METRO

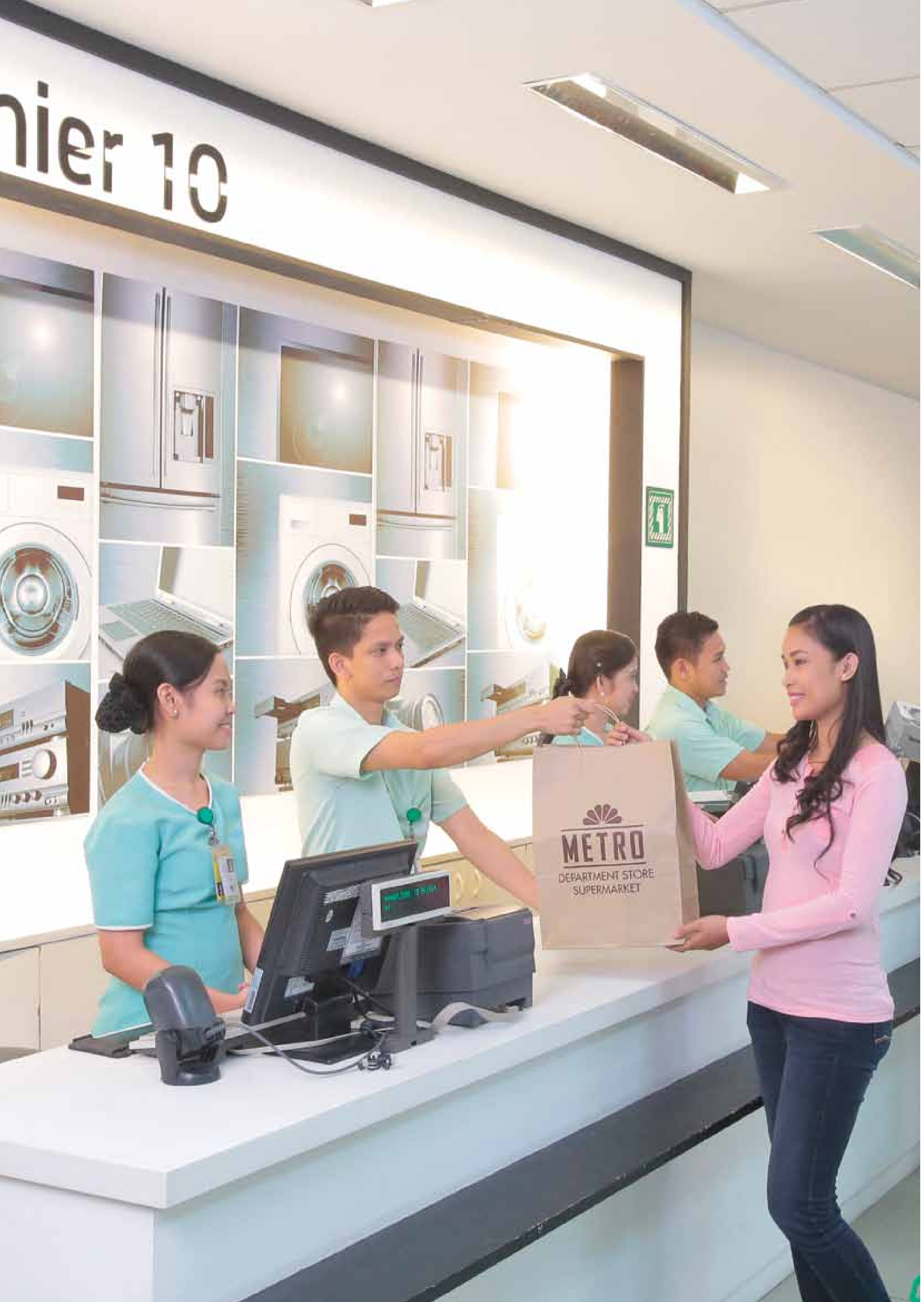
RETAIL STORES GROUP, INC.

# 2015 ANNUAL REPORT

Investing in our People. Expanding our Network.
Winning our Customers. Remaining Relevant.


"From day one, we have sought to provide
the best shopping experience to our CUSTOMERS.
Trusting us to deliver on our promise,
our customers remain our bosses,
fuelling our passion to serve and delight."

**- Victor S. Gaisano**
Founder, Metro Gaisano




# CONTENT

## 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.

## CORE VALUES

**M**ake our CUSTOMERS happy.

**E**ngage with our COMMUNITIES.

**T**ake care of our ENVIRONMENT.

**R**eturns for our SHAREHOLDERS.

**O**ur PEOPLE are our partners.

## VISION STATEMENT

By 2020, we will be the most efficient multi-format retailer profitably operating in strategic locations in the Philippines.

# HISTORY AND MILESTONES

Metro Retail Stores Group, Inc. (MRSGI) traces its deep and rich heritage to post-war Cebu. In 1949, as Cebu was rising from the ashes of the war, Doña Modesta Gaisano, together with her children, established White Gold Department Store with the aim of making quality goods available to hardworking Cebuanos. Guided by her pioneering spirit, the business grew and became known as the city's premier retailer.

By 1981, the enterprising Gaisano siblings established more businesses. In 1982, Doña Modesta's second youngest son Victor and his wife Sally opened the first Metro Gaisano Department Store and Supermarket in Colon, Cebu City. It was during this time that their children Margaret, Jack, Edward, and Frank first learned the ways of entrepreneurship, enabling them to have a keen understanding of their business and the retail industry. That very first store in Colon eventually paved the way for Metro Gaisano to become the Metro Department Store and Supermarket, the dominant retailer in the Visayas.

Steered by the core values set forth by its founder Victor, Metro undertook aggressive expansion to major cities outside Cebu, establishing its presence in key cities in Central, Western, and Eastern Visayas, as well as in Central Luzon, Metro Manila, and South Luzon.


(L-R) Jack Gaisano, Edward Gaisano, Frank Gaisano, Margaret Gaisano-Ang; (seated) Sally Gaisano; (in frame) the late Victor Gaisano

Taking its expansion further, Metro then diversified into three different store formats with the establishment of Metro Department Store, Metro Supermarket, and Super Metro Hypermarket, now known as the Metro Retail Stores Group, Inc. (MRSGI).

In 2015, MRSGI completed its evolution from a family-run enterprise into a publicly-listed company led by retail professionals with decades of local and international retail experience. It has grown its network to 46 stores, employing around 9,000 store associates across the country and serving over 250,000 shoppers a day.

Victor Gaisano and his family successfully built an admired brand while staying true to the values of hard work and perseverance. Today, 33 years later, these values are still held dear by the organization, inspiring every move it makes to earn the trust of even more customers and look forward to a greater future.

# STORE FORMATS

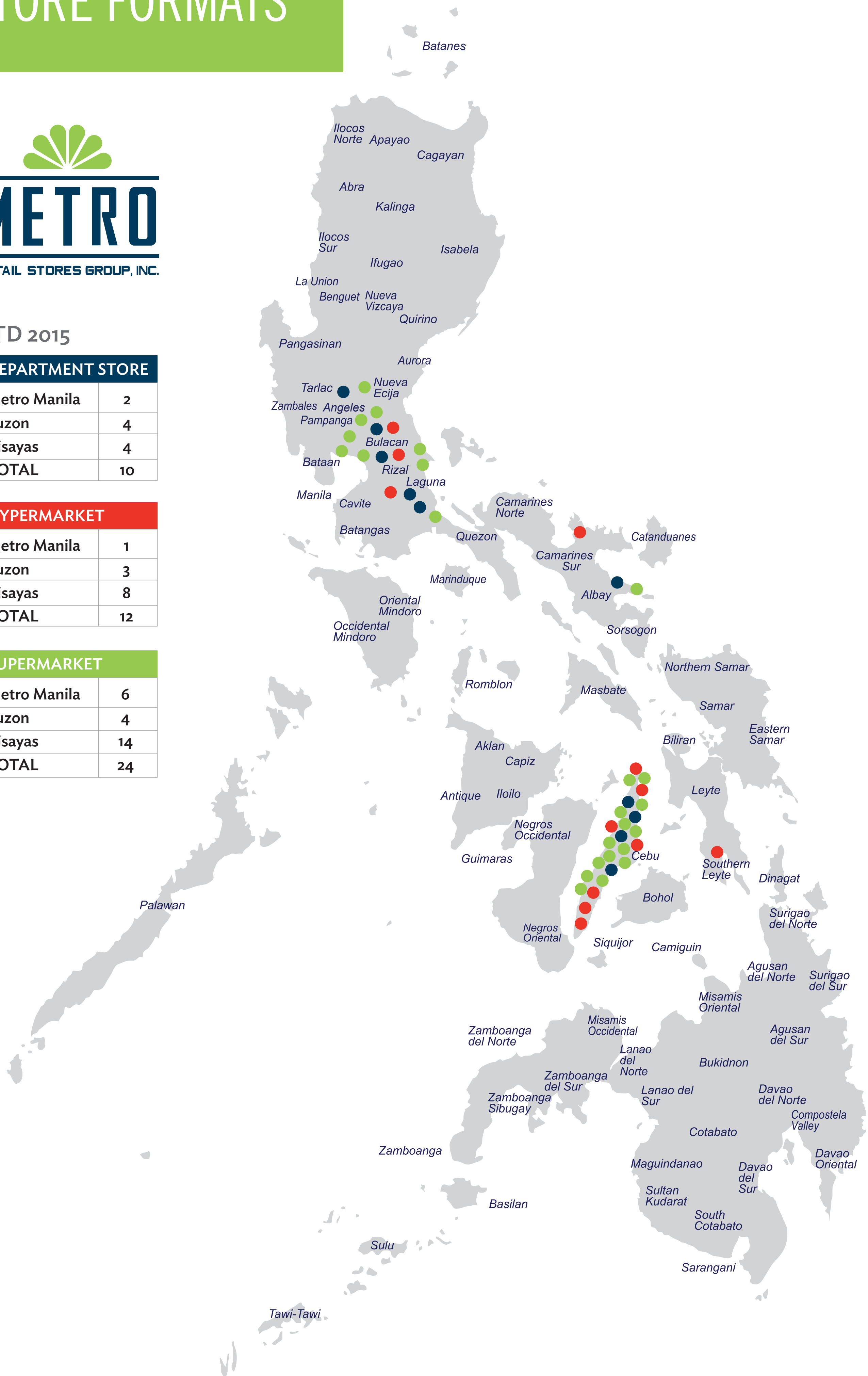
METRO
RETAIL STORES GROUP, INC.

## YTD 2015

| DEPARTMENT STORE | |
|---|---|
| Metro Manila | 2 |
| Luzon | 4 |
| Visayas | 4 |
| TOTAL | 10 |

| HYPERMARKET | |
|---|---|
| Metro Manila | 1 |
| Luzon | 3 |
| Visayas | 8 |
| TOTAL | 12 |

| SUPERMARKET | |
|---|---|
| Metro Manila | 6 |
| Luzon | 4 |
| Visayas | 14 |
| TOTAL | 24 |




## METRO DEPARTMENT STORE

Shoppers have come to rely on Metro Department Stores to provide quality choices and a wide product assortment at competitive prices. From basic needs to stylish buys, local and international brands alike–all these are made available and affordable to Filipinos in 10 locations across the country.

- Metro Alabang Town Center
- Metro Ayala Center Cebu
- Metro Colon
- Metro Legazpi
- Metro Lucena
- Metro Mandaue
- Metro Market! Market!
- Metro Marquee Mall Angeles
- Metro The District Imus
- Metro Toledo

## METRO SUPERMARKET

Customers come regularly to Metro Supermarket for the freshest-of-the-fresh produce, meat, poultry, and seafood; household supplies; and its complete selection of international products. A world-class shopping experience is guaranteed in its 24 locations across the country that all adhere to global safety standards.

- Metro Supermarket Alabang Town Center
- Metro Supermarket Ayala Center Cebu
- Metro Supermarket Binondo Lucky Chinatown
- Metro Supermarket Carmen
- Metro Supermarket Colon
- Metro Supermarket Legazpi
- Metro Supermarket Lucena
- Metro Supermarket Mandaluyong
- Metro Supermarket Mandaue
- Metro Supermarket Market! Market!
- Metro Supermarket Marquee Mall Angeles
- Metro Supermarket Plaza 66 Newport City
- Metro Supermarket The District Imus
- Metro Supermarket Toledo

- Metro Fresh 'N Easy Banilad
- Metro Fresh 'N Easy Basak
- Metro Fresh 'N Easy Lawton
- Metro Fresh 'N Easy Mactan
- Metro Fresh 'N Easy Minglanilla
- Metro Fresh 'N Easy Punta
- Metro Fresh 'N Easy Tabok
- Metro Fresh 'N Easy Tabunok
- Metro Fresh 'N Easy Umapad
- Metro Wholesale Mart Colon

## SUPER METRO HYPERMARKET

Busy individuals continue to find ease and convenience in the one-stop shopping experience offered by Super Metro Hypermarket. The wide range of general merchandise and food products in each of the 12 "superstores" found across the country offers shoppers value for money.

- Super Metro Anonas
- Super Metro Antipolo
- Super Metro Bogo
- Super Metro Calamba
- Super Metro Carcar
- Super Metro Colon
- Super Metro Lapu-Lapu
- Super Metro Maasin
- Super Metro Mambaling
- Super Metro Naga
- Super Metro Panganiban
- Super Metro Talisay


# MESSAGE FROM THE CHAIRMAN

## FRANK S. GAISANO
Chairman and Chief Executive Officer

*To our dear shareholders,*

Since they opened the first Metro store more than thirty years ago, my parents, Victor and Sally Gaisano, understood the unique role the retail sector plays both in the larger economy and in people's daily lives. They did so with one singular goal in mind: to deliver the best products and services and achieve lasting customer loyalty with a good name built on trust and hard work. They saw the various opportunities inherent in retail, and laid the foundations to harness them.

