in 2018 (see Note 7).
f) Reclassification of leased computer equipment amounting to ₱67.75 million from property and equipment to right-of-use assets as of January 1, 2019 upon adoption of PFRS 16 (see Notes 2 and 9). On the same date, the Company entered into new terms and payments with the lessor for the lease of the computer equipment which resulted to lease modification and reduced the right-of-use assets by ₱10.15 million (see Note 23).
g) Advance rentals and deferred charges amounting to ₱219.24 million were transferred from non-current assets to right-of-use assets upon adoption of PFRS 16 (see Note 2).
h) Changes in lease liabilities and finance lease liability for which cash flows have been classified as financing activity in the statement of cash flows follows:

For the year ended December 31, 2019:

Lease liabilities as at January 1, 2019, as restated	**₱8,044,061,918**
Cash flows	**(1,300,319,804)**
Noncash flow activities	**1,075,345,716**
Lease liabilities as at December 31, 2019	**₱7,819,087,830**

For the year ended December 31, 2018:

	Finance leases due within 1 year	Finance leases due after 1 year
Net debt as at December 31, 2017	₱28,661,059	₱50,609,267
Cash flows	(13,876,862)	–
Reclassification from non-current to current	21,960,523	(21,960,523)
Net debt as at December 31, 2018	₱36,744,720	₱28,648,744

28. **Events after the reporting date**

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

In support of the government directives, and in the interest of health and safety, the Company has temporarily closed all its Department Stores in Metro Manila effective March 16, 2020. The Company's Supermarket stores, however, remain open to provide basic necessities to the community it serves.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

29. **Supplementary Information Required Under Revenue Regulations 15-2010**

The Company reported and/or paid the following taxes for 2019:

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 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.

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Net sales/receipts and Output VAT declared in the Company's VAT returns filed for 2019 are as follows:

	Net Sales/Receipts	Output VAT
Sales subject to 12% VAT	₱32,774,832,477	₱3,932,979,897
Zero-rated sales	150,714,389	-
VAT-exempt sales	4,513,806,747	-
Total Sales	**₱37,439,353,613**	**₱3,932,979,897**

b. The amount of input VAT claimed are broken down as follows:

Input tax on purchases of goods exceeding P1 million deferred from prior period	₱191,848,930
Current year's domestic purchases of goods	3,789,020,655
Current year's capital goods purchases	94,239,960
Total available input VAT	4,075,109,545
Less: deductions from input VAT	
Input tax on purchases of goods exceeding P1 million deferred for the succeeding period	213,772,495
Input tax allocable to exempt sales	45,018,616
Input tax on sales to government closed to expense	1,757,937
Total allowable input tax	3,814,560,497
Less: Input VAT applied to Output VAT	3,814,560,497
Balance at December 31, 2019	₱–

The Company's net output VAT payable at the end of the year amounted to ₱115.84 million.

Taxes and Licenses

The following are taxes, licenses, registration fees and permit fees for the year ended December 31, 2019.

Business tax	₱257,581,250
Real property tax	62,824,712
Documentary stamp tax	6,189,265
Motor vehicle tax	1,238,435
Others	92,328,426
Total	**₱420,162,088**

Withholding taxes

The amount of withholding taxes paid and accrued in 2019 consists of the following:

Expanded withholding taxes	₱ 482,435,999
Tax on compensation and benefits	87,576,925
Final withholding taxes	5,663,350
Total	**₱575,676,274**

Tax Assessment and Cases

The Company has no outstanding Final Assessment Notice and/or Formal Letter of Demand from the Bureau of Internal Revenue (BIR) for alleged deficiency income tax, VAT and withholding tax.

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 18, 2020. 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 the Revised Securities Regulation Code Rule 68, 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 information 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-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125272, January 7, 2020, Makati City

March 18, 2020

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 18, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
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PTR No. 8125272, January 7, 2020, Makati City

March 18, 2020

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Schedule	Contents
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Long-Term Debt
E	Indebtedness to Related Parties
F	Guarantees of Securities of Other Issuers
G	Capital Stock

SCHEDULE A

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
DECEMBER 31, 2019

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	₱923,116,806	₱923,116,806	
Bank of the Philippine Islands	869,914,432	869,914,432	
Philippine National Bank	340,443,174	340,443,174	
Security Bank	194,075,319	194,075,319	
Land Bank of the Philippines	165,412,377	165,412,377	
Others	259,230,427	259,230,427	
	2,752,192,535	2,752,192,535	₱77,303,168
Short-term investments			
Wealth Development Bank	325,923,774	325,923,774	
Philippine National Bank	200,000,000	200,000,000	
China Banking Corporation	103,651,200	103,651,200	
	629,574,974	629,574,974	14,770,470
Receivables			
Third parties	952,711,790	952,711,790	
Related parties	22,343,964	27,244,593	
Rentals	37,449,489	37,449,489	
Others	148,234,766	148,234,766	
	1,160,740,009	1,165,640,638	-
	₱4,542,507,518	₱4,547,408,147	₱92,073,638

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, 2019

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

SCHEDULE C

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS DECEMBER 31, 2019

	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 LONG-TERM DEBT
DECEMBER 31, 2019

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

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2019

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

SCHEDULE F

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2019

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, 2019

			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	2,652,228,789	38,357,011	–
Preferred Shares	–	–	–	–	–	–
	10,000,000,000	3,429,375,000	103,320,000	2,652,228,789	38,357,011	–

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

Ratio	Formula	2019	2018
Current ratio	Total current assets divide by total current liabilities Total current assets ₱9,816,028,318 Divide by: total current liabilities 6,629,249,660 Current ratio 1.48	**1.48**	2.01
Acid test ratio	Quick assets (total current assets less inventories and other current assets) divide by total current liabilities Total current assets ₱9,816,028,318 Less: Inventories 4,636,576,270 Other current assets 491,626,178 Quick assets 4,687,825,870 Divide by: Total current liabilities 6,692,249,660 Acid test ratio 0.70	**0.70**	1.14
Debt-to-equity ratio	Total net debt (debt less cash and cash equivalents) divide by total equity Debt ₱– Less: Cash and cash equivalents 2,909,123,300 Net debt (2,909,123,300) Divide by: Equity 9,235,964,469 Net debt to equity ratio (0.31)	**(0.31)**	(0.41)
Asset-to-equity ratio	Total assets divide by total equity Total Assets ₱23,364,617,831 Divide by: Total Equity 9,235,964,469 Current Ratio 2.53	**2.53**	1.59

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2019

Ratio	Formula		2019	2018
Interest rate coverage ratio	EBITDA divide by finance cost		**4.58**	93.53
	Net income	₱775,644,731		
	Add: Provision for income tax	389,433,275		
	Interest and other financing charges	607,483,396		
		1,772,561,402		
	Less: Interest income	709,303,783		
	EBIT	1,063,257,619		
	Add: Depreciation and amortization	1,721,709,573		
	EBITDA	2,784,967,192		
	Divide by: Finance costs	607,483,396		
	Interest rate coverage ratio	4.58		
Return on equity	Net Income divide by average total equity		**8.65%**	11.60%
	Net income	₱775,644,731		
	Divide by: Average total equity			
	Total equity CY	9,235,964,469		
	Total equity PY	8,703,019,338		
	Average total equity	8,969,491,904		
	Return on Equity	8.65%		
Return on assets	Net Income divide by Average total assets		**4.17%**	7.24%
	Net income	₱775,644,731		
	Divide by: Average total assets			
	Total asset CY	23,364,617,831		
	Total asset PY	13,868,459,104		
	Average total assets	18,616,538,468		
	Return on assets	4.17%		
Net profit margin	Net Income divide by Revenue		**2.11%**	2.92%
	Net income	₱775,644,731		
	Divide by: Revenue	36,790,177,798		
	Net income margin	2.11%		

COVER SHEET

for Application at

COMPANY REGISTRATION AND MONITORING DEPARTMENT

Nature of Application: I-ACGR

SEC Registration Number: C S 2 0 0 3 1 5 8 7 7

S.E.C. Registration Number

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, BRGY. GUIZO, NORTH RECLAMATION AREA, MANDAUE CITY, CEBU PHILIPPINES

Company's Telephone Number/s

2368390

ATTY. VINCENT E. TOMANENG

Contact Person

Contact Person's Telephone Number

2368390

Contact Person's Address

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

To be accomplished by CRMD Personnel

as

	Date	Signature
Assigned Processor: ______	______	______
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- [ ] Compliance Monitoring Division

7/18

SEC FORM – I-ACGR

INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT

1. For the fiscal year ended: **2018**

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**
Province, Country or other jurisdiction of incorporation or organization

6. ____ (SEC Use Only)
Industry Classification Code:

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

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

9. -
Former name, former address, and former fiscal year, if changed since last report.

INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT			
	COMPLIANT/ NON-COMPLIANT	**ADDITIONAL INFORMATION**	**EXPLANATION**
The Board's Governance Responsibilities			
Principle 1: The company should be headed by a competent, working board to foster the long- term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long- term best interests of its shareholders and other stakeholders.			
Recommendation 1.1			
1. Board is composed of directors with collective working knowledge, experience or expertise that is relevant to the company's industry/sector.	Compliant	First Amended Manual of Corporate Governance of the Company ("AMCG"), Article IV, (A) 1) The Corporation should be headed by a competent and working Board to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and stakeholders. 2) In the election of the members of its Board of Directors, the Corporation should be guided by the following standards: a) The Board should be composed of directors with a collective working knowledge, experience or expertise that is relevant to the Corporation's industry. The Board should always ensure that it has an appropriate	
2. Board has an appropriate mix of competence and expertise.	Compliant		
3. Directors remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.	Compliant		

		mix of competence and expertise and that its members remain qualified for their positions individually and collectively to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction. The Board consists of seven (7) members, of which two (2) are independent directors. Name / Position: 1. Frank S. Gaisano – Chairman 2. Jack S. Gaisano – Director 3. Edward S. Gaisano – Director 4. Margaret G. Ang – Director 5. Manuel C. Alberto – Director 6. Guillermo L. Parayno, Jr. – Independent Director 7. Ricardo Nicanor N. Jacinto – Independent Director Messrs. Frank S. Gaisano, Jack S. Gaisano, Edward S. Gaisano, and Ms. Margaret G. Ang have served their respective offices since the incorporation of the Company on August 2003. Mr. Manuel C. Alberto was elected as Director on December 17, 2018, and assumed the position effective January 1, 2019, to fill in the vacancy in the	