The MRSGI stores of today stand as a testament to their foresight. As of year-end 2015 throughout our 46 multi-format stores in key cities in Central, Western, and Eastern Visayas, as well as Central Luzon, Metro Manila, and South Luzon, we have ably demonstrated our ability to deliver the varying needs of our customers. More than that, we have earned their continued patronage year after year.

In 2015, we marked our 33rd year of operations and amazing journey to success by once again allowing MRSGI to transform. From a family-run enterprise, we have evolved to become a publicly-listed company led by retail professionals with decades of local and international retail experience.

### Positive Economic and Investment Outlook

These are exciting times for MRSGI. The Philippine economy has continued to post strong growth in the last few years, serving as a barometer for the dynamic retail industry and mirroring the solid gains our company has made. The Philippine economy and the retail sector are synergistic—rising incomes supported by favorable economic growth contribute to higher consumer spending, which in turn benefits retail industry players. Industry forecasts project the retail sector to comprise as much as 20 percent of the country's gross domestic product (GDP) within the next decade.

As the retail industry gains momentum on the back of strong economic growth, we look to leverage on the country's positive investment outlook. Going public manifests our readiness for more growth and development, and underscores our confidence in the economy despite the prevailing volatility of the stock market. The country continues to enjoy good growth prospects, and we are looking to leverage on positive investment and consumer sentiment as a platform for future growth.

As a key strategic transformation, going public also lays one of our strongest foundations for the future of the company and its shareholders—good corporate governance. Working with our advisers and experts within their fields, we work towards upholding integrity at all levels of our operations and cultivating a culture of excellence.

Our commitment to growing the value to shareholders is reflected in our encouraging operational and financial performance, our strong balance sheet, and dividend policy.

### Continuing to Grow the Network of MRSGI Stores

We opened our 47th store under the Super Metro Hypermarket format in Calbayog in 2016, bringing our total Gross Floor Area (GFA) to 412,662 square meters.

Our partnerships with Ayala Land, Inc. and Megaworld Corp. will enable us to deliver the best, relevant products and goods to a greater number of customers. We will be the anchor store in four new Ayala Land commercial developments in Bacolod City, Negros Occidental; Mandurriao, Iloilo City; Cebu City; and Pasig City, as well as Megaworld's urban township also in Iloilo City.

On the horizon for 2016 are exciting opportunities for greater collaboration in line with our commitment to expand our store network. These upcoming initiatives are envisioned to further enlarge our gross floor area and increase our reach for the department store format to serve even more customers and communities.

We are also on track in our acquisition of new stand-alone store sites for various formats in the Visayas region and in fast-growing cities in Luzon.

We believe that these strategic linkages further highlight our business partners' confidence in our company, and underscore our commitment to help support the growth of various communities across the country.

### Building Capabilities within and with the Vicsal Group

To ensure that we consistently deliver the high level of service our customers have come to expect from us, we have also continuously endeavored to build our capabilities from within.

To strengthen our nationwide logistics and distribution network, we inaugurated new supply and distribution facilities, as well as expanded our in-house delivery fleet. For 2016, we are looking to add more facilities for logistics and distribution, which will enable us to further bolster our in-house supply chain capabilities.

As part of the Vicsal Development Corporation, we are further poised to harness the synergies among its various subsidiaries in banking, real estate, and financial services. We also stand to benefit from the partnerships the Group has undertaken. Most notably, Vicsal Development Corporation has strengthened its alliance with Ayala Land and Hong Kong Land through its real estate subsidiary Taft Properties. Through its banking unit Wealth Bank, Vicsal Development Corporation has also recently entered into a partnership with Woori Bank, one of the largest banks in Korea.

These put MRSGI in a unique position to help chart the future of the Vicsal ecosystem, and we will further strengthen collaboration and partnership with our sister companies for mutual growth and benefit.

It is truly humbling to be acknowledged for our continuous efforts, thus it is a feather to our cap to be recognized by our peers in the industry. We are proud and honored that our Metro Ayala Cebu and Market! Market! stores have been consistently cited as eGC Partners of Ayala Center Cebu and Ayala Land, Inc., respectively. Our Metro Alabang Supermarket, on the other hand, has been recertified by the Societe Generale de Surveillance Philippines (SGS Philippines) for the Good Manufacturing Practice (GMP) and Hazard Analysis and Critical Control Points (HACCP) standards, the first and only supermarket in the Philippines to receive these certifications.

### Commitment and Support

At the very core of our business is merchandise, and all these initiatives underpin our thrust to provide our customers with the right products at the right time and at the right place.

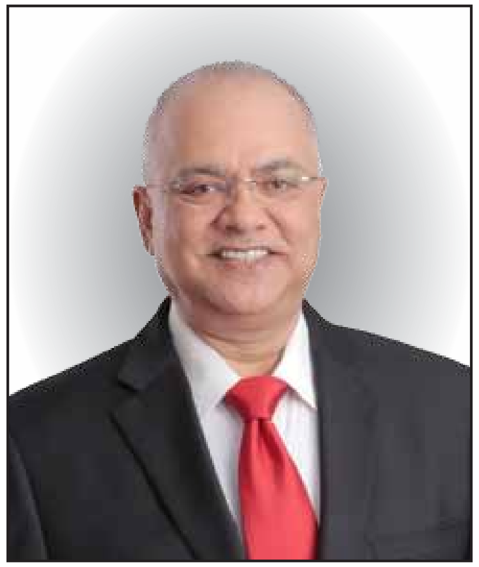
As part of our commitment to our customers, we endeavor to connect with and support the communities wherein we operate. As such, we undertake an integrated approach to Corporate Social Responsibility, carrying out programs anchored in five pivotal pillars—education, employment generation, livelihood, environment, and outreach. Every pillar's program complements each other to ensure that we provide communities comprehensive assistance on the things that matter most to them. Our customers will remain the key driver of our growth and innovation, and we value their continued patronage.

We would also like to extend our sincerest appreciation for the continued support of our stockholders, our Board of Directors, and business partners—our bankers, suppliers, concessionaires, franchisees, and lessors. These cherished partners have all played a crucial role in our path to growth, enabling us to fulfill our commitment to delivering the widest array of products to our customers. Their unwavering support will always be appreciated.

Lastly, we express our deepest gratitude to our associates, the men and women who have shared our vision for the company and dedicated themselves to helping us achieve our common goals. The heart and soul of the company, our associates embody our values in their everyday work and are the perfect manifestation of how working together can really make a difference. They deserve the highest of praises, for without their help, MRSGI would not be the company it is today.

With an exciting future ahead of us, let us join hands again as we make 2016 another successful year for MRSGI.

# MESSAGE FROM THE PRESIDENT



**ARTHUR EMMANUEL**
President and Chief Operating Officer

***To our dear shareholders,***

The hallmark of Metro Retail Stores Group, Inc. (MRSGI) has always been its people-centric approach to business. Our successes are borne out of two key pillars that have continuously underpinned our growth—our customers, who always drive us to deliver best-in-class products and services; and our associates, whose tireless efforts help translate our vision into everyday reality.

## *People-driven Organization*

Over the years, we have adhered to the high standards we have set for ourselves to meet the diverse needs of the 250,000 customers we serve daily. Our innovations are focused not just on our individual customers, but also on providing relevant products and services for our wide range of institutional and wholesale customers, which include among others schools, non-government organizations, large business establishments, and various small and medium enterprises.

Thriving in a culture of excellence and dynamism is our staff network of around 9,000 across the country. Their hard work and shared passion for customer service enable us to constantly innovate and improve product and service delivery. Many of our staff have grown with us, moving up the career ladder and becoming part of our middle and senior management. We have forged a strong bond with them, and continue to benefit from their loyal and dedicated service.

## *Foundations for the Future*

These core strengths supported our strong performance in 2015. We are pleased to report that we have made significant gains in all aspects of our operations, and continued to lay the foundation for future growth.

Our confidence in our business and our people has propelled us to embark on our most important endeavor to date: MRSGI's debut in the Philippine Stock Exchange. In 2015, we made our initial public offering with the year's largest new equity issuance in the country at P3.6 billion, braving market uncertainties. Our entry into the local bourse was an essential step for MRSGI in our quest to expand our market share, enhance our corporate governance and overall operational efficiency, and create value for our investors, suppliers, business partners, and customers.

I am pleased to report that our net sales for 2015 grew 13.9 percent to P32.3 billion, while our net income surged to P758.6 million, or 20.6 percent higher than in 2014. Same store sales grew 8.8 percent on the back of strong performances across our three retail formats—the department store, supermarket, and hypermarket. We have improved our gross margins as a percentage to sales and reduced our fixed expenses, demonstrating the benefit of increasing sale. We have also managed our operating expenses, leading to higher net income growth. Further underscoring our financial strength, we have declared dividends amounting to 20 percent of our earnings for 2015.

We have further cemented our position as Visayas' dominant retailer, growing our nationwide store network to 47—representing 24 supermarkets, 13 hypermarkets, and 10 department stores, with a combined gross floor area of 412,662 square meters. We aim to double this footprint in the next five years through both organic store network expansion and strategic mergers and acquisitions.

We have entered into a partnership with Ayala Land, Inc. (ALI) for the establishment of our stores as anchors in four new ALI commercial developments in Bacolod City, Iloilo City, Cebu City, and Pasig City. We maintain partnerships with other property developers as well, while continuing plans for stand-alone stores in key locations outside Metro Manila, as we tap opportunities in the country's encouraging economic growth and low penetration of modern retail.

We continue our drive to expand our store network in 2016. Leveraging on our strong brand and knowledge of the markets we serve, we aim to establish presence in underpenetrated areas. We have also begun implementing standardized templates in each retail format, store design, and property development to further support our growth targets.

## *Investing in Infrastructure*

To support the robust growth of our store network, we have also invested heavily in our infrastructure. Our 11,400-square-meter warehouse in Silangan, Calamba City in Laguna serves as a crucial supply and distribution hub for our daily operations in Luzon.

Further accelerating the modernization of our supply chain and logistics capabilities, we have also acquired 39 new delivery trucks from Isuzu Philippines Corporation and 30 from Hino Philippines to bolster our in-house and institutional selling delivery fleet. Each truck is equipped with tracking devices that will enable real-time monitoring from the company's control center, ensuring timely delivery of goods and improving overall cost efficiency.

To ensure seamless processing of our various transactions, we have invested in Oracle's latest retail technology solutions in warehouse, store inventory, and customer point-of-service.

## *Strengthening Store Operations*

The optimization of our supply chain is seen to translate to growth in profitability while enhancing the overall efficiency of our store operations. We will implement a comprehensive program geared towards increasing store productivity through enhancing product assortment, attracting new customers, and improving the shopping experience for our many customers through upgrades in our facilities and the skills of our associates.

Our ancillary businesses present another key opportunity for growth as we aim to provide a one-stop shopping experience for our customers. We are undertaking various steps to further maximize their economic value for our stores. Highlighting the strength of our store operations is the encouraging performance of our own private brands in food products and general merchandise. Our private food retail labels posted a 13-percent growth in sales, while our private labels for general merchandise posted a 10-percent sales growth, demonstrating our strength in merchandise operations.

Our customers are recognizing our commitment to best-in-class product and service delivery. Membership in our customer loyalty program, the Metro Rewards Card (MRC), continues to post strong growth. By year-end 2016, we expect a significant increase in membership.

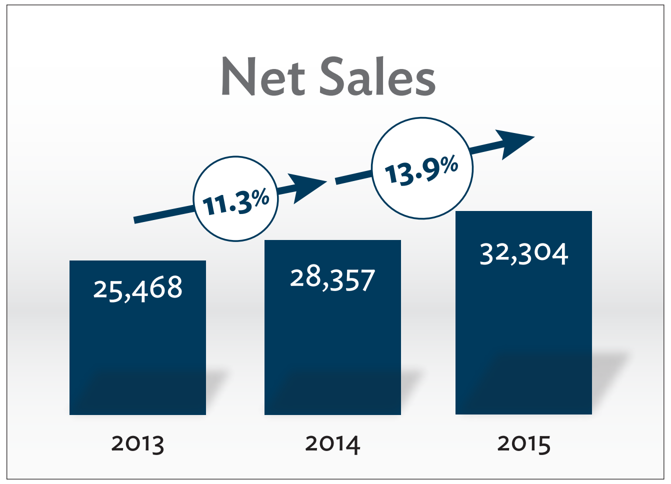
Even as we celebrate these milestones, we recognize the challenge that lies ahead for all of us—building on our growth for our company's future.

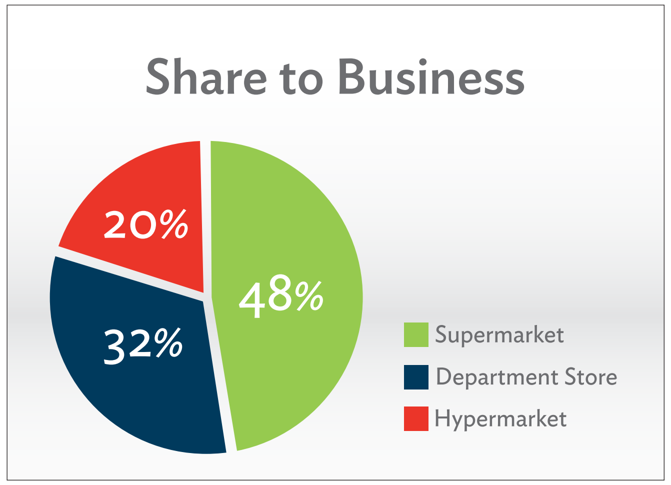
Towards this end, we return to our people-centric business strategy. Both our customers and employees represent our most dynamic growth engines. For our customers, we have laid out the comprehensive programs we are undertaking to ensure that we fully harness our dominant market position in the fast-growing and underpenetrated Visayas region.

Training and leadership, meanwhile, will be a driving factor of our people development. We are continuously focused on building leaders that will carry on what we have started into the next generation. Our education and scholarship programs are seamlessly integrated into our talent development initiatives, underscoring our commitment to consciously secure the company's future.

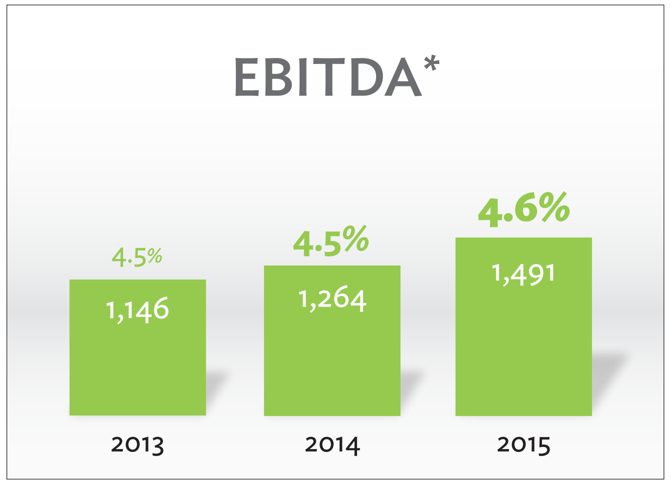
The success we have accomplished in 2015 inspires us to keep forging ahead towards greater heights. We are well aware that there will be a lot more challenges and opportunities ahead in 2016, and we look forward to your continued support as we set to make our company even stronger and better. Indeed, the future is greater than ever.

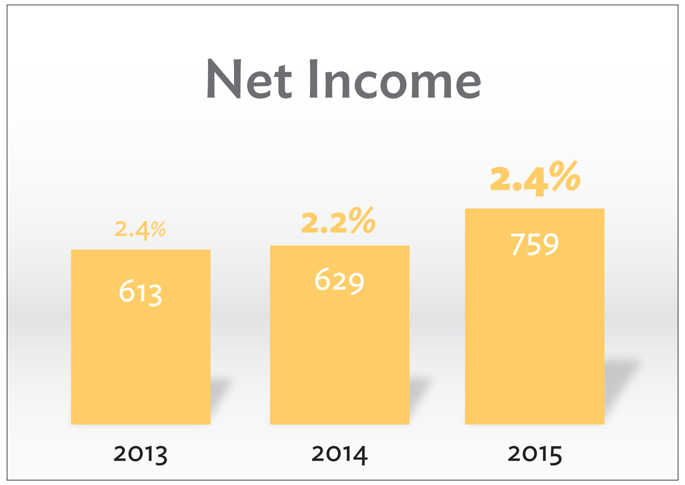
# FINANCIAL AND OPERATING HIGHLIGHTS



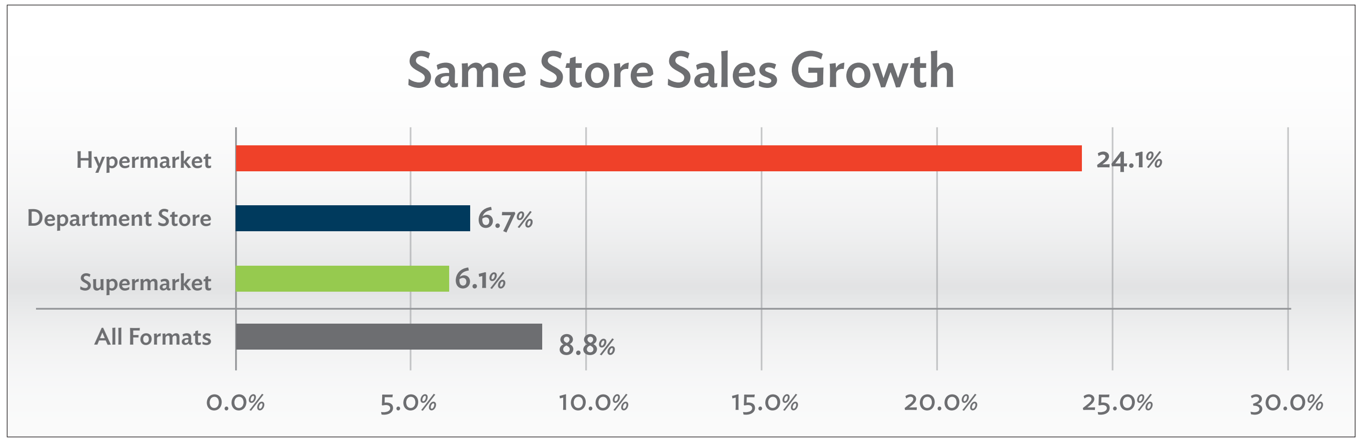




*Note: Figures are in PhP millions and percent growth year-on-year*



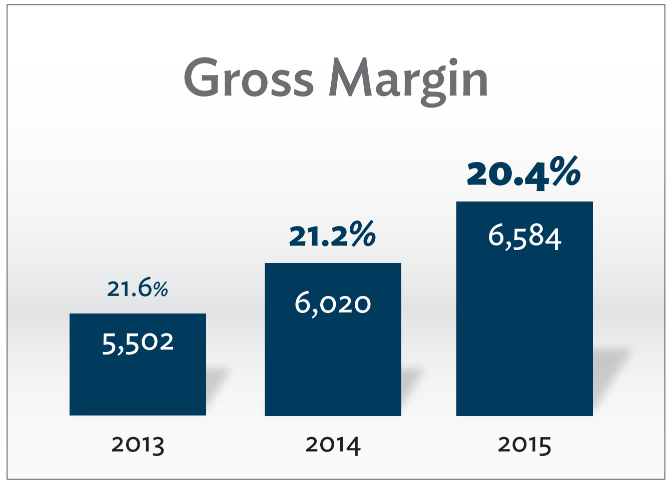

*Notes: Figures are in PhP millions and percent to Net Sales*
**Earnings before Interest, Tax, Depreciation, and Amortization*

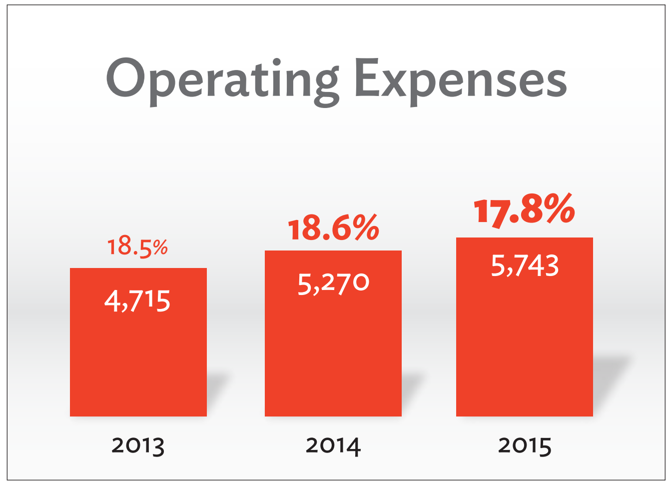



**FINANCIAL HIGHLIGHTS**
(In million pesos, except if indicated)

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Income Statement** | | | |
| Revenues | 25,468 | 28,357 | 32,304 |
| Gross Margin | 5,502 | 6,020 | 6,584 |
| EBITDA | 1,146 | 1,264 | 1,491 |
| Net Income | 613 | 629 | 759 |
| **Balance Sheet** | | | |
| Total Assets | 7,376 | 8,084 | 11,672 |
| Total Liabilities | 4,751 | 5,097 | 5,226 |
| Stockholder's Equity | 2,625 | 2,987 | 6,445 |
| **Financial Ratios** | | | |
| Current Ratio | 1.38 | 1.41 | 2.12 |
| Debt to Equity Ratio | 0.46 | 0.37 | 0.15 |
| Net Debt to Equity Ratio | 0.06 | (0.18) | (0.22) |
| Asset to Equity Ratio | 2.81 | 2.71 | 1.81 |
| Return on Total Assets | 9.45% | 8.14% | 7.68% |
| Return on Equity | 26.47% | 22.41% | 16.09%* |

**After an additional ₱3.36 billion added to equity post-Initial Public Offering in 2015*




*Note: Figures are in PhP millions and percent to Net Sales*

# CORPORATE GOVERNANCE

In 2015, MRSGI further enhanced its corporate governance (CG) practices in preparation for going public. With the vision of being recognized as an industry leader in the area of CG, the company built on its existing CG policy framework and further improved its functioning in key areas. Specifically, it endeavored to put into practice its commitment to CG by developing and implementing various initiatives in the following areas:

I. CG formalities;
II. Rights and equitable treatment of shareholders;
III. Stakeholder relations;
IV. Disclosure and transparency;
V. Control environment and processes; and
VI. Board of Directors structure and effectiveness.

While the company's current practices in the above areas are relatively defined, the MRSGI Board of Directors and management believe that there are opportunities to further strengthen such practices to align these with local and international best practices.

## CORPORATE GOVERNANCE FORMALITIES

In 2015, the Board of Directors reviewed and approved its Manual on Corporate Governance (Manual). The Manual provides the policy framework for CG in the company and shall serve as the guide for the Board of Directors, management, and the rest of the organization. It is consistent with all applicable laws and regulations, particularly those issued by - but not limited to - the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

To further demonstrate its strong commitment to implementing good CG practices, the Board of Directors appointed corporate governance expert Jonathan Juan Moreno as its Chief Governance and Strategy Officer to ensure that the company and its associates adhere to the CG practices that have been defined in the Manual as well as in international best practices.

In addition to the Manual, MRSGI drafted and issued other CG-related policies and processes such as – but not limited to – the following:

a. Independent Director selection process;
b. Board of Directors performance evaluation system;
c. Audit and Risk Committee charter;
d. Investment Committee charter;
e. Governance Committee charter;
f. Nomination and Compensation Committee charter;
g. Guidelines on matters requiring Board of Directors, shareholder, and management approval (for Board approval);
h. Whistle-blower policy (for Board approval);
i. Related-party transaction policy (for Board approval); and
j. Code of Conduct for Directors and senior management.

## RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

The Board of Directors recognizes its duty to promote shareholder rights, remove impediments to the exercise of shareholders' rights, and provide an adequate venue for them to seek timely redress for violation of their rights. In this regard, it respects such rights as provided for in the Corporation Code, namely:

a. Right to vote on all matters that require their consent or approval;
b. Pre-emptive right to all stock issuance of the Corporation, if applicable under the Corporations' Articles of Incorporation and By-Laws;
c. Right to inspect corporate books and records;
d. Right to information;
e. Right to dividends; and
f. Appraisal right.

Recognizing that all stockholders should be treated equally and without discrimination, MRSGI allows 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.

### Annual Stockholders Meeting

The Board of Directors is committed to be transparent and fair in the conduct of annual and special stockholders' meetings in the future. It shall ensure that accurate and timely information is provided to stockholders to enable them to make a sound business judgment. The stockholders shall be encouraged to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. The Board of Directors will take appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or


Metro Retail Stores Group, Inc. (MRSGI) conducted its Initial Public Offering (IPO) listing ceremony at the Philippine Stock Exchange (PSE) on November 24, 2015. Shown in photo are the MRSGI Board of Directors and PSE officials.

by proxy. Notices of Annual General Meeting shall be sent to the shareholders either by personal delivery, e-mail, or electronic means at least two (2) weeks prior to the date of the meeting which is every first Friday of May.

### Related Party Transaction

Recognizing that the corporate ownership and control structure of MRSGI is such that it deals with related parties in its normal course of business, the company has set in place mechanisms to ensure that the interests of non-controlling shareholders are protected.

For example, in 2015, MRSGI and its holding company, Vicsal Development Corporation (VDC), engaged the services of a third party to determine the fair value of the rental fees that VDC would have to charge MRSGI for the lease of its properties. The Audit and Risk Committee (ARC), which is mainly composed of independent directors, reviews such transactions and ensures that these are done at arms' length.

These transactions are likewise reviewed by the external auditor and included in the financial statements to provide assurance as to the accuracy of the reported information.

### Investor Relations

To ensure that relations with investors are maintained and nurtured, and that MRSGI can communicate its strategies and performance to its shareholders, the company established the Investor Relations Department (IRD). Headed by Joseph Conrad Balatbat, IRD controls the management and dissemination of all information from the company to investors. Its role involves, among others, the following:

a. Anticipating market reaction to corporate initiatives;
b. Disclosing statutory and non-statutory information and associated issues;
c. Avoiding selective disclosures;
d. Organizing event-driven communications (e.g., mergers and acquisitions, executive departures, financial statements);
e. Managing and minimizing investor relations crises, false information, and rumors; and
f. Adhering to investor relations best practices (e.g., meeting investors and analysts regularly).