		Board due to the retirement of Mr. Arthur Emmanuel. The independent directors, Mr. Guillermo L. Parayno, Jr. and Mr. Ricardo Nicanor N. Jacinto, were elected on July 16 and 27, 2015, respectively. All Board Members were re-elected to the Board during the last Annual Stockholders' Meeting held on May 3, 2019. *2018 Board Of Directors – Brief Description and Experience* *Frank S. Gaisano*, 61, 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 and Pacific Mall Corporation. 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*, 65, 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. Inc. He is the President and Vice-Chairman of HTLand, Inc. He is also a Director of Vicsal Development Corporation and Pacific Mall Corporation. *Edward S. Gaisano*, 63, 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, Inc. 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*, 67, 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, Corporate Secretary and Treasurer 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. *Manuel C. Alberto,* 53, was elected as Director of the Company, and appointed as President and Chief Operating Officer, on December 17, 2018, and assumed the position effective January 1, 2019, replacing Mr. Arthur Emmanuel who retired on December 31, 2018. Before his election/appointment as President and Chief Operating Officer, he served as the Company's Chief Merchandising and Marketing Officer. He earned his Bachelor of Arts in Communication (1989) from Santa Clara University, California, USA and obtained his Master's degree in Management (1998) from the Asian Institute of Management. Before joining the Company, he served as President & General Manager of Philippine FamilyMart Inc. (2014-2018), VP & Business Unit Head (2013-2015) & VP of Operations (2001-2010) of Rustan Supercenters, Inc., National Operation Director of Jollibee Foods Corp (2010-2013), Store General Manager of Pilipinas Makro Inc.(1998-2001) and Store Manager of Stroud's Linen, USA. *Ricardo Nicanor N. Jacinto,* 58, 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 an Executive Director of Torre Lorenzo	

		Development Corp, a Director of SBS Philippines Corporation and the Treasurer/Trustee of the Judicial Reform Initiative. Mr. Jacinto previously served as CEO of the Institute of Corporate Directors (2012-2017) and Managing Director of Ayala Corporation (1997-2011). During the last two years of his tenure at Ayala Corporation, he was seconded to Habitat for Humanity as its Executive Director. *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.	
Recommendation 1.2			
1. Board is composed of a majority of non-executive directors.	Compliant	AMCG, Article IV, (A), 2.	

		b. The Board should be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances. Composition of the Board:	

Composition of the Board:

Name of Director	Type of Director (ED – Executive Director) (NED – Non-Executive Director (ID – Independent Director)
Frank S. Gaisano	ED
Edward S. Gaisano	NED
Margaret G. Ang	NED
Jack S. Gaisano	NED
Manuel C. Alberto	ED
Guillermo L. Parayno, Jr.	ID and NED
Ricardo Nicanor N. Jacinto	ID and NED

Recommendation 1.3

1. Company provides in its Board Charter	Compliant	AMCG, Article IV, 2	

and Manual on Corporate Governance a policy on training of directors.		c) 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.	
2. Company has an orientation program for first time directors.	Compliant	All directors have complied with SEC Memorandum Circular No. 20, series of 2013 and SEC Memorandum Circular No. 2, series of 2015. See PSE Disclosure http://edge.pse.com.ph/openDiscViewer.do?edge_no=0b1991e5204c29af3318251c9257320d#sthash.DrQFgjOx.dpbs	
3. Company has relevant annual continuing training for all directors.	Compliant		
Recommendation 1.4			
1. Board has a policy on board diversity.	Complaint	AMCG, Article IV, 2 d) Board diversity shall be a consideration in the nomination and election of the members of the Corporation's Board of Directors.	

Optional: Recommendation 1.4			
1. Company has a policy on and discloses measurable objectives for implementing its board diversity and reports on progress in achieving its objectives.	-		
Recommendation 1.5			
1. Board is assisted by a Corporate Secretary.	Compliant	The Corporate Secretary of the Corporation is Atty. Vincent E. Tomaneng, while the Compliance Officer of the Corporation is Atty. Tara Tsarina B. Perez-Retuya. The Corporate Secretary is not a member of the Board. *Vincent E. Tomaneng*, 51, 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	
2. Corporate Secretary is a separate individual from the Compliance Officer.	Compliant		
3. Corporate Secretary is not a member of the Board of Directors.	Compliant		

		2014, and Corporate Secretary of HTLand, Inc. from 2014, a Director of Pacific Mall Corporation from 2010, and a Trustee of Vicsal Foundation, Incorporated since 2017.	
4. Corporate Secretary attends training/s on corporate governance.	Compliant	See PSE Disclosure on Certificate of Attendance in Corporate Governance Training http://edge.pse.com.ph/openDiscViewer.do?edge_no=45a21a6aa78df3963318251c9257320d#sthash.UuxyiBNp.dpbs See PSE Disclosure on Certificate of Attendance in Corporate Governance Training http://edge.pse.com.ph/openDiscViewer.do?edge_no=0b1991e5204c29af3318251c9257320d#sthash.DrQFgjOx.dpbs	
Optional: Recommendation 1.5			
1. Corporate Secretary distributes materials for board meetings at least five business days before scheduled meeting.	Compliant	Materials are distributed to the Board of Directors at least three (3) working days before the scheduled meeting.	
Recommendation 1.6			
1. Board is assisted by a Compliance Officer.	Compliant	The Compliance Officer of the Corporation is Atty. Tara Tsarina B. Perez-Retuya.	
2. Compliance Officer has a rank of Senior Vice President or an equivalent position with adequate stature and authority in the	Non-Compliant		The Compliance Officer of the Corporation need not have the rank of Senior Vice-President or an equivalent

corporation.		AMCG, Article IV, (C) , 14	position so long as she is able to comply with her duties and responsibilities as Compliance Officer.
3. Compliance Officer is not a member of the board.	Compliant	Appoint a Compliance Officer. The Compliance Officer need not have the rank of Senior Vice-President or an equivalent position, but he/she must be able to faithfully comply with his/her duties and responsibilities.	
4. Compliance Officer attends training/s on corporate governance.	Compliant	See PSE Disclosure on Certificate of Attendance in Corporate Governance Training http://edge.pse.com.ph/openDiscViewer.do?edge_no=45a21a6aa78df3963318251c9257320d#sthash.UuxyiBNp.dpbs See PSE Disclosure on Certificate of Attendance in Corporate Governance Training http://edge.pse.com.ph/openDiscViewer.do?edge_no=0b1991e5204c29af3318251c9257320d#sthash.DrQFgjOx.dpbs	
Principle 2: The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the company's articles and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to stockholders and other stakeholders.			
Recommendation 2.1			
1. Directors act on a fully informed basis, in good faith, with due diligence and care,	Compliant	On 13 April 2015, the Board of Directors has adopted the	

and in the best interest of the company.		Company's Manual on 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 "AMCG") in compliance with Securities and Exchange Commission (SEC) Memorandum Circular No. 19 Series of 2016, (the "Code of Corporate Governance for Publicly Listed Companies")	
Recommendation 2.2			
1. Board oversees the development, review and approval of the company's business objectives and strategy.	Compliant	AMCG, Article IV (C) (2) Provide sound strategic policies and guidelines to the Corporation on major capital expenditures. Approve and oversee the development of the Corporation's business objectives, strategies, and programs in order to	
2. Board oversees and monitors the implementation of the company's business objectives and strategy.	Compliant		

		sustain the Corporation's long-term viability and strength. Periodically evaluate and monitor the implementation of such policies, strategies, and programs, including the business plans, operating budgets and Management's overall performance.	
Supplement to Recommendation 2.2			
1. Board has a clearly defined and updated vision, mission and core values.	Compliant	**VISION STATEMENT** By 2020, we will be a multi-format retailer that is best-in class in sales, margins and OPEX per square meter of net selling space; profitably operating in strategic locations in the Philippines. **MISSION - VALUES** We remain committed to the promise of providing an exciting experience through our distinct and quality products at reasonable prices, delivered by dedicated and dynamic employees who are guided by the Metro core values passed on by our founders.	

2. Board has a strategy execution process that facilitates effective management performance and is attuned to the company's business environment, and culture.	Compliant	AMCG, Article IV, (C) (7) Approve the selection and assess the performance of Management led by the Key Officers. The Board shall establish an effective performance management framework that will ensure that the Management, and the personnel's performance are at par with the standards set by the Board and Senior Management.	
Recommendation 2.3			
1. Board is headed by a competent and qualified Chairperson.	Compliant	Mr. Frank S. Gaisano, the Chairman of the Board of Directors, is highly competent and qualified.	
Recommendation 2.4			
1. Board ensures and adopts an effective succession planning program for directors, key officers and management.	Compliant	AMCG, Article V, (B), (4) 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 shall 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	
2. Board adopts a policy on the retirement for directors and key officers.	Compliant		

		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.	
Recommendation 2.5			
1. Board aligns the remuneration of key officers and board members with long-term interests of the company.	Compliant	AMCG, Article IV, (I) REMUNERATION OF DIRECTORS AND OFFICERS The levels of remuneration of the Corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive directors may be structured or be based on corporate and individual performance. The Corporation shall establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers, which shall be prepared by the Nomination and Compensation	
2. Board adopts a policy specifying the relationship between remuneration and performance.	Compliant		
3. Directors do not participate in discussions or deliberations involving his/her own remuneration.	Compliant		

		Committee. No director should participate in deciding on his remuneration.	
Optional: Recommendation 2.5			
1. Board approves the remuneration of senior executives.	Compliant	Please refer to Article V, (B), (4) of the AMCG.	
2. Company has measurable standards to align the performance-based remuneration of the executive directors and senior executives with long-term interest, such as claw back provision and deferred bonuses.	-		
Recommendation 2.6			
1. Board has a formal and transparent board nomination and election policy.	Compliant	AMCG, Article IV,(B) NOMINATION AND COMPENSATION COMMITTEE 1) The Board shall create a Nomination and Compensation Committee which shall have at least three (3) members and one (1) of whom must be an independent director, to review and evaluate the qualifications of all individuals nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of	
2. Board nomination and election policy is disclosed in the company's Manual on Corporate Governance.	Complaint		
3. Board nomination and election policy includes how the company accepted nominations from minority shareholders.	Compliant		
4. Board nomination and election policy includes how the board shortlists candidates.	Compliant		
5. Board nomination and election policy includes an assessment of the effectiveness of the Board's processes in	Compliant		

the nomination, election or replacement of a director.		the Board's processes and procedures in the election or replacement of directors.	
6. Board has a process for identifying the quality of directors that is aligned with the strategic direction of the company.	Compliant	2) At least, thirty calendar (30) days before the Annual Stockholders' Meeting, the Nomination and Compensation Committee shall accept, pre-screen, and shortlist all candidates nominated to become a member of the Board in accordance with the qualifications and disqualifications of a director. In the evaluation of the nominees, the Committee shall consider whether the candidates: a) Possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Corporation's business and risk profile. b) Have a record of integrity and good repute. c) Have sufficient time to carry out their responsibilities. d) Have the ability to	

		promote a smooth interaction between board members. The Nomination and Compensation Committee may engage the services of professional search firms or other external sources when searching for candidates to the Board. 3) The Nomination and Compensation Committee shall fully disclose all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.	
Optional: Recommendation to 2.6			
1. Company uses professional search firms or other external sources of candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the board of directors.	-		
Recommendation 2.7			
1. Board has overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or	Compliant	AMCG, Article IV, (C)(9) Formulate and implement policies	

infrequently occurring transactions.		and procedures that would ensure the integrity and transparency of Related Party Transactions and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. This is echoed under the functions of the Audit and Risk Committee as provided under the AMCG, Article V (A), (5), (c) Related Party Transactions Functions a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all Related Parties are continuously identified, Related Party Transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vise versa) are captured. Related parties, Related Party Transactions and changes in relationships should be reflected in the relevant reports to the Board and regulators; b. Evaluates all material Related Party Transactions to ensure that	
2. RPT policy includes appropriate review and approval of material RPTs, which guarantee fairness and transparency of the transactions.	Compliant		
3. RPT policy encompasses all entities within the group, taking into account their size, structure, risk profile and complexity of operations.	Compliant		

		these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating Related Party Transactions, the Committee takes into account, among others, the following: i. The Related Party's relationship to the Corporation and interest in the transaction; ii. The material facts of the proposed Related Party Transaction, including the proposed aggregate value of such transaction;	

		iii. The benefits to the Corporation of the proposed Related Party Transaction; iv. The availability of other sources of comparable products or services; and v. An assessment of whether the proposed Related Party Transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Committee shall ensure that the Corporation has an effective price discovery system in place and exercise due diligence in determining a fair price for Related Party Transactions. c. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Corporation's Related Party Transactions exposures, and	

		policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties. d. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties. e. Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process. f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting Related Party Transactions, including a periodic review of Related Party	

		Transactions policies and procedures.	
Supplement to Recommendations 2.7			
1. Board clearly defines the threshold for disclosure and approval of RPTs and categorizes such transactions according to those that are considered *de minimis* or transactions that need not be reported or announced, those that need to be disclosed, and those that need prior shareholder approval. The aggregate amount of RPTs within any twelve (12) month period should be considered for purposes of applying the thresholds for disclosure and approval.	Compliant	Please refer to the Corporation's Policy on Related-Party Transactions	
2. Board establishes a voting system whereby a majority of non-related party shareholders approve specific types of related party transactions during shareholders' meetings.	Compliant		
Recommendation 2.8			
1. Board is primarily responsible for approving the selection of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).	Compliant	AMCG, Article IV, (C) **DUTIES AND FUNCTIONS** To insure a high standard of best practices for the Corporation, its stockholders and stakeholders, the Board, in close coordination with the Corporation's Officers and Managers, shall conduct itself with honesty and	
2. Board is primarily responsible for assessing the performance of Management led by	Compliant		

the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).		integrity in the performance of, among others, the following duties and functions: 1. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for directors and Management to ensure growth and a continued increase in the shareholders' value. The succession plan shall include, as far as practicable, a policy on the retirement age for directors and key officers as part of management succession and to promote dynamism in the Corporation. xxx 7. Approve the selection and assess the performance of Management led by the Key Officers. The Board shall establish an effective performance	

		management framework that will ensure that the Management, and the personnel's performance are at par with the standards set by the Board and Senior Management. xxx 14. Appoint a Compliance Officer. The Compliance Officer need not have the rank of Senior Vice-President or an equivalent position, but he/she must be able to faithfully comply with his/her duties and responsibilities.	
Recommendation 2.9			
1. Board establishes an effective performance management framework that ensures that Management's performance is at par with the standards set by the Board and Senior Management.	Compliant	AMCG, Article IV,(C) (7) Approve the selection and assess the performance of Management led by the Key Officers. The Board shall establish an effective performance management framework that will ensure that the Management, and the personnel's performance are at par with the standards set by the Board and Senior Management.	
2. Board establishes an effective performance management framework that ensures that personnel's performance is at par with the standards set by the Board and Senior Management.	Compliant		
Recommendation 2.10			
1. Board oversees that an appropriate	Compliant	AMCG, Article II	

internal control system is in place.		DEFINITION OF TERMS xxx Internal Control – the process designed and effected by the Board of Directors and Management, to provide reasonable assurance on the achievement of the Corporation's objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations and the Corporation's policies and procedures; AMCG, Article IV (C) (6) DUTIES AND FUNCTIONS OF THE BOARD: Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the Corporation's internal control system in order to maintain its adequacy and effectiveness. AMCG, Article IV (E) INTERNAL CONTROL RESPONSIBILITIES	
2. The internal control system includes a mechanism for monitoring and managing potential conflict of interest of the Management, members and shareholders.	Compliant		

		OF THE BOARD The Board shall oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, the Board members, and shareholders. The control environment of the Corporation shall consist of the following: 1) The Board which ensures that the Corporation is properly and effectively managed and supervised. 2) A Management that actively manages and operates the Corporation in a sound and prudent manner. 3) The organizational and procedural controls which are duly supported by effective management information and risk management reporting systems.	

		4) An independent audit mechanism to monitor the adequacy and effectiveness of the Corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts. The minimum internal control mechanisms for the performance of the Board's oversight responsibility shall include: 1) Definition of the duties and responsibilities of the Chairman/Chief Executive Officer ("CEO") and President/Chief Operating Officer ("COO") who are ultimately accountable for the	

		Corporation's organizational and operational controls. 2) Selection of the persons who possess the ability, integrity and expertise essential for the positions of Chairman/CEO and President/COO. 3) Evaluation of proposed senior management appointments. 4) Selection and appointment of qualified and competent management officers. 5) Review of the Corporation's human resource policies, conflict of interest situations, compensation program for employees, and management succession plan. 6) Approval the Corporation's Internal Audit Charter.	

		AMCG, Article V (A) (1) The Audit and Risk Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting and monitoring compliance with laws, regulations, and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. AMCG, Article X (1) The Corporation shall establish and implement an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile, and complexity of operations.	
3. Board approves the Internal Audit Charter.	Compliant	Please refer to the functions of the Audit and Risk Committee under Article V (A) of the AMCG.	
Recommendation 2.11			
1. Board oversees that the company has in place a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess and manage key business	Compliant	AMCG, Article IV (C), (15) DUTIES AND FUNCTIONS OF THE	

risks.		BOARD: Implement a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess, and manage key business risks. In this connection, the Board shall be responsible for defining the Corporation's level of risk tolerance and provide oversight over its risk management policies and procedures. The Audit and Risk Committee shall have the following functions under the AMCG: Risk Oversight Functions a. Assess the probability of each risk becoming a reality and shall estimate its possible effect and cost. b. 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. c. Oversee the implementation of the risk management strategies and policies. d. Develop a formal enterprise risk	
2. The risk management framework guides the board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.	Compliant		

		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. e. 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. f. 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. g. Advise the Board on its risk appetite levels and risk tolerance limits. h. 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. i. 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. j. 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. k. 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. AMCG Article X, (4) The Corporation shall have a separate risk management function to identify, assess and monitor key risk exposures. The risk management function involves the following activities, among others:	

		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.	
Recommendation 2.12			
1. Board has a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary role.	Compliant	Please refer to the Corporation's Code of Conduct for Directors and Senior Management.	
2. Board Charter serves as a guide to the directors in the performance of their functions.	Compliant		
3. Board Charter is publicly available and posted on the company's website.	Compliant		
Additional Recommendation to Principle 2			
1. Board has a clear insider trading policy.	Compliant	AMCG, Article IV, (C), (17) DUTIES AND FUNCTIONS OF THE BOARD: Approve and implement a Code of Business Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code should include an anti-corruption policy and program. The Code should be properly disseminated to the Board, Management and employees. It should also be disclosed and made available to the public through the	

		Corporation's website. The Board should ensure the proper and efficient implementation and monitoring of compliance with the Code and other internal policies.	
Optional: Principle 2			
1. Company has a policy on granting loans to directors, either forbidding the practice or ensuring that the transaction is conducted at arm's length basis and at market rates.	Compliant	Please refer to the Corporation's Code of Conduct for Directors and Senior Management.	
2. Company discloses the types of decision requiring board of directors' approval.	Compliant	Please refer to the Corporation's disclosures in the PSE Edge.	
Principle 3: Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established should be contained in a publicly available Committee Charter.			
Recommendation 3.1			
1. Board establishes board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.	Compliant	The Corporation has the following Board Committees: 1. Audit and Risk Committee 2. Governance Committee 3. Nomination and Compensation Committee 4. Investment Committee	
Recommendation 3.2			
1. Board establishes an Audit Committee to enhance its oversight capability over the	Compliant	AMCG, Article IV, C	

company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.		DUTIES AND FUNCTIONS To insure a high standard of best practices for the Corporation, its stockholders and stakeholders, the Board, in close coordination with the Corporation's Officers and Managers, shall conduct itself with honesty and integrity in the performance of, among others, the following duties and functions: 10) Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities. Please refer to the constitution of the Audit and Risk Committee and its functions under AMCG, Article V, (A) 1) The Audit and Risk Committee is responsible for overseeing the senior management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting and monitoring compliance with laws, regulations, and internal policies, efficiency and effectiveness of operations, and	

		safeguarding of assets. 2) The Audit and Risk Committee shall be responsible for the oversight of the Corporation's Enterprise Risk Management system to ensure its functionality and effectiveness. 3) The Audit and Risk Committee shall review all material related party transactions of the Corporation. 4) The Audit and Risk Committee shall consist of three (3) non-executive directors, who shall preferably have accounting and finance backgrounds, majority of whom shall be independent directors. The chair of the Audit and Risk Committee should be an independent director. At least one member of the committee must have relevant thorough knowledge and experience on risk management. 5) The committee shall have the following functions:	

		a. Audit Functions b. Risk Oversight Functions c. Related Party Transactions Functions	
2. Audit Committee is composed of at least three appropriately qualified non-executive directors, the majority of whom, including the Chairman is independent.	Compliant	AMCG, Article V, (A), (4) The Audit and Risk Committee shall consist of three (3) non-executive directors, who shall preferably have accounting and finance backgrounds, majority of whom shall be independent directors. The chair of the Audit and Risk Committee should be an independent director. At least one member of the committee must have relevant thorough knowledge and experience on risk management.	
3. All the members of the committee have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.	Compliant	The members of the Company's Audit and Risk Management Committee (2018) are: 1. Guillermo L. Parayno, Jr. – Chairman, Independent Director, Non-Executive Director 2. Margaret G. Ang - Member, Non-Executive Director 3. Ricardo Nicanor N. Jacinto – Member, Independent Director, Non-Executive Director	