## STAKEHOLDER RELATIONS

The Board of Directors and management are likewise committed to socially responsible and ethical practices. They subscribe to the view that responsible business practices are inextricably linked to good corporate governance. As such, companies should work closely with all its relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large.

In 2015, the company has either initiated, sustained, or strengthened its programs for the following stakeholders:

### Suppliers / Contractors

- Updating processes and systems to improve the supplier selling and payment experience; and
- Holding an appreciation night for all suppliers to recognize their vital contribution to the company.

### Customers

- Continuously striving to enhance the company's processes and systems to further improve quality of products and services for the customers by having the freshest and widest assortment of products available on the shelves, as well as ensure that the customers' shopping experience is always safe and pleasant.

### Employees

- Providing quality training opportunities for our employees through programs on learning orientation, coaching, and other activities that are aimed to develop business and technical knowledge;
- Conducting employee engagement activities to improve overall employee morale and camaraderie;
- Adopting policies on anti-sexual harassment, drug-free workplace, tuberculosis, and Hepatitis B prevention; and
- Providing life, hospitalization, and accident insurance coverage to all regular full-time active employees of the company.

### Community

- Implementing the METRO CSR Employees Volunteer Program wherein MRSGI employees contribute their time and efforts during relief operations, medical missions, and other CSR projects of the company. These are further elaborated under the Corporate Social Responsibility part of this report.

## TRANSPARENCY AND DISCLOSURE

MRSGI commits that it shall at all times fully disclose material information such as, but not limited to, external audit fees and ownership structure, to the appropriate regulatory agencies, as well as to the investing public. It is likewise committed to diligently comply with all required information through the mechanisms established for listed companies.

### Company Website

MRSGI believes that accurate and timely disclosures are largely synonymous to making information available on the company website, which is also increasingly seen as a primary source of company information.

In this regard, in 2015, the company upgraded its website and included information that most investors and stakeholders expect to see. It is now in the process of further populating the site with the level of information that leading listed companies also provide.

### External Audit and Fees

| Name of Auditor | Audit Fee | Non-Audit Fee |
|---|---|---|
| SGV & Co. | PhP11,000,000.00* | N/A |

*Including special audits*

### Ownership Structure

| Stockholders | Authorized Capital (PhP) | Amount Subscribed (PhP) | Amount Paid-Up (PhP) |
|---|---|---|---|
| Vicsal Development Corporation | | 2,433,462,489.00 | 2,433,462,489.00 |
| PCD Nominee Corporation (F) | | 812,261,708.00 | 812,261,708.00 |
| PCD Nominee Corporation (NF) | | 183,645,500.00 | 183,645,500.00 |
| Jesus San Luis Valencia | | 300.00 | 300.00 |
| Ricardo Nicanor N. Jacinto | | 1.00 | 1.00 |
| Guillermo L. Parayno, Jr. | | 1.00 | 1.00 |
| Arthur Emmanuel | | 1.00 | 1.00 |
| | 10,000,000,000.00 | 3,429,375,000.00 | 3,429,375,000.00 |

## CONTROL ENVIRONMENT AND PROCESSES

In 2015, the Board of Directors and management endeavored to build an internal control and audit system that is robust and effective enough to ensure efficiency of operations, reliability of financial reporting, safeguarding assets, and compliance with laws and regulations.

Through the leadership of the ARC, the company strengthened its risk management, internal audit, control, and compliance, with the objective of bringing these to the level where it can effectively minimize and manage risks associated with the firm's anticipated growth.

### Risk Management

The ARC worked closely with management to ensure that all business risks are identified, evaluated, and appropriately managed and that management maintains a sound system of risk management that allows for a comprehensive and systemic approach in risk identification and assessment, so that the company may respond to relevant and material risks as they arise and develop.

The following are the risk management roles at different levels:

a. Board of Directors – Ensure that risk assessment is carried out regularly throughout the organization, as part of the enterprise risk management. Responsible for setting this Risk Management Policy and for monitoring its implementation;

b. Senior Management - Undertake and sponsor key risk management activities undertaken by the Risk Management Department and provide adequate support. In terms of availability, budget, resources, etc., to risk management initiatives, they must ensure the key risks are effectively assessed, managed, and communicated to the Board of Directors;

c. Risk Management Department (RMD) – Implementation on behalf of the Board of Directors. RMD shall ensure that the Risk Register is maintained effectively and consistently at all levels and by all sections. RMD is responsible for working with all departments to help in aggregating risk outputs from all departments to form an enterprise level risk register, have all the key risks analyzed and evaluated, and report to the Senior Management and Board of Directors on critical and emerging risks as per Board requirement;

d. Head of Each Department – Responsible for leading his/her department in carrying out risk assessment on an annual basis to identify, analyze, and evaluate risks specific to the department. Help may be sought from the Risk Management Department;

e. All Staff – Responsible for the effective identification and management of risk and to assist their department and overall organization in managing risk.

### Internal Audit

In 2015, a new Internal Audit Head was appointed when the incumbent became Head for the General Loss Prevention Department and concurrent Chief Risk Officer.

The Internal Audit Group (IAG) at MRSGI operates on a risk-based approach that primarily focuses on the risk-involved activities and ensures that these risks are being managed within controllable levels. Headed by Dione Derrick Kocencio, it is composed mainly of certified public accountants and industrial engineers. They developed and implemented a flexible annual audit plan using appropriate risk-based methodology and is primarily responsible for the evaluation and assessment of new or changing services, processes, operations, IT systems, and control processes. To ensure its independence and integrity, the IAG reports to the ARC.

### Internal Control

Internal Control System for MRSGI is largely driven by Standing Operating Procedures (SOP). In 2015, a number of these SOPs were developed and/or updated and incorporated in the company's existing policies and operating manual. Lead by the company's Systems and Procedures Group, these operating standards become the basis for the Internal Audit in checking the compliance with company policies and procedures.

With the Internal Audit group and the SOPs, there is an assurance in MRSGI that the policies, procedures and activities are working within a control framework, thus risks are contained within tolerable levels.

MRSGI Chairman and CEO Frank Gaisano's hands-on approach involves face-to-face interaction with staff.

### Compliance Officer

To ensure adherence to corporate policies as well as external regulatory requirements, the Board of Directors appointed Atty. Karen Climaco in 2015 as MRSGI's Compliance Officer. She is responsible for, and has been performing, the following duties:

a. Monitor compliance of the company to the CG Manual and the rules and regulations of regulatory agencies and, if any violations are found, report the matter to the Board of Directors and recommend the imposition of appropriate disciplinary action on the responsible parties;

b. Appear before the regulatory agencies when summoned in relation to matters that need clarification;

c. Identify, monitor, and control compliance risks;

d. Coordinate closely with the company officers and managers to ensure their compliance with their responsibilities to the shareholders and the general public.


MRSGI Chairman Frank S. Gaisano and President Arthur Emmanuel in discussion with senior executives

## Board Structure and Effectiveness

The Board of Directors is primarily responsible for the governance of the company. It is responsible for fostering the long-term success of MRSGI and securing the company's sustained competitiveness in a manner consistent with its fiduciary responsibility of creating value for its shareholders, with due regard for its other stakeholders.

The Board of Directors is committed to conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities. It likewise articulates the company's long-term aspirations and strategic direction through the development of MRSGI's vision, mission, values, and five-year strategic roadmap.

### Building the MRSGI Board of Directors

In 2015, the Board of Directors determined the attributes to be considered in the nomination and election of independent directors. The objective was to have the most appropriate mix of experience, diverse perspectives, and specialized skill sets that the Board of Directors will require as it guides the company towards achieving its growth plans.

As the Board of Directors determined that the expertise and experience required to complement the existing skills sets were in the areas of IT, logistics, governance and network expansion; it developed a formal independent director selection process and conducted an open search. Using other selection criteria such as integrity, probity, reputation, and independence, a number of candidates were interviewed and from there, Ricardo Jacinto and Guillermo Parayno, Jr. were invited to join the Board of Directors.

It is important to note that none of the two independent directors have had any dealings, business or otherwise, with any member of the Board of Directors or the controlling shareholders prior to their appointment.

The table below indicates additional information on the Board of Directors.

| Director's Name | Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)] | If Nominee, Identify the Principal | Nominator in the Last Election (if ID, state the relationship with the nominator) | Date First Elected | Date Last Elected (if ID, state the number of years served as ID)[1] | Elected When (Annual /Special Meeting) | No. of Years Served as Director |
|---|---|---|---|---|---|---|---|
| **Frank S. Gaisano** | ED | | | August 28, 2013 | May 1, 2015 | Annual | 12 |
| **Edward S. Gaisano** | NED | | | August 28, 2013 | May 1, 2015 | Annual | 12 |
| **Margaret G. Ang** | NED | | | August 28, 2013 | May 1, 2015 | Annual | 12 |
| **Jack S. Gaisano** | NED | | | August 28, 2013 | May 1, 2015 | Annual | 12 |
| **Arthur M. Emmanuel** | ED | Vicsal Development Corporation | Vicsal Development Corporation | April 13, 2015 | May 1, 2015 | Annual | 8 mos. |
| **Guillermo L. Parayno, Jr.** | ID | | No relation | July 16, 2015 | July 16, 2015 | Special | 5 mos. |
| **Ricardo Nicanor N. Jacinto** | ID | | No relation | July 27, 2015 | July 27, 2015 | Special | 5 mos. |



### Board Committees

MRSGI Board committees assist in carrying out specific board responsibilities. They function as part of and under the control of the Board of Directors and are supplementary, directly aiding the Board in the performance of its functions. In 2015, the Board of Directors formally established four board committees to help the body in the exercise of its governance function. These committees, together with a brief description of their respective mandates, are indicated below:

a. Audit and Risk Committee

The ARC assists the Board of Directors in fulfilling its oversight responsibilities on the management and financial reporting process, the system of internal control, the maintenance of an effective audit process, the process for monitoring compliance, and the overall risk management function and/or program.

| Audit and Risk Committee |
|---|
| Guillermo L. Parayno, Jr. – Chairman |
| Margaret G. Ang |
| Ricardo Nicanor N. Jacinto |

b. Nomination and Compensation Committee

The Nomination and Compensation Committee assists the Board of Directors in reviewing and evaluating the qualifications of all individuals nominated to the Board and other appointments that require Board approval. It likewise assesses the effectiveness of the Board's processes and procedures in the election or replacement of directors.

The Nomination and Compensation Committee has established a formal and transparent procedure for developing a policy on remuneration.

| Nomination and Compensation Committee |
|---|
| Frank S. Gaisano – Chairman |
| Margaret G. Ang |
| Ricardo Nicanor N. Jacinto |

c. Governance Committee

The Governance Committee assists the Board of Directors in ensuring its effectiveness and constant improvement. It also ensures that the Board of Directors conforms to all its legal, ethical, and functional obligations through adequate governance policy development, training programs, monitoring of Board activities, and evaluation of Board performance.

| Governance Committee |
|---|
| Edward S. Gaisano – Chairman |
| Margaret G. Ang |
| Guillermo L. Parayno, Jr. |
| Arthur Emmanuel |

d. Investment Committee

The Investment Committee assists the Board of Directors in the oversight of the company's major investment activities. It establishes, reviews, and recommends to the Board of Directors the policies and strategies to be adopted by the company regarding the investment activities and portfolios necessary to achieve its goals and objectives; evaluates and enhances the company's investment processes; and recommends the hiring and termination of investment managers.

| Investment Committee |
|---|
| Jack S. Gaisano – Chairman |
| Frank S. Gaisano |
| Ricardo Nicanor N. Jacinto |

Our Senior Board Advisers, Christopher Beshouri and Sherisa Nuesa, sit in Board committees as well.

## Board Meeting and Attendance

The Board of Directors meets at least once a month. Meeting agenda and other necessary materials are given to the Board of Directors at least three (3) days prior to the meeting. The minimum quorum requirement is determined by a simple majority or, in the case of MRSGI, at least four (4) Directors. For the year 2015, MRSGI conducted meetings as illustrated below:

| Board of Directors | Name | Date of Election | No. of Meetings Held during the Year | No. of Meetings Attended | % |
|---|---|---|---|---|---|
| Chairman | Frank S. Gaisano | May 1, 2015 | 8 | 8 | 100% |
| Member | Edward S. Gaisano | May 1, 2015 | 8 | 8 | 100% |
| Member | Jack S. Gaisano | May 1, 2015 | 8 | 7 | 88% |
| Member | Margaret G. Ang | May 1, 2015 | 8 | 8 | 100% |
| Member | Arthur Emmanuel | May 1, 2015 | 8 | 8 | 100% |
| Independent | Guillermo L. Parayno, Jr. | July 16, 2015 | 6 | 6 | 100% |
| Independent | Ricardo Nicanor N. Jacinto | July 27, 2015 | 4 | 4 | 100% |

## Board Remuneration

The by-laws of the company provide that the Board of Directors is authorized to fix and determine the compensation of the Directors and Officers in accordance with law.

By resolution of the Board of Directors, other than a per diem allowance of P150,000.00 for attendance at each Board meeting and P45,000.00 for attendance in Committee meetings where a Director is a Committee chairman, or P40,000.00 where a Director is a Committee member, 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. Directors who are also Executive Officers are entitled to per diem allowance of P10,000.00 for every attendance in Board and Committee meetings. Directors representing Vicsal Development Corporation, Margaret G. Ang, Edward S. Gaisano, and Jack Gaisano, have also opted to receive P10,000.00 for every attendance in Board and Committee meetings.