		who are all highly qualified and competent to act as such.	
4. The Chairman of the Audit Committee is not the Chairman of the Board or of any other committee.	Compliant	The Chairman of the Audit and Risk Committee, Mr. Guillermo L. Parayno, Jr., is not the Board Chairman nor a Chairman of any other committee.	
Supplement to Recommendation 3.2			
1. Audit Committee approves all non-audit services conducted by the external auditor.	Compliant	AMCG, Article V, (A), (n) AUDIT AND RISK COMMITTEE 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.	
2. Audit Committee conducts regular meetings and dialogues with the external audit team without anyone from management present.	Compliant	AMCG, Article V, (A), (o) As far as practicable, the Audit and Risk Committee shall endeavour to	

		meet with the Board at least every quarter without the presence of the CEO or other management team members, and periodically meets with the head of the internal audit.	
Optional: Recommendation 3.2			
1. Audit Committee meet at least four times during the year.			
2. Audit Committee approves the appointment and removal of the internal auditor.	Compliant	AMCG, Article V, (A), (f) FUNCTIONS OF THE AUDIT AND RISK COMMITTEE: (f) Organize and oversee the Internal Audit Department, and recommends the appointment and/or grounds for approval of an Internal Audit Head, as well as approve the terms and conditions for internal audit services, if necessary.	
Recommendation 3.3			
1. Board establishes a Corporate Governance Committee tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee.	Compliant	AMCG, Article V, (C) GOVERNANCE COMMITTEE 1) The Corporate Governance Committee is tasked with ensuring compliance with and proper observance of corporate governance principles and practices. 2) The Governance Committee shall consist of three (3) directors, one (1) of whom shall be an	

		independent director. 3) 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. 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.	
2. Corporate Governance Committee is composed of at least three members, all of whom should be independent directors.	Non-Compliant	The members of the Company's Corporate Governance Committee (2018) are: 1. Edward S. Gaisano – Chairman and Non-Executive Director 2. Margaret G. Ang – Member, Non-Executive Director 3. Guillermo L. Parayno, Jr. – Member, Independent Director 4. Ricardo Nicanor N. Jacinto – Member, Independent Director 5. Manuel C. Alberto – Member, Executive Director	The two (2) independent directors of the Company are members of the Corporate Governance Committee. The Company, having only 2 independent directors, is compliant with the Revised Code of Corporate Governance under Article 3 of SEC Memorandum Circular No. 6, series of 2009 which provides: Article 3 (a) The Board shall be composed of at least five (5), but not more than fifteen (15), members who are elected by the stockholders. All companies covered under this Code shall have at least two (2) independent directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2). All other companies are encouraged to have independent directors in their boards.

3. Chairman of the Corporate Governance Committee is an independent director.	Non-compliant		The incumbent Chairman, Mr. Edward S. Gaisano, is not an independent director, but has relevant background, knowledge, skills, and/or experience in the area of corporate governance being a member of the Society of Fellows of the Institute of Corporate Directors.
Optional: Recommendation 3.3.			
1. Corporate Governance Committee meet at least twice during the year.	-		
Recommendation 3.4			
1. Board establishes a separate Board Risk Oversight Committee (BROC) that should be responsible for the oversight of a company's Enterprise Risk Management system to ensure its functionality and effectiveness.	Compliant	AMCG, Article V, (A), (5), (b) The Audit and Risk Committee is tasked, among others, to: a) Assess the probability of each risk becoming a reality and shall estimate its possible effect and cost. b) 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. c) Oversee the implementation of the risk management strategies and policies. d) 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. e) 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. f) 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. g) Advise the Board on its risk appetite levels and risk tolerance limits. h) 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. i) 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. j) 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. k) 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.	
2. BROC is composed of at least three members, the majority of whom should be independent directors, including the Chairman.	Complaint	The members of the Company's Audit and Risk Committee (2018) are: 1. Guillermo L. Parayno, Jr. – Chairman, Independent Director, Non-Executive Director 2. Margaret G. Ang - Member,	

		Non-Executive Director 3. Ricardo Nicanor N. Jacinto – Member, Independent Director, Non-Executive Director	
3. The Chairman of the BROC is not the Chairman of the Board or of any other committee.	Compliant	The Chairman of the Audit and Risk Committee, Mr. Guillermo L. Parayno, Jr., is not a Board Chairman nor a Chairman of any other committee.	
4. At least one member of the BROC has relevant thorough knowledge and experience on risk and risk management.	Compliant	Messrs. Parayno and Jacinto possess the necessary knowledge, competence, and experience on risk and risk management.	
Recommendation 3.5			
1. Board establishes a Related Party Transactions (RPT) Committee, which is tasked with reviewing all material related party transactions of the company.	Compliant	AMCG, Article V, (A), (5), (c) The Audit and Risk Committee is tasked with reviewing all material related party transactions of the Corporation, and specifically: a) Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all Related Parties are continuously identified, Related Party Transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vise versa) are captured.	

		Related parties, Related Party Transactions and changes in relationships should be reflected in the relevant reports to the Board and regulators; b) Evaluates all material Related Party Transactions to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Corporation are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating Related Party Transactions, the Committee takes into account, among others, the following: ii. The Related Party's relationship to the Corporation and interest	

		in the transaction; ii. The material facts of the proposed Related Party Transaction, including the proposed aggregate value of such transaction; iii. The benefits to the Corporation of the proposed Related Party Transaction; iv. The availability of other sources of comparable products or services; and v. An assessment of whether the proposed Related Party Transaction is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Committee shall ensure that the Corporation has an effective price discovery system in place and exercise due diligence in determining a fair price for Related Party Transactions. c) Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the	

		Corporation's Related Party Transactions exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure should include information on the approach to managing material conflicts of interest that are inconsistent with such policies, and conflicts that could arise as a result of the Corporation's affiliation or transactions with other related parties. d) Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party, as well as the total amount of exposures to all related parties. e) Ensures that transactions with related parties, including write-off of exposures are subject to a periodic independent review or audit process. f) Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting	

		Related Party Transactions, including a periodic review of Related Party Transactions policies and procedures.	
2. RPT Committee is composed of at least three non-executive directors, two of whom should be independent, including the Chairman.	Compliant	The members of the Company's Audit and Risk Management Committee (2018) are: 1. Guillermo L. Parayno, Jr. – Chairman, Independent Director, Non-Executive Director 2. Margaret G. Ang - Member, Non-Executive Director 3. Ricardo Nicanor N. Jacinto – Member, Independent Director, Non-Executive Director	
Recommendation 3.6			
1. All established committees have a Committee Charter stating in plain terms their respective purposes, memberships, structures, operations, reporting process, resources and other relevant information.	Compliant	Please refer to the specific functions of the Board Committees under Article V of the AMCG.	
2. Committee Charters provide standards for evaluating the performance of the Committees.	Compliant		
3. Committee Charters were fully disclosed on the company's website.	Compliant	https://www.metroretail.com.ph/index.php/disclosures/charter-documents	

Principle 4: To show full commitment to the company, the directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the corporation's business.			
Recommendation 4.1			
1. The Directors attend and actively participate in all meetings of the Board, Committees and shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission.	Compliant	AMCG, Article IV, (G) The members of the Board should attend and actively participate in the regular and special meetings of the Board in person or through videoconferencing and teleconferencing conducted in accordance with the rules and regulations of the SEC and the By-laws. Independent directors should always attend Board meetings. To promote transparency, the presence of at least one independent director shall be required in all its meetings. Attendance of the BOD is disclosed in the Company's Annual Report which is distributed to its shareholders. See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=66476415d3c289f843ca035510b6ec2b#sthash.2gNxvRCs.dpbs	
2. The directors review meeting materials for all Board and Committee meetings.	Compliant	AMCG, Article IV, (D), (2) DUTIES AND RESPONSIBILITIES OF THE BOARD:	
3. The directors ask the necessary questions or seek clarifications and explanations during the Board and Committee	Compliant		

meetings.		Devote the time and attention necessary to properly and effectively perform his duties and responsibilities. A director should devote sufficient time to familiarize himself with the Corporation's business. He should be constantly aware of and knowledgeable with the Corporation's operations to enable him to meaningfully contribute to the Board's work. He should attend and actively participate in Board and committee meetings, review meeting materials and, if called for, ask questions or seek explanation.	
Recommendation 4.2			
1. Non-executive directors concurrently serve in a maximum of five publicly-listed companies to ensure that they have sufficient time to fully prepare for minutes, challenge Management's proposals/views, and oversee the long-term strategy of the company.	Compliant	No non-executive director of the Corporation serves in more than five publicly-listed companies. AMCG , Article IV, (H) BOARD SEATS The Board may consider the adoption of guidelines on the number of directorships that its members can hold in stock and non-stock corporations. The optimum number should take into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilities.	

		The Chairman/CEO and President/COO and other Executive Directors may be covered by a lower indicative limit for membership in other boards. A similar limit may apply to Independent or Non-executive Directors who, at the same time, serve as full-time executives in other corporations. In any case, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised. A director should notify the Board before accepting a directorship in another company.	
Recommendation 4.3			
1. The directors notify the company's board before accepting a directorship in another company.	Compliant	AMCG , Article IV, (H), 2nd paragraph xxx A director should notify the Board before accepting a directorship in another company.	
Optional: Principle 4			
1. Company does not have any executive directors who serve in more than two boards of listed companies outside of the group.	Compliant	No executive director of the Corporation serves in more than two (2) boards of listed companies outside the group.	
2. Company schedules board of directors' meetings before the start of the financial year.	-		

3.			
4. Board of directors meet at least six times during the year.	-	In 2018, the Board of Directors has met seven (7) times.	
5. Company requires as minimum quorum of at least 2/3 for board decisions.	-		
Principle 5: The board should endeavor to exercise an objective and independent judgment on all corporate affairs			
Recommendation 5.1			
1. The Board has at least 3 independent directors or such number as to constitute one-third of the board, whichever is higher.	Non - Compliant	The Board has two (2) independent directors, out of the seven (7) seats, namely: 1. Guillermo L. Parayno, Jr. 2. Ricardo Nicanor N. Jacinto	The Corporation is compliant with Section 3 of SEC Memorandum Circular No. 16, series of 2002 which provides: GUIDELINES ON THE NOMINATION AND ELECTION OF INDEPENDENT DIRECTORS III. NUMBER OF INDEPENDENT DIRECTORS A. All companies are encouraged to have independent directors. However, issuers of registered securities and public companies are required to have at least two (2) independent directors or at least 20% of its board size, whichever is the lesser. Provided further that said companies may choose to have more independent directors in their boards than as above required. Further, the Corporation is also compliant the Revised Code of Corporate Governance under Article 3 of SEC Memorandum Circular No. 6, series of 2009 which provides: Article 3 (a) The Board shall be composed of at least five (5), but not more than

			fifteen (15), members who are elected by the stockholders. All companies covered under this Code shall have at least two (2) independent directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2). All other companies are encouraged to have independent directors in their boards.
Recommendation 5.2			
1. The independent directors possess all the qualifications and none of the disqualifications to hold the positions.	Compliant	Independent Directors submit a certification for independent directors annually. The same is submitted with the Annual Report.	
Supplement to Recommendation 5.2			
1. Company has no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently.	Compliant	The Company does not have any shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently.	
Recommendation 5.3			
1. The independent directors serve for a cumulative term of nine years.	Compliant	Guillermo L. Parayno, Jr. – Independent Director Date First Elected: July 16, 2015 Date Last Elected: May 3, 2019 No. of Years Served as Director: three (3) years and ten (10) months Ricardo Nicanor N. Jacinto – Independent Director	

		Date First Elected: July 27, 2015 Date Last Elected: May 3, 2019 No. of Years Served as Director: Three (3) years and ten (10) months	
2. The company bars an independent director from serving in such capacity after the term limit of nine years.	Compliant	AMCG, Article IV, (F), Independent Directors (4) <u>INDEPENDENT DIRECTORS</u> Term and Cessation of Independent Directorship 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.	
3. In the instance that the company retains an independent director in the same capacity after nine years, the board provides meritorious justification and seeks	Not applicable	No independent director has served in the same capacity for more than nine years.	

shareholders' approval during the annual shareholders' meeting.			
Recommendation 5.4			
1. The positions of Chairman of the Board and Chief Executive Officer are held by separate individuals.	Non-Compliant	Mr. Franks S. Gaisano is the Chairman and Chief Executive Officer.	Although held by one and the same person, the Corporation's Fourth Amended By-Laws and AMCG specifically delineated the functions of the Chairman and the Chief Executive Officer, and President and Chief Operating Officer, in order to provide checks and balances to ensure that the Board gets the benefit of independent views and perspectives.
2. The Chairman of the Board and Chief Executive Officer have clearly defined responsibilities.	Compliant	Please refer to the delineated and specific functions of the Chairman and the Chief Executive Officer, and President and Chief Operating Officer, as enumerated under Article V of the Fourth Amended By-Laws and Article VI and VII of the AMCG.	
Recommendation 5.5			
1. If the Chairman of the Board is not an independent director, the board designates a lead director among the independent directors.	Compliant	The AMCG (VI) provides 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.	

Recommendation 5.6			
1. Directors with material interest in a transaction affecting the corporation abstain from taking part in the deliberations on the transaction.	Compliant	Code of Conduct for Directors and Senior Management The Board Members and senior managers shall at all times: disclose any personal interest that they may have regarding any matters that may come before the Board, and abstain from discussion, voting, or otherwise influencing a decision on any matter in which the concerned director, or senior manager has, or may have such interest; xxx 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. xxx	
Recommendation 5.7			
1. The non-executive directors (NEDs) have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive present.	Compliant	AMCG, Article V, (A), (5), (a), (o) As far as practicable, the Audit and Risk Committee shall endeavour to meet with the Board at least every quarter without the presence of the CEO or other management team	
2. The meetings are chaired by the lead independent director.	Compliant		

		members, and periodically meets with the head of the internal audit. Mr. Guillermo Parayno, Jr., an independent director, Chairman of the Audit and Risk Committee, and non-executive director, leads the meetings with the external and internal auditors.	
Optional: Principle 5			
1. None of the directors is a former CEO of the company in the past 2 years.	Compliant		
Principle 6: The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.			
Recommendation 6.1			
1. Board conducts an annual self-assessment of its performance as a whole.	Compliant	AMCG, Article IV, (J) ASSESSMENT OF BOARD PERFORMANCE 1) The Board should conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees every three (3) years, the assessment should be supported by an external facilitator.	
2. The Chairman conducts a self-assessment of his performance.	Compliant		
3. The individual members conduct a self-assessment of their performance.	Compliant		
4. Each committee conducts a self-assessment of its performance.	Compliant		
5. Every three years, the assessments are supported by an external facilitator.	Compliant		

		2) Upon recommendation of the Governance Committee, the Board shall prescribe the criteria and process to determine the performance of the Board, the individual directors, committees, and provide for a feedback mechanism from the shareholders.	
Recommendation 6.2			
1. Board has in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, individual directors and committees.	Compliant	Please refer to Article IV, (J) of the AMCG.	
2. The system allows for a feedback mechanism from the shareholders.	Compliant		
Principle 7: Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.			
Recommendation 7.1			
1. Board adopts a Code of Business Conduct and Ethics, which provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of the company.	Compliant	The Board has adopted a Code of Conduct for Directors and Senior Management.	
2. The Code is properly disseminated to the Board, senior management and employees.	Compliant	The Code of Conduct for Directors and Senior Management is properly disseminated to the Board of Directors and Senior Management.	

3. The Code is disclosed and made available to the public through the company website.	Compliant	https://www.metroretail.com.ph/	
Supplement to Recommendation 7.1			
1. Company has clear and stringent policies and procedures on curbing and penalizing company involvement in offering, paying and receiving bribes.	Compliant	Code of Conduct for Directors and Senior Management The Board Members and senior managers shall at all times: act honestly, fairly, ethically, and with integrity; xxx will not accept from or give to stakeholders gifts or other benefits not customary in normal social intercourse; xxx	
Recommendation 7.2			
1. Board ensures the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics.	Compliant	Code of Conduct for Directors and Senior Management Directors and Senior Management shall annually sign a confirmation that they have read, have complied with and will continue to comply with the Code.	
2. Board ensures the proper and efficient implementation and monitoring of compliance with company internal policies.	Compliant		
Disclosure and Transparency			

Principle 8: The company should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.			
Recommendation 8.1			
1. Board establishes corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of a company's financial condition, results and business operations.	Compliant	AMCG, Article IV, (C), 18 DUTIES AND FUNCTIONS To insure a high standard of best practices for the Corporation, its stockholders and stakeholders, the Board, in close coordination with the Corporation's Officers and Managers, shall conduct itself with honesty and integrity in the performance of, among others, the following duties and functions: The Board should establish corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and stakeholders, that gives a fair and complete picture of the Corporations' financial condition, results and business operations. The disclosure policy shall include disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance issues of its business, which underpin sustainability. The Corporation shall adopt a globally recognized standard/framework in reporting sustainability and non-	

		financial issues. This is echoed under Article XV (1) of the AMCG which provides as follows: All material information about the Corporation which could affect its viability or the interests of its stockholders and stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of material assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information shall be disclosed through the appropriate Exchange mechanisms and submissions to the SEC.	
Supplement to Recommendations 8.1			
1. Company distributes or makes available annual and quarterly consolidated reports, cash flow statements, and special audit revisions. Consolidated financial statements are published within ninety (90) days from the end of the fiscal year, while interim reports are published within forty-five (45) days from the end of the reporting period.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs The Annual Report contains the Company's Audited Financial Statements for the year ended December 31, 2018.	

		The Audited Financial Report for year ended December 31, 2018 was duly received by the BIR and the SEC on March 29, 2019 and April 3, 2019, respectively.	
2. Company discloses in its annual report the principal risks associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and overall equity position in the company.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs	
Recommendation 8.2			
1. Company has a policy requiring all directors to disclose/report to the company any dealings in the company's shares within three business days.	Compliant	AMCG, Article XV (4) All directors and officers shall disclose/report to the Corporation's Compliance Officer any dealing in the Corporation's shares within three (3) business days from the date of the transaction.	
2. Company has a policy requiring all officers to disclose/report to the company any dealings in the company's shares within three business days.	Compliant		
Supplement to Recommendation 8.2			
1. Company discloses the trading of the corporation's shares by directors, officers (or persons performing similar functions) and controlling shareholders. This includes the disclosure of the company's purchase	Compliant	The trading of the Corporation's shares by directors, officers (or persons performing similar functions) and controlling shareholders is duly	

of its shares from the market (e.g. share buy-back program).		reported to the SEC and the PSE. See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs	
Recommendation 8.3			
1. Board fully discloses all relevant and material information on individual board members to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs	
2. Board fully discloses all relevant and material information on key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.	Compliant		
Recommendation 8.4			
1. Company provides a clear disclosure of its policies and procedure for setting Board remuneration, including the level and mix of the same.	Compliant	AMCG, Article IV, (I) REMUNERATION OF DIRECTORS AND OFFICERS	
2. Company provides a clear disclosure of its policies and procedure for setting executive remuneration, including the level and mix of the same.	Compliant	The levels of remuneration of the Corporation should be sufficient to be able to attract and retain the services of qualified and competent directors and officers. A portion of the remuneration of executive	

		directors may be structured or be based on corporate and individual performance. The Corporation shall establish formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration levels for individual directors and officers, which shall be prepared by the Nomination and Compensation Committee. No director should participate in deciding on his remuneration.	
3. Company discloses the remuneration on an individual basis, including termination and retirement provisions.	Compliant	This is disclosed in the 2018 Annual Report.	
Recommendation 8.5			
1. Company discloses its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions in their Manual on Corporate Governance.	Compliant	AMCG, Article XV, 5 The Corporation should disclose its policies governing Related Party Transactions. The material or significant RPTs reviewed and approved during the year should be disclosed in its Annual Corporate Governance Report. Further, the Corporation has adopted a Policy on Related Party	

		Transactions.	
2. Company discloses material or significant RPTs reviewed and approved during the year.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs	
Supplement to Recommendation 8.5			
1. Company requires directors to disclose their interests in transactions or any other conflict of interests.	Compliant	AMCG, Article IV, D, 1. SPECIFIC DUTIES AND REPONSIBILITIES OF A DIRECTOR A director shall have the following duties and responsibilities: 1) 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. Further, Article XV (2) of the AMCG Provides: The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the SEC for the interest of its stockholders and stakeholders.	
Optional : Recommendation 8.5			
1. Company discloses that RPTs are conducted in such a way to ensure that they are fair and at arms' length.	Compliant	This is duly disclosed in the 2018 Annual Report.	