## Board Evaluation

The Board of Directors undergoes an evaluation of its performance at least annually. This is a short self-evaluation of the Board of Directors as a group to identify areas where they can function more effectively for continuous improvement. This is administered by the Corporate Secretary under the guidance of the Governance Committee.

*More information on MRSGI's Corporate Governance*
*Additional information about the company's corporate governance practices and initiatives are available at our website www.metroretail.com.ph.*

# CORPORATE SOCIAL RESPONSIBILITY

A core driver of the Metro Retail Stores Group, Inc. (MRSGI) corporate strategy is the genuine and active interest in the wellbeing of its immediate communities. The company works towards uplifting lives through increased opportunities in education, livelihood, and employment, as well as environmental efforts and emergency aid. By embracing civic and social responsibility in these ways, MRSGI establishes and maintains mutually beneficial relationships with numerous communities across the nation.

MRSGI's corporate social responsibility (CSR) programs are developed, implemented, and sustained by the Corporate Affairs office headed by Anna Marie Periquet. The CSR programs are anchored by these objectives:

- To solidify the presence of MRSGI among its direct communities through programs that uplift the living standards of its beneficiaries;
- To establish goodwill and develop good relations with residents in the communities where Metro stores operate;
- To expand MRSGI's CSR platform for greater impact on the local communities;
- To enhance employee morale by helping them make a positive contribution to society.

## IN FULFILLMENT OF THESE GOALS, MRSGI FOCUSES ON SIX KEY ADVOCACIES:

### Volunteerism

The METRO CSR Employees Volunteer Program: Making Efforts To Reach Out encourages and supports employees who wish to contribute their time and assistance in relief operations, medical missions, and other CSR projects of the company.

### Education

MRSGI partners with Vicsal Foundation - the corporate foundation of Vicsal Holdings Company - to provide access to quality education through scholarship grants awarded to underprivileged yet deserving high school graduates. In nine years, 181 grants have been given.

MRSGI also contributes to the construction of school buildings nationwide, such as Basak Elementary School in North Road, Basak, Mandaue City; Mandaue City Central School in Onano Street, Mandaue City; Bitlang Integrated School in Sudlon, Cebu City; Media Once Elementary School in Toledo City; Cajel Elementary School in Borbon, Cebu; and Taysan Resettlement Elementary School in Legaspi City, Bicol Region.

MRSGI Director Margaret Gaisano-Ang and Vicsal Holdings Company Chairman Dr. Edward Gaisano (first row, third and fourth from left, respectively) together with the scholars of Vicsal Foundation

### Employment Generation

MRSGI implements METRO S.T.E.P. (Skills Training and Employment Program) in various barangays through workshops on baking, bagging, cashiering, and butchering. Seminars for sales clerks are conducted as well. Qualified graduates can be employed in Metro stores.

MRSGI also conducts on-the-job training programs for City Scholars. Those who complete the program and meet the qualifications can be employed by MRSGI.

Graduates of MRSGI's scholarship program are also given the opportunity to become management trainees for one-year through the MRSGI employment immersion program. Upon completion, the management trainee may apply for full-time employment.

### Livelihood

Through the METRO Hanepbuhay program, MRSGI works with local business sectors to provide booths to cooperatives and farmers, fishermen, bakers, and handicraft groups to promote their products. Special Best of the City Products Showcase spaces are also given to highlight these communities' flagship produce and merchandise.

### Environmental Protection

MRSGI partners with local government units in the Solid Waste Management for Sustainable Livelihood Program. Plastic, soda bottles, used cooking oil, scrap cartons, and cans are donated and converted into recyclable bricks that are mainly used for sidewalks located in the barangay.

### Outreach Programs

The METRO Cares. METRO Shares medical missions reach out to areas devasted by typhoons, earthquakes, and other natural calamities. With the help of volunteers from Metro Department Store, Metro Supermarket, Metro Pharmacy City Health Offices, the Department of Social Welfare and Development (DSWD), city officials, and barangay volunteers, MRSGI distributes medicines, sets up soup kitchens, and provides basic medical assistance to affected residents and families.

Through Oplan Sagip Metro Relief Operations, MRSGI provides immediate relief and assistance to communities affected by natural disasters and calamities. MRSGI employee volunteers extend a helping hand by contributing and distributing relief goods.

Empowerment and capacity-building are central to MRSGI's corporate social responsibility initiatives. Bakers from the Suisse Cottage bakeshop conduct free baking workshops for its host community in Anonas, Quezon City. Qualified trainees are then employed in Metro stores.

Highlighting its commitment to sustainability, MRSGI, in partnership with officials and residents of Barangay Bagumbuhay in Quezon City, donates recyclable scrap materials that are pulverized and made into bricks. The bricks are then used to pave the sidewalks of the barangay.

As Vice President for Corporate Affairs, Anna Marie Periquet spearheads MRSGI's CSR programs which include providing basic medical services and relief assistance to communities affected by natural disasters and calamities.

# BOARD OF DIRECTORS

## FRANK S. GAISANO

Chairman and Chief Executive Officer

Frank S. Gaisano, Chairman and Chief Executive Officer of the Metro Retail Stores Group, Inc. (MRSGI), has nearly four decades of retailing experience and is widely recognized as one of the Philippine retail industry's innovative and forward-looking leaders. Working closely with his siblings Margaret, Jack, and Edward, Gaisano was instrumental in professionalizing the leadership and piloting the aggressive growth of MRSGI. Under his direction, MRSGI transformed to become one of the country's top four retail chains. Before his current appointment, Gaisano served as MRSGI's Director from 2003 to 2011. He also sits as Chairman of the Boards of AB Capital and Investment, Pacific Mall Corporation, and Vicsal Investment, Inc., as well as Director of Vicsal Development Corporation, Taft Property, Filipino Fund, Inc., Taft Punta Engaño Property, Inc., and Direct Model Holdings, Inc. He received his Bachelor of Science degree in Civil Engineering from the Cebu Institute of Technology and completed courses at the Institute of Corporate Directors.

## ARTHUR EMMANUEL

President and Chief Operating Officer

Arthur Emmanuel is the President and Chief Operating Officer of MRSGI. He brings decades of retail experience honed at Wal-Mart, where he held global key positions including Senior Vice President for Sourcing and Retail Import Development Organization, China; Senior Vice President for Shoes and Jewelry; Regional Vice President for Operations; Senior Vice President and Chief Operating Officer, South America; Vice President for International Operations for Mexico and Puerto Rico; Vice President for International Merchandise; Vice President and Divisional Merchandise Manager for Ladies Apparel; and Regional Vice President for Operations. He was also an Instructor at the Wal-Mart University and a frequent keynote speaker on behalf of Wal-Mart Stores, Inc. His contributions have earned him accolades, including the Wal-Mart Hero, Al Johnson Buck at a Time, Jewelry Industry Achievement, and the Wal-Mart International Awards, recognizing Wal-Mart's growth in Argentina, Brazil and Mexico. Prior to MRSGI, Emmanuel served as Consultant for Merchandising and Store Operations at Vicsal Development Corporation from 2010 to 2012. His other previous affiliations include chairmanship and directorship posts at Leadership in Education for Pacific Islanders (LEAP), American Heart Association Fundraiser, and United Way Fundraiser. He earned his Transition to Management MBA from Columbia University in 2006.

## MARGARET GAISANO ANG

Director

Margaret Gaisano Ang has been a Director, Corporate Secretary, and Treasurer of MRSGI since 2003. Additionally, she is a Director of Vicsal Development Corporation, Taft Property Venture Development Corporation, Vicsal Securities and Stock Brokerage, Inc., Filipino Fund, Inc., Grand Holidays, Inc., Manila Water Consortium, Inc., and Maric Ventures, Inc. She graduated cum laude with a Bachelor of Science degree in Commerce, major in Accounting from the University of San Carlos and finished courses at the Institute of Corporate Directors.

## JACK S. GAISANO

Director

Jack S. Gaisano is a Director of MRSGI. He previously held the position of Chairman and President from 2003 to 2011. Currently, he is the Chairman and President of Taft Property Venture Development Corporation, Midland Development Corporation, and Vsec.com Inc., and sits as President and Vice Chairman of HTLand, Inc. He also holds directorships at Vicsal Development Corporation, Vicsal Investment, Inc., Pacific Mall Corporation, and JV. Com. Holdings Inc. From 1989 to 2009, he was a Director of Vicsal Securities and Stock Brokerage, Inc. Gaisano earned his Bachelor of Science degree in Chemical Engineering from the University of San Carlos and completed courses at the Institute of Corporate Directors.

## EDWARD S. GAISANO

Director

Edward S. Gaisano was appointed Director of MRSGI in 2003. He is also the Chairman and President of Vicsal Development Corporation; serves as Chairman of the Boards of Wealth Development Bank Corporation, Hyundai Alabang, Inc., and Hyundai Southern Mindanao, Inc.; is the president of Pacific Mall Corporation; and holds directorships at Taft Property Venture Development Corporation and Trilogy Holdings Corporation. Previously, he was Chairman and President of Prime Asia Pawn & Jewelry Shop Inc. and Platinum Holdings, Inc. as well as a Director of Metro Value Ventures, Inc. A registered physician, Gaisano earned his Doctor of Medicine degree from the Cebu Institute of Medicine and received his Bachelor of Arts degree in English from Velez College.

## RICARDO NICANOR N. JACINTO

Independent Director

Ricardo Nicanor N. Jacinto is an Independent Director of MRSGI. He currently holds chairmanship and managerial positions in numerous private companies and organizations. He is the Chief Executive Officer of the Institute of Corporate Directors; Consultant for Lapanday Properties Philippines Inc., Torre Lorenzo Development Corporation, and Sytengco Enterprises, Inc.; Director of SBS Philippines, Inc.; President of the Nicanor P. Jacinto, Jr. Foundation; and Proprietor of Anfield Management Consultancy Services.

Before his appointment at MRSGI, Jacinto held directorship posts in various institutions such as Manila Water Corporation, Habitat for Humanity, AB Capital and Investment Corporation, and Ayala Land, Inc. (ALI). As Vice President for the Land and Community Development Group of ALI, he was responsible for leading several expansion projects, overseeing the land acquisition and development of various high-end subdivisions such as Nuvali, Westgrove Heights, Paseo de Magallanes, Ayala Southvale, and Ayala Heights. He has also served in the government as Director of the Social Housing Finance Corporation.

Jacinto received his Master's degree in Business Administration from Harvard University, and his Bachelor's degree in Business Economics, magna cum laude, from the University of the Philippines.

## GUILLERMO L. PARAYNO, JR.

Independent Director

Guillermo L. Parayno, Jr. is an Independent Director of MRSGI. He has held various leadership positions in both the government and private sectors. His accomplishments in public service, as well as his expertise in information technology infrastructure, logistics, and supply chain, have gained him recognition from different institutions, including the PMA Alumni Association, the Asian Institute of Management, the Chamber of Customs Brokers of the Philippines, and the Professional Regulatory Commission of the Philippines.

Currently, Parayno is the Vice Chairman of the Philippine Veterans Bank; Chairman and President of E-Konek Pilipinas, Inc.; President of Bagong Silang Farms, Inc.; and President of the Parayno Consultancy Services on Logistics and Distribution, Customs, Information Technology, and Taxation. Prior to his appointment at MRSGI, Parayno was Co-Chairman and President of the Lina Group of Companies, and a member of the Toyota Motor Corporation's Board of Directors.

Parayno also previously served as a Commissioner in the Bureaus of Internal Revenue and Customs, and as Regional Director for the Economic Intelligence and Investigation Bureau of the Department of Finance. He has also served as Assistant Chief of Staff for Plans and Programs of the Philippine Coast Guard, and taught at the Philippine Military Academy and the University of the Philippines. He has also worked for several development projects with the United Nations Development Program and the Asian Development Bank.

He holds Master's degrees in Psychology from the University of the Philippines and Business Management from the Asian Institute of Management. He graduated magna cum laude from the Philippine Military Academy.

# SENIOR ADVISERS TO THE BOARD

## CHRISTOPHER P. BESHOURI

Senior Adviser to the Board

Christopher P. Beshouri is a Senior Adviser to the Board of MRSGI. He previously held positions at McKinsey and Company Philippines as President and CEO, as well as Chief of Staff of Asia and Senior Consultant for more than 15 years. Beshouri also served the United States Treasury as a Senior Financial Economist and Director from 1989 to 1997, focusing on financial markets and banking regulations. He was also an Adjunct Professor at Georgetown University, College of Business; Consultant for the West Africa Country Operations of the World Bank; Financial Auditor of the Catholic Relief Services; and Analyst and Research Assistant for the Federal Reserve Bank of Atlanta. Beshouri earned his Bachelor of Arts degree (Dual Major in Economics and Public Policy) from the Michigan State University, and his Master's degree in Public Affairs from Princeton University.

## SHERISA P. NUESA

Senior Adviser to the Board

Sherisa P. Nuesa is a Senior Adviser to the Board of MRSGI. Concurrently, she sits on the Board of Directors of Manila Water Company (MWC), the ALFM Mutual Funds Group, Far Eastern University, FERN Realty Corporation, and Actimed/Generika Group. She is also a Trustee and Director of the Institute of Corporate Directors (ICD), the Financial Executives Institute of the Philippines (FINEX) Foundation, and the Integrity Initiative, Inc.