Recommendation 8.6			
1. Company makes a full, fair, accurate and timely disclosure to the public of every material fact or event that occur, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders.	Compliant	AMCG, Article XV, (1) All material information about the Corporation which could affect its viability or the interests of its stockholders and stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of material assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information shall be disclosed through the appropriate Exchange mechanisms and submissions to the SEC.	
2. Board appoints an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.	Compliant	The Corporation did not dispose any of its assets for the year 2018.	
Supplement to Recommendation 8.6			
1. Company discloses the existence, justification and details on shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the company.	Compliant	There are no shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the Corporation.	
Recommendation 8.7			

1. Company's corporate governance policies, programs and procedures are contained in its Manual on Corporate Governance (MCG).	Compliant	See PSE Disclosure on Amended Manual of Corporate Governance http://edge.pse.com.ph/openDiscViewer.do?edge_no=2e57ad90d247e22e3318251c9257320d#sthash.pieHR00e.dpbs	
2. Company's MCG is submitted to the SEC and PSE.	Compliant		
3. Company's MCG is posted on its company website.	Compliant		
Supplement to Recommendation 8.7			
1. Company submits to the SEC and PSE an updated MCG to disclose any changes in its corporate governance practices.	Compliant	The Corporation has amended its Manual on Corporate Governance in order to comply with SEC Memorandum Circular No. 19 series of 2016 or the Code of Corporate Governance for Publicly-Listed Companies. See PSE Disclosure on Amended Manual of Corporate Governance http://edge.pse.com.ph/openDiscViewer.do?edge_no=2e57ad90d247e22e3318251c9257320d#sthash.pieHR00e.dpbs This was disclosed to the PSE on May 30, 2017. Page 1 thereof contains the stamp of SEC, indicating that the Amended Manual of Corporate Governance was duly received by SEC on May 17, 2018.	

Optional: Principle 8			
1. Does the company's Annual Report disclose the following information:		See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs	
a. Corporate Objectives	Compliant		
b. Financial performance indicators	Compliant		
c. Non-financial performance indicators	Compliant		
d. Dividend Policy	Compliant		
e. Biographical details (at least age, academic qualifications, date of first appointment, relevant experience, and other directorships in listed companies) of all directors	Compliant		
f. Attendance details of each director in all directors meetings held during the year			
g. Total remuneration of each member of the board of directors	Compliant		
2. The Annual Report contains a statement confirming the company's full compliance with the Code of Corporate Governance and where there is non-compliance, identifies and explains reason for each such issue.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.NwTL5kQV.dpbs	
3. The Annual Report/Annual CG Report discloses that the board of directors conducted a review of the company's	Compliant	See Annual Report http://edge.pse.com.ph/openDiscVi	

material controls (including operational, financial and compliance controls) and risk management systems.		ewer.do?edge_no=fe7d5c2a90f8622 1efdfc15ec263a54d#sthash.NwTL5kQ V.dpbs	
4. The Annual Report/Annual CG Report contains a statement from the board of directors or Audit Committee commenting on the adequacy of the company's internal controls/risk management systems.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscVi ewer.do?edge_no=fe7d5c2a90f8622 1efdfc15ec263a54d#sthash.NwTL5kQ V.dpbs	
5. The company discloses in the Annual Report the key risks to which the company is materially exposed to (i.e. financial, operational including IT, environmental, social, economic).	Compliant	See Annual Report http://edge.pse.com.ph/openDiscVi ewer.do?edge_no=fe7d5c2a90f8622 1efdfc15ec263a54d#sthash.NwTL5kQ V.dpbs	
Principle 9: The company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.			
Recommendation 9.1			
1. Audit Committee has a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditors.	Compliant	AMCG, Article V, (A), (5), (a), m. Recommends to the Board the appointment, reappointment, removal and fees of the external auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared	

		and presented to the stockholders. For this purposes the Audit and Risk Committee should establish the procedure for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal and fees of the external auditor should be recommended by the Audit and Risk Committee, approved by the Board, and ratified by the shareholders.	
2. The appointment, reappointment, removal, and fees of the external auditor is recommended by the Audit Committee, approved by the Board and ratified by the shareholders.	Compliant	Please see attached the Corporation's disclosure on the Results of the 2019 Annual Stockholders' Meeting wherein SyCip, Gorres, Velayo & Co. was re-appointed as external auditor. http://edge.pse.com.ph/openDiscViewer.do?edge_no=f4ce9c9432b4929defdfc15ec263a54d#sthash.86Rg39FF.dpbs	
3. For removal of the external auditor, the reasons for removal or change are disclosed to the regulators and the public through the company website and required disclosures.	Compliant	The Company has not removed or changed its external auditor.	
Supplement to Recommendation 9.1			
1. Company has a policy of rotating the lead	Compliant	AMCG, Article XII, (1) (E)	

audit partner every five years.		ACCOUNTABILITY AND AUDIT The external auditor should be rotated or changed every five (5) years, or the signing partner of the external auditing firm assigned to the Corporation, should be changed with the same frequency.	
Recommendation 9.2			
1. Audit Committee Charter includes the Audit Committee's responsibility on: i. assessing the integrity and independence of external auditors; ii. exercising effective oversight to review and monitor the external auditor's independence and objectivity; and iii. exercising effective oversight to review and monitor the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.	Compliant	AMCG, Article V, (A) (a), m. The Audit and Risk Committee Charter shall provide for the process and procedure to be followed by the Audit and Risk Committee in assessing the integrity and independence of the external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.	
2. Audit Committee Charter contains the Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.	Compliant	AMCG Article V (A), (5), (a) a., c., e., k., m The Audit and Risk Committee shall have the following functions: a. 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. xxx c. 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. xxx e. 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. xxx k. Reviews the disposition of the	

		recommendations in the external auditor's management letter; xxx m. Recommends to the Board the appointment, reappointment, removal and fees of the external auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stockholders. For this purposes the Audit and Risk Committee should establish the procedure for approving and recommending the appointment, reappointment, removal, and fees of the external auditor. The appointment, reappointment, removal and fees of the external auditor should be recommended by the Audit and Risk Committee, approved by the Board, and ratified by the shareholders. The Audit and Risk Committee Charter shall provide for the process and procedure to be	

		followed by the Audit and Risk Committee in assessing the integrity and independence of the external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. xxx	
Supplement to Recommendations 9.2			
1. Audit Committee ensures that the external auditor is credible, competent and has the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.	Compliant	Please refer to Article V (A), (5), (a) a., c., e., k., m of the AMCG.	
2. Audit Committee ensures that the external auditor has adequate quality control procedures.	Compliant	Please refer to Article V (A), (5), (a) a., c., e., k., m of the AMCG.	
Recommendation 9.3			
1. Company discloses the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest.	Compliant	No non-audit services were performed by the external auditor for 2018.	
2. Audit Committee stays alert for any	Compliant	AMCG, Article V,(A), (5),(a), n.	

potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.		The Audit and Risk Committee shall have the following functions: 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.	
Supplement to Recommendation 9.3			
1. Fees paid for non-audit services do not outweigh the fees paid for audit services.	Compliant	No non-audit services were performed by the external auditor for 2018.	
Additional Recommendation to Principle 9			
1. Company's external auditor is duly accredited by the SEC under Group A category.	Compliant	1. Name of the audit engagement partner; MR. DOLMAR C. MONTANEZ 2. Accreditation number; SEC Accreditation No. 1561-AR-1 (Group A) BIR Accreditation No. 08-001998-119-2019 3. Date Accredited;	

		SEC Accreditation on January 31, 2019 BIR Accreditation on January 28, 2019 4. Expiry date of accreditation; and SEC Accreditation valid until January 30, 2022 BIR Accreditation valid until January 27, 2022 5. Name of firm: Sycip Gorres Velayo & Co.	
2. Company's external auditor agreed to be subjected to the SEC Oversight Assurance Review (SOAR) Inspection Program conducted by the SEC's Office of the General Accountant (OGA).	Compliant	Sycip Gorres Velayo & Co. has agreed to this.	
Principle 10: The company should ensure that the material and reportable non-financial and sustainability issues are disclosed.			
Recommendation 10.1			
1. Board has a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability.	Compliant	AMCG, Article XV DISCLOSURE AND TRANSPARENCY 1) All material information about the Corporation which could affect its viability or the interests of its stockholders and stakeholders should be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or	
2. Company adopts a globally recognized standard/framework in reporting sustainability and non-financial issues.	Compliant		

		disposition of material assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board and Management. All such information shall be disclosed through the appropriate Exchange mechanisms and submissions to the SEC. 2) The Board shall commit at all times to fully disclose material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the SEC for the interest of its stockholders and stakeholders.	
Principle 11: The company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.			
Recommendation 11.1			
1. Company has media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.	Compliant	AMCG, Article XV, (6) The Corporation, through its Investor Relations Office, shall regularly conduct media and analysts' briefings as channels of	

		communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.	
Supplemental to Principle 11			
1. Company has a website disclosing up-to-date information on the following:	Compliant	http://www.metroretail.com.ph/index.php	
a. Financial statements/reports (latest quarterly)	Compliant		
b. Materials provided in briefings to analysts and media	Compliant		
c. Downloadable annual report	Compliant		
d. Notice of ASM and/or SSM	Compliant		
e. Minutes of ASM and/or SSM	Compliant		
f. Company's Articles of Incorporation and By-Laws	Compliant		
Additional Recommendation to Principle 11			
1. Company complies with SEC-prescribed website template.	Compliant	The Corporation is compliant with SEC Memorandum Circular No. 11, series of 2014, and SEC Memorandum Circular No 2, series of 2018 on the SEC prescribed website template.	
Internal Control System and Risk Management Framework			
Principle 12: To ensure the integrity, transparency and proper governance in the conduct of its affairs, the company should have a strong and effective internal control system and enterprise risk management framework.			

Recommendation 12.1			
1. Company has an adequate and effective internal control system in the conduct of its business.	Compliant	AMCG, Article X, 1 and 2 INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK 1) The Corporation shall establish and implement an adequate and effective internal control system and an enterprise risk management framework in the conduct of its business, taking into account its size, risk profile, and complexity of operations. 2) The Corporation shall establish an independent internal audit function that provides an independent and objective assurance and consulting services designed to add value and improve the Corporation's operations. The following are the functions of the internal audit, among others: b) Provides an independent risk-based assurance to the Board, Audit and Risk Committee and Management, focusing on reviewing the effectiveness of the governance and control	

		process in (i) promoting the right values and ethics, (ii) ensuring effective performance management and accounting in the organization, (iii) communicating risk and control information, and (iv) coordinating the activities and information among the Board, external and internal auditors, and Management. c) Performs regular and special audit as contained in the annual audit plan and/or based on the Corporation's risk assessment. d) Performs consulting and advisory services related to governance and controls as appropriate for the organization. e) Performs compliance audit on relevant laws, rules and regulations, contractual obligations and other commitments, which could have a	

		significant impact on the organization. f) Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Corporation. g) Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned. h) Evaluates specific operations at the request of the Board or Management as appropriate. i) Monitors and evaluates governance process.	
2. Company has an adequate and effective enterprise risk management framework in the conduct of its business.	Compliant	AMCG, Article X, (4) INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK The Corporation shall have a separate risk management function	

		to identify, assess and monitor key risk exposures. The risk management function involves the following activities, among others: 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.	
Supplement to Recommendations 12.1			
1. Company has a formal comprehensive enterprise-wide compliance program covering compliance with laws and relevant regulations that is annually reviewed. The program includes appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances.	Compliant	AMCG, Article IV, (C), (3) DUTIES AND FUNCTIONS OF THE BOARD: Ensure the Corporation's faithful compliance with all applicable laws, regulations and best business practices. AMCG, Article IX, 2.B and 2.C THE COMPLIANCE OFFICER B. Monitors, reviews, evaluates and ensures compliance by the Corporation with this Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board and recommend the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation. C. Reports to the Board if violations are found and recommends the imposition	

		of appropriate disciplinary action.	
Optional: Recommendation 12.1			
1. Company has a governance process on IT issues including disruption, cyber security, and disaster recovery, to ensure that all key risks are identified, managed and reported to the board.	-		
Recommendation 12.2			
1. Company has in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the company's operations.	Compliant	AMCG, Article X, (3) INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK The Corporation shall have a qualified Internal Audit Head appointed by the Board. The Internal Audit Head shall oversee and be responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider.	
Recommendation 12.3			
1. Company has a qualified Chief Audit Executive (CAE) appointed by the Board.	Compliant	The in-house internal auditor of the Corporation is Ms. Kareen A. Tablizo, CPA, who has at least ten (10) years of audit experience.	
2. CAE oversees and is responsible for the internal audit activity of the organization,	Compliant	AMCG, Article X, (3)	

including that portion that is outsourced to a third party service provider.		INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK The following are the responsibilities of the Internal Audit Head, among others: a) Periodically reviews the internal audit charter and presents it to senior management and the Audit and Risk Committee for approval. b) Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals. c) Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to senior management and the Audit and Risk Committee for review and approval. d) Spearheads the performance of the internal audit activity to ensure it adds value to the	

		organization. e) Reports periodically to the Audit and Risk Committee on the internal audit activity's performance relative to its plan. f) Presents findings and recommendations to the Audit and Risk Committee and gives advice to senior management and the Board on how to improve internal processes.	
3. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel is assigned the responsibility for managing the fully outsourced internal audit activity.	Not Applicable		There was no instance wherein the Corporation had outsourced the internal audit activity.
Recommendation 12.4			
1. Company has a separate risk management function to identify, assess and monitor key risk exposures.	Compliant	AMCG, Article X, 4 and 5 INTERNAL CONTROL SYSTEM AND ENTERPRISE RISK MANAGEMENT FRAMEWORK 4. The Corporation shall have a separate risk management function to identify, assess and monitor key risk exposures. The risk management function involves the following activities, among others:	

		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.	

		5. In managing the Corporation's Risk Management System, the Corporation should have a Risk Management Officer (RMO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resource and support to fulfill his/her responsibilities, subject to the Corporation's size, risk profile and complexity of operations. There should be clear communication between the Audit and Risk Committee and the RMO. The RMO has the following functions, among others: a. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation. b. Communicates the top risks and the status of implementation of risk management strategies and action plans to the Audit and Risk Committee. c. Collaborates with the CEO and President/COO in updating and making recommendations to the	

		Audit and Risk Committee. d. Suggest ERM policies and related guidance, as may be needed. e. Provides insights on the following: i) Risk management processes are performing as intended. ii) Risk measures reported are continuously reviewed by risk owners for effectiveness. iii) Established risk policies and procedures are being complied with.	
Supplement to Recommendation 12.4			
1. Company seeks external technical support in risk management when such competence is not available internally.	Compliant	Technical support in risk management is being handled by the Risk Management Officer of the Corporation. She is allowed to seek external help and support when necessary.	
Recommendation 12.5			
1. In managing the company's Risk Management System, the company has a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM).	Compliant	The Corporation's Chief Risk Officer (CRO) is Ms. Floradema Jayme, CPA. The Corporation also has a Crisis Management Committee ("CMC") which 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,	
2. CRO has adequate authority, stature, resources and support to fulfill his/her responsibilities.	Compliant		

		evaluated, and report to the Senior Management and Board on critical and emerging risks as per Board requirements.	
Additional Recommendation to Principle 12			
1. Company's Chief Executive Officer and Chief Audit Executive attest in writing, at least annually, that a sound internal audit, control and compliance system is in place and working effectively.	Compliant	The Audit and Risk Committee and the Board of Directors annually discuss, approve, and act on the findings and recommendations of the External Auditor.	
Cultivating a Synergic Relationship with Shareholders			
Principle 13: The company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.			
Recommendation 13.1			
1. Board ensures that basic shareholder rights are disclosed in the Manual on Corporate Governance.	Compliant	These are contained under Articles XIII and XIV of the AMCG.	
2. Board ensures that basic shareholder rights are disclosed on the company's website.	Compliant	http://www.metroretail.com.ph/index.php	
Supplement to Recommendation 13.1			
1. Company's common share has one vote for one share.	Compliant	Stockholders shall have the right to vote the number of shares of stock standing, on record date, in his own name on the stock and transfer book of the Company; and such shareholder may vote such number of shares for as many individuals as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he	
2. Board ensures that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights.	Compliant		

		shall see fit; Provided that, the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the whole number of directors to be elected. This is found in the Voting Ticket that is distributed to all stockholders prior to the Annual Stockholders' Meeting.	
3. Board has an effective, secure, and efficient voting system.	Compliant	Section 8, Article III of the Company's Fourth Amended By-Laws provides: A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting (whether physically in person, or to the extent permitted by law, through electronic medium or telecommunications, such as video or teleconferencing in accordance with the existing laws and regulations of the Securities and Exchange Commission, where the directors who are not present are located at a different local or international places) at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a	

		majority of all the members of the Board.	
4. Board has an effective shareholder voting mechanisms such as supermajority or "majority of minority" requirements to protect minority shareholders against actions of controlling shareholders.	Not Applicable		The Corporation has no supermarjority or "majority of minority" requirements.
5. Board allows shareholders to call a special shareholders' meeting and submit a proposal for consideration or agenda item at the AGM or special meeting.	Compliant	AMCG, Article XIII 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.	
6. Board clearly articulates and enforces policies with respect to treatment of minority shareholders.	Compliant	Please refer to Article XIII of the AMCG.	
7. Company has a transparent and specific dividend policy.	Compliant	Fourth Amended By-Laws, Article VIII Section 3. Dividends – 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 the, as often and at such times as the Board of Directors may determine in	

		accordance with law. The Corporation has also adopted a Dividend Policy under Board Resolution No. 013B-8-15.	
Optional: Recommendation 13.1			
1. Company appoints an independent party to count and/or validate the votes at the Annual Shareholders' Meeting.	Compliant	This is done by RCBC, the Corporation's stock transfer agent.	
Recommendation 13.2			
1. Board encourages active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting.	Compliant	Fourth Amended By-Laws, Article II, Section 4 provides: Notice of Meeting – Notices for regular or special meeting 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. The Notice of the Annual Stockholders' Meeting of the Corporation was first disclosed to the PSE and the public on February 22, 2019, or seventy (70) days before the Annual Stockholders' Meeting. See PSE Disclosure:	

		http://edge.pse.com.ph/openDiscViewer.do?edge_no=afc4e09d850b837cefdfc15ec263a54d#sthash.V5hnFTgs.dpbs In compliance with the SRC Rules, the Definitive Information Statement, together with the Notice of the Annual Stockholders' meeting was sent to all shareholders of record on April 5, 2019, or at least fifteen (15) business days prior to the scheduled ASM date. See PSE Disclosure on Definitive Information Statement: http://edge.pse.com.ph/openDiscViewer.do?edge_no=8c5784bc7d1e43a7efdfc15ec263a54d#sthash.VTz8ZRLi.dpbs	
Supplemental to Recommendation 13.2			
1. Company's Notice of Annual Stockholders' Meeting contains the following information:			
a. The profiles of directors (i.e., age, academic qualifications, date of first appointment, experience, and directorships in other listed companies)	Compliant	Profiles of Directors including age, academic qualifications, date of first appointment, experience and directorship in other listed companies are disclosed in Definitive Information Statement which is attached to the Notice of the Annual Stockholders' Meeting. Said Notice and Definitive	

		Information Statement was distributed to stockholders on April 5, 2019. See PSE Disclosure on Definitive Information Statement: http://edge.pse.com.ph/openDiscViewer.do?edge_no=8c5784bc7d1e43a7efdfc15ec263a54d#sthash.d93SUKk1.dpbs	
b. Auditors seeking appointment/re-appointment	Compliant	See PSE Disclosure on Notice of Annual Stockholders' Meeting http://edge.pse.com.ph/openDiscViewer.do?edge_no=afc4e09d850b837cefdfc15ec263a54d#sthash.xJgAmAbW.dpbs	
c. Proxy documents	Compliant	See PSE Disclosure on Notice of Annual Stockholders' Meeting http://edge.pse.com.ph/openDiscViewer.do?edge_no=afc4e09d850b837cefdfc15ec263a54d#sthash.xJgAmAbW.dpbs	
Optional: Recommendation 13.2			
1. Company provides rationale for the agenda items for the annual stockholders meeting	Non-Compliant		The Corporation's Notice of Annual Stockholders' Meeting does not provide the rationale for the agenda items for these are self-explanatory.
Recommendation 13.3			
1. Board encourages active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting	Compliant	The results of the Annual Stockholders' Meeting are disclosed within ten (10) minutes after the said meeting.	

publicly available the next working day.		See PSE Disclosure http://edge.pse.com.ph/openDiscViewer.do?edge_no=f4ce9c9432b4929defdfc15ec263a54d#sthash.lTsGoYcA.dpbs	
2. Minutes of the Annual and Special Shareholders' Meetings were available on the company website within five business days from the end of the meeting.	Compliant	http://www.metroretail.com.ph/index.php	
Supplement to Recommendation 13.3			
1. Board ensures the attendance of the external auditor and other relevant individuals to answer shareholders questions during the ASM and SSM.	Compliant	Representatives from Sycip, Gorres Velayo & Co. (" SGV&Co."), the external auditor of the Corporation were present during the Annual Stockholders Meeting.	
Recommendation 13.4			
1. Board makes available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.	Compliant	AMCG, Article IV, (C),(19) DUTIES AND FUNCTIONS OF THE BOARD: The Board should approve and implement a policy on alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.	
2. The alternative dispute mechanism is included in the company's Manual on Corporate Governance.	Compliant		
Recommendation 13.5			
1. Board establishes an Investor Relations Office (IRO) to ensure constant engagement with its shareholders.	Compliant	AMCG, Article XIII, last paragraph 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. 1. Name of IRO: Mr. Jonathan Juan D.C Moreno 2. Telephone number (032) 236-8390 3. Fax number (032) 4. E-mail address jj.moreno@metroretail.com.ph	
2. IRO is present at every shareholder's meeting.	Compliant	Mr. Jonathan Juan D.C. Moreno was present during the ASM.	
Supplemental Recommendations to Principle 13			
1. Board avoids anti-takeover measures or similar devices that may entrench ineffective management or the existing controlling shareholder group	Compliant	There are no any anti-takeover measures or similar devices that may entrench ineffective management or existing controlling shareholders group.	
2. Company has at least thirty percent (30%) public float to increase liquidity in the market.	Non-compliant	The public float of the Corporation based on its latest Public Ownership Report is 24.21%. See PSE Disclosure on Public Ownership Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=c3eeaab39e218	The legally required minimum public float is only twenty percent (20%) pursuant to SEC Memorandum Circular No. 13, series of 2017.