Nuesa formerly served as Managing Director of the Ayala Corporation; Chief Finance Officer of MWC from 2000 to 2008 and Integrated Micro-Electronics, Inc. (IMI) from 2009 to 2010; Group Controller and Group Head for Commercial Centers of Ayala Land, Inc. (ALI); Board Member of various subsidiaries of ALI, MWC, and IMI; and Director of Blackhorse Emerging Enterprises Fund (Singapore), the state-owned Philippine Reclamation Authority, and Psi Technologies.

A Certified Public Accountant, she graduated summa cum laude with a Bachelor of Science degree in Commerce from the Far Eastern University, and earned her Master's degree in Business Administration from the Ateneo-Regis Graduate School of Business. She also attended the Advance Management Program of the Harvard Business School in 1999. Nuesa is the recipient of the ING-FINEX Philippines CFO of the Year Award for 2008.

# KEY EXECUTIVES AND SENIOR MANAGEMENT

Seated (L-R) Anna Marie K. Periquet, Vice President for Corporate Affairs; Jonathan Juan DC. Moreno, Chief Strategy and Governance Officer

Seated: Aljim C. Jamandre, Group Chief Financial Officer and Treasurer

2nd Row (L-R) Benedicto Clark T. Miranda, Vice President for Land and Space; Vincent Tomaneng, Corporate Secretary and Chief Legal Counsel; Joselito G. Orense, Chief Financial Officer and Treasurer; Joseph Conrad M. Balatbat, Vice President for Investor Relations and Business Development; Arthur Emmanuel, President and Chief Operating Officer

2nd Row (L-R) Frank S. Gaisano, Chairman and Chief Executive Officer; Luz A. Bitang, Vice President for Operations; Fili P. Mercado, Vice President for Merchandising and Operations Planning and Control; Ricardo B. Aguas, Jr., Vice President for Supply Chain, Quality Assurance and Regulatory Affairs; Harvey T. Ong, Chief Marketing and Merchandising Officer; Chit G. Lazaro, Chief Merchandising Officer for Food Retail

# MANAGEMENT'S DISCUSSION & ANALYSIS

## RESULTS OF OPERATIONS

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

## REVENUE

### NET SALES

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2015 and 2014 and the percentage change in these key operating performance indicators between the two periods.

| | As of or for the year ended December 31, | | Percentage Change |
|---|---|---|---|
| | 2015 | 2014 | |
| **The Company** | | | |
| Number of Stores | 46 | 43 | 7.0% |
| Net Sales (₱ millions) | 32,304.5 | 28,356.9 | 13.9% |
| Average Basket Size (₱) | 546.3 | 511.9 | 6.7% |
| Number of transactions (millions) | 59.1 | 55.4 | 6.7% |
| Same store sales growth (%) | 8.8 | (1.2) | |
| **Supermarkets** | | | |
| Number of Stores | 24 | 23 | 4.3% |
| Net Sales (₱ millions) | 15,369.2 | 13,959.6 | 10.1% |
| Average Basket Size (₱) | 510.4 | 498.6 | 2.4% |
| Number of transactions (millions) | 30.1 | 28.0 | 7.4% |
| Same store sales growth (%) | 6.1 | (0.8) | |
| **Department Stores** | | | |
| Number of Stores | 10 | 10 | 0.0% |
| Net Sales (₱ millions) | 10,488.4 | 9,829.9 | 6.7% |
| Average Basket Size (₱) | 598.8 | 558.5 | 7.2% |
| Number of transactions (millions) | 17.5 | 17.6 | (0.3%) |
| Same store sales growth (%) | 6.7 | (2.4) | |
| **Hypermarkets** | | | |
| Number of Stores | 12 | 10 | 20.0% |
| Net Sales (₱ millions) | 6,446.9 | 4,567.4 | 41.1% |
| Average Basket Size (₱) | 560.3 | 466.1 | 20.2% |
| Number of transactions (millions) | 11.5 | 9.8 | 17.5% |
| Same store sales growth (%) | 24.1 | 4.2 | |

For the year ended December 31, 2015, our net sales were ₱32,304.5 million, an increase of 13.9% compared to ₱28,356.9 million for the year ended December 31, 2014. The increase in net sales was primarily due to the increase of overall same store sales of 8.8% and the opening of two new hypermarkets and one new supermarket.

**Supermarkets**
Our supermarket net sales increased by 10.1% from ₱13,959.6 million for the year ended December 31, 2014 to ₱15,369.2 million for the year ended December 31, 2015. This increase in net sales was largely due to the increase in same stores sales growth of 6.1% and one new store opening.

**Department Stores**
Our department store net sales increased by 6.7% from ₱9,829.9 million for the year ended December 31, 2014 to ₱10,488.4 million for the year ended December 31, 2015. This increase in net sales was due to the increase in same stores sales growth of 6.7%.

**Hypermarkets**
Our hypermarket net sales increased by 41.1% from ₱4,567.4 million for the year ended December 31, 2014 to ₱6,446.9 million for the year ended December 31, 2015. This increase in net sales was primarily due to two new store openings and same store sales growth of 24.1%.

### RENTAL INCOME

For the year ended December 31, 2015, our rental income was ₱201.1 million, an increase of 125.6% compared to ₱89.1 million for the year ended December 31, 2014. The increase in rental income was primarily due to the opening of three new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements, and the renegotiation of percentage of revenue to fixed rent leases.

### INTEREST AND OTHER INCOME

For the year ended December 31, 2015, our interest and other income was ₱76.1 million, a decrease of 20.4% compared to ₱95.6 million for the year ended December 31, 2014. Scrap sales in 2015 amounted to ₱14.6 million, representing a decrease of 63.9% compared to ₱40.6 million in 2014.

### COST OF SALES

For the year ended December 31, 2015, our cost of sales was ₱25,720.7 million, an increase of 15.2% compared to ₱22,336.6 million for the year ended December 31, 2014, which was generally in line with the growth of net sales of 13.9%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

### GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2015, our general and administrative expenses were ₱5,433.5 million, an increase of 10.2% compared to ₱4,931.1 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses, and depreciation expenses resulting from the opening of new stores. The increase of 10.2% of general and administrative expenses is lower than the increase in our net sales of 13.9% due to the economic benefits derived from increase in scale of our operations.

### SELLING AND MARKETING EXPENSES

For the year ended December 31, 2015, our selling and marketing expenses were ₱309.8 million, a decrease of 8.6% compared to ₱338.8 million for the year ended December 31, 2014. The slight decrease in selling and marketing expenses was primarily due to extensive promotional activities in 2014 related to the five new stores opened during that period.

### FINANCE COSTS

For the year ended December 31, 2015, our finance costs were ₱36.1 million, a decrease of 9.9% compared to ₱40.0 million for the year ended December 31, 2014. The decrease in finance costs was primarily due to decrease in our average loans outstanding.

### PROVISION FOR INCOME TAX

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

### NET INCOME

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

*The year ended December 31, 2014 compared with the year ended December 31, 2013*

## REVENUE

### NET SALES

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2014 and 2013 and the percentage change in these key operating performance indicators between the two periods.

| | As of or for the year ended December 31, | | Percentage Change |
|---|---|---|---|
| | 2014 | 2013 | |
| **The Company** | | | |
| Number of Stores | 43 | 38 | 13.2% |
| Net Sales (₱ millions) | 28,356.9 | 25,468.0 | 11.3% |
| Average Basket Size (₱) | 511.9 | 515.5 | (0.7%) |
| Number of transactions (millions) | 55.4 | 49.4 | 12.0% |
| Same store sales growth (%) | (1.2) | 1.8 | |
| | | | |
| **Supermarkets** | | | |
| Number of Stores | 23 | 21 | 9.5% |
| Net Sales (₱ millions) | 13,959.6 | 13,589.3 | 2.7% |
| Average Basket Size (₱) | 498.6 | 497.8 | 0.1% |
| Number of transactions (millions) | 28.0 | 27.3 | 2.6% |
| Same store sales growth (%) | (0.8) | 3.2 | |
| | | | |
| **Department Stores** | | | |
| Number of Stores | 10 | 10 | 0.0% |
| Net Sales (₱ millions) | 9,829.9 | 9,989.8 | (1.6%) |
| Average Basket Size (₱) | 558.5 | 551.9 | 1.2% |
| Number of transactions (millions) | 17.6 | 18.1 | (2.8%) |
| Same store sales growth (%) | (2.4) | (1.4) | |
| | | | |
| **Hypermarkets** | | | |
| Number of Stores | 10 | 7 | 42.9% |
| Net Sales (₱ millions) | 4,567.4 | 1,889.0 | 141.8% |
| Average Basket Size (₱) | 466.1 | 460.7 | 1.1% |
| Number of transactions (millions) | 9.8 | 4.1 | 139% |
| Same store sales growth (%) | 4.2 | 15.7 | |

For the year ended December 31, 2014, our net sales were ₱28,356.9 million, an increase of 11.3% compared to ₱25,468.0 million for the year ended December 31, 2013. The increase in net sales was primarily due to the opening of three new hypermarkets and two new supermarkets, but was partly offset by a decline in overall same store sales of 1.2%. The decline in same store sales was attributed to business disruptions caused by natural disasters and information technology system integration in the fourth quarter of 2013, which continued to affect us through early 2014.

**Supermarkets**

Our supermarket net sales increased by 2.7% from ₱13,589.3 million for the year ended December 31, 2013 to ₱13,959.6 million for the year ended December 31, 2014. This increase in net sales was largely due to new store openings, but was partly offset by a decline in same store sales. We opened two new supermarkets (one in Luzon (outside Metro Manila) and one in the Central Visayas region) in 2014. Our supermarkets experienced a decline in same store sales of 0.8%.

**Department Stores**

Our department store net sales decreased by 1.6% from ₱9,989.8 million for the year ended December 31, 2013 to ₱9,829.9 million for the year ended December 31, 2014. This decrease in net sales was primarily due to a decline in same store sales of 2.4%.

**Hypermarkets**

Our hypermarket net sales increased by 141.8% from ₱1,889.0 million for the year ended December 31, 2013 to ₱4,567.4 million for the year ended December 31, 2014. This increase in net sales was primarily due to new store openings and same store sales growth. We opened three new hypermarkets (two in Central Visayas and one in South Luzon) in 2014. Our same store sales growth for hypermarkets was 4.2%.

### RENTAL INCOME

For the year ended December 31, 2014, our rental income was ₱89.1 million, an increase of 19.6% compared to ₱74.5 million for the year ended December 31, 2013. The increase in rental income was primarily due to the opening of five new stores, which led to an increase in net leasable space. In addition, there was an increase in rental fees due to escalation clauses in our existing lease agreements.

### INTEREST AND OTHER INCOME

For the year ended December 31, 2014, our interest and other income was ₱95.6 million, an increase of 145.1% compared to ₱39.0 million for the year ended December 31, 2013. The increase in interest and other income was primarily due to increases in scrap sales, increased interest income and other income. Our scrap sales increased from ₱17.8 million to ₱40.6 million because of the disposal of accumulated scrap materials and of scrap items from store renovations. Our interest income increased from ₱6.0 million to ₱15.6 million because of an increase in cash balances maintained for working capital requirements.

### COST OF SALES

For the year ended December 31, 2014, our cost of sales was ₱22,336.6 million, an increase of 11.9% compared to ₱19,965.9 million for the year ended December 31, 2013, which was generally in line with the growth of net sales of 11.3%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

### GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2014, our general and administrative expenses were ₱4,931.1 million, an increase of 10.3% compared to ₱4,471.9 million for the year ended December 31, 2013. The increase in general and administrative expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses, and depreciation expenses resulting from the opening of new stores.

### SELLING AND MARKETING EXPENSES

For the year ended December 31, 2014, our selling and marketing expenses were ₱338.8 million, an increase of 39.2% compared to ₱243.4 million for the year ended December 31, 2013. The increase in selling and marketing expenses was primarily due to an increase in credit card transaction fees resulting from an increase in transactions made using credit cards, and extensive promotional activities, which increase when we open new stores.

### FINANCE COSTS

For the year ended December 31, 2014, our finance costs were ₱40.0 million, an increase of 63.9% compared to ₱24.4 million for the year ended December 31, 2013. The increase in finance costs was primarily due to an increase in bank loans of ₱1,400.0 million that we used to finance the acquisition of inventory and for the fit-out of our new stores. We made loan payments of a total of ₱1,500.0 million before the end of the year.

### PROVISION FOR INCOME TAX

For the year ended December 31, 2014, our provision for income tax was ₱266.2 million, an increase of 1.4% compared to ₱262.5 million for the year ended December 31, 2013. 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, 2014, our net income was ₱628.9 million, an increase of 2.5% compared to ₱613.5 million for the year ended December 31, 2013.

## *The year ended December 31, 2013 compared with the year ended December 31, 2012*

## REVENUE

### NET SALES

The following table sets out certain key operating performance indicators relevant to net sales for the years ended December 31, 2013 and 2012 and the percentage change in these key operating performance indicators between the two periods.

| | As of or for the year ended December 31, | | Percentage Change |
|---|---|---|---|
| | 2013 | 2012 | |
| **The Company** | | | |
| Number of Stores | 38 | 30 | 26.7% |
| Net Sales (₱ millions) | 25,468.0 | 22,550.4 | 12.9% |
| Average Basket Size (₱) | 515.5 | 457.4 | 12.7% |
| Number of transactions (millions) | 49.4 | 49.3 | 0.3% |
| Same store sales growth (%) | 1.8 | 5.6 | |
| | | | |
| **Supermarkets** | | | |
| Number of Stores | 21 | 19 | 10.5% |
| Net Sales (₱ millions) | 13,589.3 | 11,870.9 | 14.5% |
| Average Basket Size (₱) | 497.8 | 449.7 | 10.7% |
| Number of transactions (millions) | 27.3 | 26.4 | 3.4% |
| Same store sales growth (%) | 3.2 | 2.9 | |
| | | | |
| **Department Stores** | | | |
| Number of Stores | 10 | 9 | 11.1% |
| Net Sales (₱ millions) | 9,989.8 | 9,722.0 | 2.8% |
| Average Basket Size (₱) | 551.9 | 476.6 | 15.8% |
| Number of transactions (millions) | 18.1 | 20.4 | (11.3)% |
| Same store sales growth (%) | (1.4) | 8.9 | |
| | | | |
| **Hypermarkets** | | | |
| Number of Stores | 7 | 2 | 250.0% |
| Net Sales (₱ millions) | 1,889.0 | 957.5 | 97.3% |
| Average Basket Size (₱) | 460.7 | 383.0 | 20.3% |
| Number of transactions (millions) | 4.1 | 2.5 | 64.0% |
| Same store sales growth (%) | 15.7 | - | |

For the year ended December 31, 2013, our net sales were ₱25,468.0 million, an increase of 12.9% compared to ₱22,550.4 million for the year ended December 31, 2012. The increase in net sales was primarily due to the opening of eight new stores and overall same store sales growth of 1.8%.

#### Supermarkets

Our supermarket net sales increased by 14.5% from ₱11,870.9 million for the year ended December 31, 2012 to ₱13,589.3 million for the year ended December 31, 2013. This increase in net sales was primarily due to new store openings and same store sales growth. We opened two new supermarkets (one in Metro Manila and one in Central Visayas) in 2013. Our same store sales growth for supermarkets was 3.2%.

#### Department Stores

Our department store net sales increased by 2.8% from ₱9,722.0 million for the year ended December 31, 2012 to ₱9,989.8 million for the year ended December 31, 2013. This increase in sales was primarily due to new store openings and partly offset by a decline in same store sales growth. We opened one new department store in Metro Manila in 2013. Our department stores experienced a decline in same store sales of 1.4%.

#### Hypermarkets

Our hypermarket net sales increased by 97.3% from ₱957.5 million for the year ended December 31, 2012 to ₱1,889.0 million for the year ended December 31, 2013. This increase in net sales was primarily due to new store openings and same store sales growth. We opened five new hypermarkets (one in Metro Manila, three in Central Visayas, and one in Western Visayas) in 2013. Our same store sales growth for hypermarkets was 15.7%.

### RENTAL INCOME

For the year ended December 31, 2013, our rental income was ₱74.5 million, an increase of 5.4% compared to ₱70.7 million for the year ended December 31, 2012. The increase in rental income was primarily due to the opening of eight new stores, which led to an increase in net leasable space. In addition, there was an increase in rental fees due to escalation clauses in our existing lease agreements.

### INTEREST AND OTHER INCOME

For the year ended December 31, 2013, our interest and other income was ₱39.0 million, a decrease of 1.3% compared to ₱39.5 million for the year ended December 31, 2012. The decrease in interest and other income was primarily due to a decrease in cash balances of bank accounts maintained by the company for our working capital requirements.

### COST OF SALES

For the year ended December 31, 2013, our cost of sales was ₱19,965.9 million, an increase of 10.9% compared to ₱18,001.6 million for the year ended December 31, 2012, which was slower than the growth of net sales of 12.9%. Cost of sales grew slower than net sales due to new store opening support from suppliers that effectively reduced the cost of sales.

### GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended December 31, 2013, our general and administrative expenses were ₱4,471.9 million, an increase of 24.3% compared to ₱3,598.9 million for the year ended December 31, 2012. The increase in general and administrative expenses was primarily due to increased salaries and wages, rent expenses, overhead expenses, and depreciation expenses resulting from the opening of new stores.

### SELLING AND MARKETING EXPENSES

For the year ended December 31, 2013, our selling and marketing expenses were ₱243.4 million, an increase of 11.3% compared to ₱218.6 million for the year ended December 31, 2012. The increase in selling and marketing expenses was primarily due to an increase in credit card transaction fees resulting from an increase in transactions made using credit cards, and extensive promotional activities, which increase when we open new stores.

### FINANCE COSTS

For the year ended December 31, 2013, our finance costs were ₱24.4 million, an increase of 93.7% compared to ₱12.6 million for the year ended December 31, 2012. The increase in finance costs was primarily due to an increase in bank loans, which we used to finance the acquisition of inventory for new stores and fit-outs for new stores.

### PROVISION FOR INCOME TAX

For the year ended December 31, 2013, our provision for income tax was ₱262.5 million, an increase of 6.0% compared to ₱247.6 million for the year ended December 31, 2012. 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, 2013, our net income was ₱613.5 million, an increase of 5.6% compared to ₱581.2 million for the year ended December 31, 2012.

## FINANCIAL POSITION

As of December 31, 2015, 2014, and 2013, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,059.6 million, ₱1,832.3 million, and ₱1,595.9 respectively, representing a positive net working capital position.

### CURRENT ASSETS

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories, and other current assets. Total current assets as of December 31, 2015, 2014, and 2013 were ₱9,576.5 million, ₱6,288.0 million, and ₱5,764.3 million, respectively. The increase of 52.3% of current assets is significantly due to the increase in working capital arising from the proceeds of the initial public offering. As of December 31, 2015, merchandise inventories totaled ₱3,679.8 million, cash and cash equivalents totaled ₱2,351.0 million, and short-term investments totaled ₱2,225.0 million. As of December 31, 2014, merchandise inventories comprised the bulk of our current assets, totaling ₱3,168.2 million, followed by cash, totaling ₱1,625.7 million.

As of December 31, 2015, the cash balance totaled to ₱2,351.0 million, an increase of 44.6% from ₱1,625.7 million. The increase was mainly attributable to issuance of capital stock by way of an initial public offering of ₱3,360.9 million and increase in trade and other payables of ₱90.5 million offset by acquisition of ₱683.1 million property and equipment, net payment of ₱150.0 million of the outstanding loans payable as of December 31, 2014, and payment of cash dividends amounting to ₱650.0 million declared in 2015.

### CURRENT LIABILITIES

Our current liabilities consist of trade and other payables, loans payable, and income tax payable. Total current liabilities as of December 31, 2015, 2014, and 2013 were ₱4,517.0 million, ₱4,455.7 million, and ₱4,168.4 million, respectively. As of December 31, 2015 and 2014, trade and other payables totaled ₱3,374.2 million and ₱3,284.0 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

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

## CASH FLOWS

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (₱ million) | | |
| Net cash flows from (used in) operating activities | ₱1,028.8 | ₱1,462.3 | (₱335.8) |
| Net cash flows from (used in) investing activities | (2,864.4) | (3,242.4) | (709.8) |
| Net cash flows from (used in) financing activities | 2,560.9 | 2,375.0 | 1,200.0 |
| Net increase (decrease) in cash | ₱725.3 | ₱594.9 | ₱154.4 |



### NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES

Our net cash flows from operating activities for the year ended December 31, 2015 was ₱1,028.8 million, which is comprised of operating income before working capital changes of ₱1,537.6 million, adjusted for changes in working capital and income tax and interest paid, partially offset by interest received.

The changes in working capital were mainly attributable to increase in merchandise inventories amounting to ₱511.6 million and decrease in receivables of ₱32.2 million due to opening of new stores. The increase in trade and other payables of ₱43.1 million also significantly contributed to the change in working capital requirements.

In 2014, net cash flows from operating activities was ₱1,462.3 million, which is comprised of operating income before working capital changes of ₱1,303.7 million adjusted for changes in working capital and interest received partially offset by income tax and interest paid. The changes in working capital were primarily attributable to an increase in receivables and trade and other payables of ₱6.8 million and ₱323.3 million, respectively.

In 2013, net cash flows used in operating activities was ₱335.8 million, which is comprised of operating income before working capital changes of ₱1,185.9 million adjusted for changes in working capital and interest received partially offset by income tax paid. The changes in working capital were primarily attributable to an increase in merchandise inventories of ₱947.5 million arising from additional merchandise purchased for new stores.

### NET CASH FLOWS USED IN INVESTING ACTIVITIES

For the year ended December 31, 2015, net cash flows used in investing activities was ₱2,564.4 million, which is significantly due to the proceeds of the initial public offering placed under short-term investments amounting ₱2,225.0 million and additions to property and equipment for fit-outs of new stores amounting to ₱635.6 million.

Net cash flows used in investing activities was ₱3,242.4 million in 2014. The acquisition of certain retail business enterprises under common control with us comprised the majority of our investing activities in 2014. Net cash flows used in investing activities was ₱709.8 million in 2013 primarily due to additions to property and equipment.

### NET CASH FLOWS FROM FINANCING ACTIVITIES

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

In 2014, the increase in net cash flows from financing activities was ₱2,375.0 million, primarily due to proceeds of ₱2,475.0 million from the issuance of capital stock subscribed by VDC and bank loan proceeds and payments of ₱1,400.0 million and ₱1,500.0 million, respectively. In 2013, net cash flows from financing activities was ₱1,200.0 million due to ₱1,200.0 million of outstanding loans of VDC allocated to the retail segment. This was used to finance working capital requirements for the procurement of inventory for new stores.

### INDEBTEDNESS

We had outstanding loan payables of ₱950.0 million and ₱1,100.0 million as of December 31, 2015 and 2014, respectively. As of December 31, 2015, we had short-term debt with interest rates ranging from 2.7% to 3.3% per annum. The short-term notes payable were obtained to support working capital requirements.

## KEY PERFORMANCE INDICATORS

| | As of or for the year ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| **The Company** | | | |
| Net sales[1] (₱ million) | 32,304.5 | 28,356.9 | 25,468.1 |
| Average basket size[2] (₱) | 546.3 | 511.9 | 515.5 |
| Same store sales growth[3] (%) | 8.8 | (1.2) | 1.8 |
| Number of stores | 46 | 43 | 38 |
| Net selling space[4] (sqm) | 201,820 | 192,496 | 183,514 |
| **Supermarkets** | | | |
| Net sales (₱ million) | 15,369.2 | 13,959.6 | 13,589.3 |
| Average basket size (₱) | 510.4 | 498.6 | 497.8 |
| Same store sales growth (%) | 6.1 | (0.8) | 3.2 |
| Number of stores | 24 | 23 | 21 |
| Net selling space (sqm) | 42,298 | 40,980 | 36,781 |
| **Department Stores** | | | |
| Net sales (₱ million) | 10,488.4 | 9,829.9 | 9,989.8 |
| Average basket size (₱) | 598.8 | 558.5 | 551.9 |
| Same store sales growth (%) | 6.7 | (2.4) | (1.4) |
| Number of stores | 10 | 10 | 10 |
| Net selling space (sqm) | 110,521 | 110,521 | 118,589 |
| **Hypermarkets** | | | |
| Net sales (₱ million) | 6,446.9 | 4,567.4 | 1,889.0 |
| Average basket size (₱) | 560.3 | 466.1 | 460.7 |
| Same store sales growth (%) | 24.1 | 4.2 | 15.7 |
| Number of stores | 12 | 10 | 7 |
| Net selling space (sqm) | 49,001 | 40,995 | 28,144 |

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.

MRSGI President and COO Arthur Emmanuel and Chairman and CEO Frank Gaisano in a dialogue with suppliers and partners.

# STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

**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 for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip Gorres Velayo & Co., the independent auditors, appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards of Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

ALJIM C. JAMANDRE
Chief Financial Officer

March 16, 2016

**SUBSCRIBED AND SWORN** to before me this MAR 2 3 2016 affiants exhibiting to me their respective Philippine passports as follows:

| | Passport No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Frank S. Gaisano | EB9732809 | 02 Dec 2018 | DFA NCR South |
| Aljim C. Jamandre | EC2268843 | 30 Sep 2019 | DFA Cebu |

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Series of 2016

VINCENT E. TOMANENG
NOTARY PUBLIC FOR CEBU CITY
[illegible]
CEBU CITY PHILIPPINES

Vicsal Building corner of C.D. Seno and W.O Seno Sts.
Guizo, North Reclamation Area, Mandaue City, Cebu

# FINANCIAL STATEMENTS

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

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

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

**INDEPENDENT AUDITORS' 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

We have audited the accompanying financial statements of Metro Retail Stores Group, Inc., (formerly Valueshop Market Market, Inc.), which comprise the statements of financial position as at December 31, 2015 and 2014, 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, 2015, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Metro Retail Stores Group, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

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

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

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321616, January 4, 2016, Makati City