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Optional: Principle 13			
1. Company has policies and practices to encourage shareholders to engage with the company beyond the Annual Stockholders' Meeting	-		
2. Company practices secure electronic voting in absentia at the Annual Shareholders' Meeting.	-		
Duties to Stakeholders			
Principle 14: The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.			
Recommendation 14.1			
1. Board identifies the company's various stakeholders and promotes cooperation between them and the company in creating wealth, growth and sustainability.	Compliant	See Annual Report http://edge.pse.com.ph/openDiscViewer.do?edge_no=fe7d5c2a90f86221efdfc15ec263a54d#sthash.XwXri969.dpbs	
Recommendation 14.2			
1. Board establishes clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.	Compliant	Please refer to Article XIV of the AMCG.	
Recommendation 14.3			
1. Board adopts a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.	Compliant	Please refer to the Corporation's Whistle-Blowing Policy.	

Supplement to Recommendation 14.3			
1. Company establishes an alternative dispute resolution system so that conflicts and differences with key stakeholders is settled in a fair and expeditious manner.	Compliant	AMCG, Article IV, C. 11 Establish and maintain an alternative dispute resolution system in the Corporation that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including the regulatory authorities.	
Additional Recommendations to Principle 14			
1. Company does not seek any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue. If an exemption was sought, the company discloses the reason for such action, as well as presents the specific steps being taken to finally comply with the applicable law, rule or regulation.	Compliant	The Company has not sought or is not seeking any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue.	
2. Company respects intellectual property rights.	Compliant	The Company has not violated any intellectual property rights.	
Optional: Principle 14			
1. Company discloses its policies and practices that address customers' welfare	-		
2. Company discloses its policies and practices that address supplier/contractor selection procedures	-		
Principle 15: A mechanism for employee participation should be developed to create a symbiotic environment, realize the company's goals and			

participate in its corporate governance processes.			
Recommendation 15.1			
1. Board establishes policies, programs and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.	Compliant	The Board has adopted a Whistle Blowing Policy, and Code of Conduct for Directors & Senior Management which encourage employees to actively participate in the realization of the company's goals and in its governance.	
Supplement to Recommendation 15.1			
1. Company has a reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.	Compliant	The Corporation'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. The employee stock option plan (ESOP) is still being developed.	
2. Company has policies and practices on health, safety and welfare of its employees.	Compliant	All regular full-time active employees the Corporation 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. Health and wellness of its employees are a priority for the Corporation. For the Corporation prevention is key to wellness, thus, the need to establish	

		health and safety programs for the welfare of its employees. The Corporation ensures that its employees are all well and healthy on a regular basis through the Annual Physical Examination given to the Corporation'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 Corporation offers its employees various programs and activities relative to health and wellness: Health Talks: • Hypertension and Obesity • Pneumonia • Common Heart Diseases • Influenza • Cervical Cancer • Eye Care and Safety	

		• HIV/AIDS Awareness Health Bulletins posted at Boards: • Hand Hygiene Technique • Causes and Symptoms of Heart Attack • Breast Cancer Awareness • Hepatitis Prevention • Chicken Pox • Blood type Diet • How to eat Right • Viral Hepatitis • Malaria Awareness Other Activities: • Flu Vaccine • Cervical Vaccine • Hepatitis B Vaccine • Blood Donation • Race to Beauty Fun Run • Free Eye Check Up • HIV Screening • Ergonomic Exercise • Zumba To ensure compliance with Labor Standards on healthy and safety of the Corporation'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).	
3. Company has policies and practices on training and development of its employees.	Compliant	The Corporation, through the Human Resource Department, conducts various trainings and seminars, depending on the needs of the business.	
Recommendation 15.2			
1. Board sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct.	Compliant	Code of Conduct for Directors and Senior Management The Board Members and senior managers shall at all times:	

		xxx 1. Will not accept from or give to stakeholders gifts or other benefits not customary in normal social intercourse; 2. 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 prejudicial to the interest of the Corporation xxx	
2. Board disseminates the policy and program to employees across the organization through trainings to embed them in the company's culture.	Compliant	All policies adopted by the Board are disseminated to concerned employees across the organization through trainings to embed them in the company's culture.	
Supplement to Recommendation 15.2			
1. Company has clear and stringent policies and procedures on curbing and penalizing employee involvement in offering, paying and receiving bribes.	Compliant	Code of Conduct for Directors and Senior Management Any concern involving malpractice or wrongdoing by any member of the Board of Directors or any senior manager of the Corporation shall be reported to the Chief Strategy and Governance Officer. The Corporation's Governance Committee shall the proceed to investigate the said concern and report directly, and make the appropriate recommendations, to the Chairman and Chief Executive	

		Officer.	
Recommendation 15.3			
1. Board establishes a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation	Compliant	The Board has adopted a Whistle Blowing Policy that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation.	
2. Board establishes a suitable framework for whistleblowing that allows employees to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.	Compliant	The Board has adopted a Whistle Blowing Policy that allows employees to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.	
3. Board supervises and ensures the enforcement of the whistleblowing framework.	Compliant	Please refer to the Whistle-Blowing Policy of the Corporation.	
Principle 16: The company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.			
Recommendation 16.1			
1. Company recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.	Compliant	The Corporation embraces its civic and social responsibility by continuously supporting communities where it operates through sustainable civic outreach programs, environmental conservation efforts, skills training, livelihood and other employment generating activities. Please see link on Corporate Social Responsibility	

		http://www.metroretail.com.ph/index.php/corporate-affairs/corporate-social-responsibility Yearly, the Corporation donates to Vicsal Foundation, Incorporated, a duly registered non-stock, non-profit organization which is duly accredited with the Philippine Council for NGO Certification.	
Optional: Principle 16			
1. Company ensures that its value chain is environmentally friendly or is consistent with promoting sustainable development	-		
2. Company exerts effort to interact positively with the communities in which it operates	-		

Pursuant to the requirement of the Securities and Exchange Commission, this Integrated Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in CEBU CITY on 29 MAY 2019.

SIGNATURES

FRANK S. GAISANO **Chairman of the Board/Chief Executive Officer**	**MANUEL C. ALBERTO** **President/Chief Operating Officer**
GUILLERMO L. PARAYNO JR. **Independent Director**	**RICARDO NICANOR N. JACINTO** **Independent Director**
ATTY. VINCENT E. TOMANENG **Corporate Secretary**	**ATTY. TARA TSARINA B. PEREZ-RETUYA** **Compliance Officer**

SUBSCRIBED AND SWORN to before me this ______ day of 29 MAY 2019 20__ , affiants exhibiting to me the following competent evidence of identities:

NAME	IDENTIFICATION	DATE/PLACE ISSUED
FRANK S. GAISANO		
MANUEL C. ALBERTO		
GUILLERMO L. PARAYNO JR.		
RICARDO NICANOR N. JACINTO		
VINCENT E. TOMANENG		
TARA TSARINA B. PEREZ-RETUYA		

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Page No. 57
Book No. VI
Series of 2019.

GENEVIEVE T. DUMDUM ROLL No. 58946 NOTARY PUBLIC CEBU CITY, PHILIPPINES

GENEVIEVE T. DUMDUM - DEIPARINE
NOTARY PUBLIC
Notarial Commission No. 51-11, Cebu City
Until December 31, 2019
Roll of Attorneys No. 58946
IBP No. 1084924; 11/10/18 Cebu City
PTR No. 234828; 1/7/19 Province of Cebu
TIN No. 410-740-961-000
MCLE Compliance No. VI-0005042, 11/24/17
Dumdum Legorio & Deiparine Law Firm
Unit 9, 2/F Benley Bldg., J. De Veyra St.
North Reclamation Area, 6000 Cebu City

SGV
Building a better working world

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

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

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 as at January 31, 2020 on the use of proceeds 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 use of proceeds. Our engagement was undertaken in accordance with the Philippine Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. These agreed-upon procedures and results thereof are summarized as follows:

1. Check the mathematical accuracy of the Annual Progress Report on the Disbursement of Proceeds from the IPO (the Report).

2. Compare the net proceeds received in the Report to the bank statement.

3. Compare the additions and disbursements in the Report with the schedule of application of proceeds.

4. On a sample basis, trace additions and disbursements to the supporting documents such as progress billings, certificate of time deposits, bank statements, invoices, and official receipts, and agree the amount to the accounting records.

5. On a sample basis, inquire into and identify the nature of the additions and disbursements. Check if the disbursements were classified consistently according to its nature based on the schedule of planned use of IPO proceeds.

We report our findings below:

1. We checked the mathematical accuracy of the Report. No exceptions were noted.

2. We compared the net proceeds to the bank statement. No exceptions were noted.

3. We compared the additions and disbursements in the Report with the schedule of application of proceeds. No exceptions were noted.

4. On a sample basis, we traced additions and disbursements to the supporting documents such as progress billings, certificate of time deposits, bank statements, invoices, and official receipts, and agreed the amount to the accounting records. The Company returned to the net proceeds ₱950 million bank loan payments charged to the IPO proceeds in 2016. No exceptions were noted.

5. On a sample basis, we inquired into and identified the nature of the disbursements. We checked if the disbursements were classified consistently according to its nature based on the schedule of planned use of IPO proceeds. 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.

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
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019, valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 8125272, January 7, 2020, Makati City

January 30, 2020

THE PHILIPPINE STOCK EXCHANGE
Philippine Stock Exchange Plaza
6th Floor, PSE Tower
Bonifacio Global City, Taguig

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 2019, 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, 2019, the remaining balance of the proceeds from the MRSGI common shares IPO amounts to Seven Hundred Thirteen Million Six Hundred Ninety Seven Thousand Seven Hundred Sixty Four and Seventy Nine Centavos (Php 713,697,764.79).

The details of the disbursement for the Calendar Year 2019 are as follows:

Balance of IPO Proceeds as of December 31, 2018		Php		877,016,846.83
Add:	Bank Loan Payments Charged to IPO proceeds in 2016			950,000,000.00
Less:	Capital Expenditure for Store Network Expansion		1,113,318,882.04	
	Bank Charges		200.00	1,113,319,082.04
Balance of IPO Proceeds as of December 31, 2019		**Php**		**713,697,764.79**

Thank you.

Very truly yours,

JOSELITO G. ORENSE
Treasurer / Chief Financial Officer