March 16, 2016

## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

## STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2015** | 2014 (Note 2) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 5 and 26) | **₱2,351,037,390** | ₱1,625,731,425 |
| Short-term investments (Notes 6 and 26) | **2,225,000,000** | – |
| Receivables (Notes 7 and 26) | **839,071,118** | 869,353,202 |
| Merchandise inventories (Note 8) | **3,679,815,495** | 3,168,232,389 |
| Other current assets (Note 9) | **481,614,888** | 624,679,213 |
| **Total Current Assets** | **9,576,538,891** | 6,287,996,229 |
| **Noncurrent Assets** | | |
| Property and equipment (Note 10) | **1,646,911,609** | 1,350,972,131 |
| Deferred tax assets (Note 22) | **136,795,616** | 137,413,978 |
| Other noncurrent assets (Note 11) | **311,407,142** | 307,626,100 |
| **Total Noncurrent Assets** | **2,095,114,367** | 1,796,012,209 |
| **TOTAL ASSETS** | **₱11,671,653,258** | ₱8,084,008,438 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Notes 12 and 26) | **₱3,374,242,962** | ₱3,283,985,150 |
| Income tax payable | **192,731,583** | 71,710,620 |
| Loans payable (Notes 13 and 26) | **950,000,000** | 1,100,000,000 |
| **Total Current Liabilities** | **4,516,974,545** | 4,455,695,770 |
| **Noncurrent Liabilities** | | |
| Retirement benefit obligation (Note 20) | **354,685,612** | 297,296,232 |
| Other noncurrent liabilities (Note 14) | **354,771,064** | 344,314,076 |
| **Total Noncurrent Liabilities** | **709,456,676** | 641,610,308 |
| **Total Liabilities** | **5,226,431,221** | 5,097,306,078 |
| **Equity** | | |
| Capital stock (Note 15) | **3,429,375,000** | 2,524,000,000 |
| Additional paid-in capital (Note 15) | **2,455,542,149** | – |
| Retained earnings (Note 15) | **575,241,224** | 466,640,635 |
| Remeasurement losses on defined benefit obligation (Note 20) | **(14,936,336)** | (3,938,275) |
| **Total Equity** | **6,445,222,037** | 2,986,702,360 |
| **TOTAL LIABILITIES AND EQUITY** | **₱11,671,653,258** | ₱8,084,008,438 |

*See accompanying Notes to Financial Statements.*

## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 (Note 2) | 2013 (Note 2) |
| **REVENUE** | | | |
| Net sales | **₱32,304,453,639** | ₱28,356,927,573 | ₱25,468,014,185 |
| Rental (Notes 21 and 23) | **201,076,713** | 89,137,370 | 74,494,077 |
| Interest and other income (Notes 5, 6 and 16) | **76,116,891** | 95,626,449 | 38,976,536 |
| | **32,581,647,243** | 28,541,691,392 | 25,581,484,798 |
| **COSTS AND EXPENSES** | | | |
| Cost of sales (Note 8) | **25,720,747,192** | 22,336,596,589 | 19,965,855,001 |
| General and administrative (Note 17) | **5,433,544,470** | 4,931,118,327 | 4,471,915,574 |
| Selling and marketing (Note 19) | **309,839,270** | 338,834,234 | 243,409,503 |
| Finance costs (Notes 13 and 14) | **36,065,857** | 40,046,868 | 24,365,222 |
| | **31,500,196,789** | 27,646,596,018 | 24,705,545,300 |
| **INCOME BEFORE INCOME TAX** | **1,081,450,454** | 895,095,374 | 875,939,498 |
| **PROVISION FOR INCOME TAX** (Note 22) | | | |
| Current | **317,518,048** | 286,293,760 | 275,182,671 |
| Deferred | **5,331,817** | (20,068,805) | (12,722,614) |
| | **322,849,865** | 266,224,955 | 262,460,057 |
| **NET INCOME** | **758,600,589** | 628,870,419 | 613,479,441 |
| **OTHER COMPREHENSIVE INCOME (LOSS) -** *Not to be reclassified to profit or loss in subsequent periods* | | | |
| Remeasurement gains (losses) on defined benefit obligation (Note 20) | **(15,711,516)** | (5,453,463) | 53,975,052 |
| Income tax effect (Note 22) | **4,713,455** | 1,636,039 | (16,192,516) |
| | **(10,998,061)** | (3,817,424) | 37,782,536 |
| **TOTAL COMPREHENSIVE INCOME** | **₱747,602,528** | ₱625,052,995 | ₱651,261,977 |
| **Basic/Diluted Earnings Per Share** (Note 24) | **₱0.29** | ₱0.25 | ₱0.24 |

*See accompanying Notes to Financial Statements.*

**METRO RETAIL STORES GROUP, INC.**
**(Formerly Valueshop Market Market, Inc.)**
## STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock (Note 15) | Additional Paid-in Capital (Note 15) | Retained Earnings Unappropriated (Note 15) | Retained Earnings Appropriated (Note 15) | Equity Reserve (Note 4) | Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 20) | Total |
|---|---|---|---|---|---|---|---|
| Balances at January 1, 2013 | ₱49,000,000 | ₱– | ₱716,920,842 | ₱100,000,000 | ₱1,189,886,328 | (₱44,852,165) | ₱2,010,955,005 |
| Net income for the year | – | – | 613,479,441 | – | – | – | 613,479,441 |
| Other comprehensive income (loss) | – | – | – | – | (37,118,865) | 37,782,536 | 663,671 |
| Total comprehensive income | – | – | 613,479,441 | – | (37,118,865) | 37,782,536 | 614,143,112 |
| Appropriations | – | – | (20,000,000) | 20,000,000 | – | – | – |
| Reversal of appropriations | – | – | 120,000,000 | (120,000,000) | – | – | – |
| Balances at December 31, 2013 | ₱49,000,000 | ₱– | ₱1,430,400,283 | ₱– | ₱1,152,767,463 | (₱7,069,629) | ₱2,625,098,117 |
| | | | | | | | |
| Balances at January 1, 2014 | ₱49,000,000 | ₱– | ₱1,430,400,283 | ₱– | ₱1,152,767,463 | (₱7,069,629) | ₱2,625,098,117 |
| Net income for the year | – | – | 628,870,419 | – | – | – | 628,870,419 |
| Other comprehensive loss | – | – | – | – | – | (3,817,424) | (3,817,424) |
| Total comprehensive income | – | – | 628,870,419 | – | – | (3,817,424) | 625,052,995 |
| Issuance of shares | 2,475,000,000 | – | – | – | – | – | 2,475,000,000 |
| Net (assets) liabilities not (acquired) assumed from the Retail Entities | – | – | – | – | 29,767,162 | – | 29,767,162 |
| Acquisition of Retail Business Enterprise (Notes 2 and 4) | – | – | (1,592,630,067) | – | (1,182,534,625) | 6,948,778 | (2,768,215,914) |
| Balances at December 31, 2014 | ₱2,524,000,000 | ₱– | ₱466,640,635 | ₱– | ₱– | (₱3,938,275) | ₱2,986,702,360 |
| | | | | | | | |
| **Balances at January 1, 2015** | **₱2,524,000,000** | **₱–** | **₱466,640,635** | **₱–** | **₱–** | **(₱3,938,275)** | **₱2,986,702,360** |
| **Net income for the year** | **–** | **–** | **758,600,589** | **–** | **–** | **–** | **758,600,589** |
| **Other comprehensive loss** | **–** | **–** | **–** | **–** | **–** | **(10,998,061)** | **(10,998,061)** |
| **Total comprehensive income** | **–** | **–** | **758,600,589** | **–** | **–** | **(10,998,061)** | **747,602,528** |
| **Declaration of dividends (Note 15)** | **–** | **–** | **(650,000,000)** | **–** | **–** | **–** | **(650,000,000)** |
| **Issuance of shares (Note 15)** | **905,375,000** | **2,455,542,149** | **–** | **–** | **–** | **–** | **3,360,917,149** |
| **Balances at December 31, 2015** | **₱3,429,375,000** | **₱2,455,542,149** | **₱575,241,224** | **₱–** | **₱–** | **(₱14,936,336)** | **₱6,445,222,037** |

*See accompanying Notes to Financial Statements.*

**METRO RETAIL STORES GROUP, INC.**
**(Formerly Valueshop Market Market, Inc.)**
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2015** | 2014 (Note 2) | 2013 (Note 2) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱1,081,450,454** | ₱895,095,374 | ₱875,939,498 |
| Adjustments for: | | | |
| Depreciation and amortization (Note 10) | **387,127,546** | 344,354,264 | 251,400,388 |
| Retirement benefits costs (Note 20) | **41,677,864** | 39,876,938 | 40,018,737 |
| Finance costs (Notes 13 and 14) | **36,065,857** | 40,046,868 | 24,365,222 |
| Provision for impairment losses (Note 17) | **6,645,155** | – | 189,288 |
| Loss on retirement of property and equipment (Note 10) | **121,168** | – | – |
| Interest income (Notes 5 and 6) | **(13,915,394)** | (15,633,815) | (5,967,382) |
| Reversal of impairment losses (Note 7) | **(1,444,547)** | – | – |
| Operating income before working capital changes | **1,537,728,103** | 1,303,739,629 | 1,185,945,751 |
| Decrease (increase) in: | | | |
| Receivables | **32,178,696** | (6,772,065) | (69,713,711) |
| Merchandise inventories | **(511,583,106)** | 21,586,283 | (947,489,711) |
| Other current assets | **143,064,325** | 57,101,365 | (143,530,407) |
| Increase (decrease) in: | | | |
| Trade and other payables | **43,083,745** | 323,270,672 | (150,908,734) |
| Other noncurrent liabilities | **10,456,988** | 13,599,184 | 36,134,879 |
| Cash flows generated from (used in) operations | **1,254,928,751** | 1,712,525,068 | (89,561,933) |
| Interest received | **6,818,174** | 14,913,015 | 5,881,924 |
| Income tax paid | **(196,497,085)** | (214,583,141) | (231,801,900) |
| Interest paid | **(36,470,647)** | (50,556,498) | (20,353,109) |
| Net cash flows from (used in) operating activities | **1,028,779,193** | 1,462,298,444 | (335,835,018) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of: | | | |
| Short-term investments | **(2,225,000,000)** | – | – |
| Property and equipment (Note 10) | **(635,609,332)** | (425,177,871) | (582,608,267) |
| Retail Business Enterprise (Notes 2 and 4) | **–** | (2,735,619,789) | – |
| Increase in other noncurrent assets | **(3,781,045)** | (81,624,191) | (127,167,700) |
| Cash flows used in investing activities | **(2,864,390,377)** | (3,242,421,851) | (709,775,967) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from: | | | |
| Issuance of shares (Note 15) | **3,612,446,250** | 2,475,000,000 | – |
| Loans payable (Note 13) | **1,450,000,000** | 1,400,000,000 | 1,200,000,000 |
| Payment of: | | | |
| Transaction costs (Note 15) | **(251,529,101)** | – | – |
| Cash dividends (Note 15) | **(650,000,000)** | – | – |
| Loans payable (Note 13) | **(1,600,000,000)** | (1,500,000,000) | – |
| Net cash flows from financing activities | **2,560,917,149** | 2,375,000,000 | 1,200,000,000 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **725,305,965** | 594,876,593 | 154,389,015 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,625,731,425** | 1,030,854,832 | 876,465,817 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱2,351,037,390** | ₱1,625,731,425 | ₱1,030,854,832 |

*See accompanying Notes to Financial Statements.*

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

Corporate Information

Metro Retail Stores Group, Inc. (formerly Valueshop Market Market, Inc.) (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003. The Company is 72.17%-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.

On June 16, 2014, the BOD approved its change in corporate name from Valueshop Market Market, Inc. to Metro Retail Stores Group, Inc. Pursuant to the BOD approval, the Company applied for SEC approval on June 27, 2014 which was subsequently approved by the SEC on July 3, 2014.

The Company's common stock was listed with the Philippine Stock Exchange (PSE) on November 24, 2015 (see Note 15).

The Company operates under the name and style of the following business names: 1) The Metro Gaisano 2) Metro Gaisano Pharmacy 3) Metro Gaisano Café 4) Super Metro Gaisano 5) Metro Ayala Center 6) Metro Plaza Store-Toledo 7) Metro Gaisano Express Mart 8) Tita Gwapa Supertinda 9) Metro Gourmet Dining 10) Metro Fresh n' Easy 11) Metro Wholesale Mart 12) Metro Market Market Department Store & Supermarket 13) Metro Alabang Department Store & Supermarket 14) Metro Hi-Per 15) Metro Gaisano Market 16) Metro Legazpi Dept. Store & Supermarket 17) Metro Lucena Department Store & Supermarket 18) Metro Angeles City Department Store & Supermarket 19) Metro Angeles City Pharmacy.

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

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 were endorsed for approval by the Audit Risk Committee on March 9, 2016 and were approved and authorized for issue by the Board of Directors (BOD) on March 16, 2016.

**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.



*Restructuring Activities*

Prior to the restructuring, the Metro Gaisano Family owned and operated retail stores under MRSGI and seven (7) other retail entities namely: 1) Vicsal Development Corporation (VDC); 2) Metro Legazpi Dev. Corp.; 3) Lucena City Value Shoppers, Inc.; 4) Magnetite Logistics & Gen. Merchandise, Inc.; 5) Cinnabar Gen. Merchandise & Logistics Corp.; 6) Metro Superstores Group, Inc.; and 7) Newport City Plaza Store, Inc. (collectively referred to as the "Retail Entities"). The restructuring of the retail business of the Metro Gaisano Family was undertaken with the objective of holding and managing all the retail stores of the Metro Gaisano Family under MRSGI through transfer of the respective retail store operations of the Retail Entities to MRSGI. The following restructuring activities have been carried out in order for the Company and Retail Entities to operate as a consolidated single retail entity effective August 1, 2014.

a. *Change in Accounting Period*

To align all accounting periods of the Retail Entities and that of the Company to December 31 year end, the BOD approved MRSGI's change in accounting period from fiscal year June 30 to calendar year December 31. The change in accounting period was approved by the SEC on December 26, 2013 and approved by the Bureau of Internal Revenue on August 28, 2014. The Company has prepared its statutory financial statements as at December 31, 2014 and June 30, 2014 and for the six months period ended December 31, 2014 and for the year ended June 30, 2014 in accordance with Philippine Financial Reporting Standards. Those statutory financial statements reflect the change in the accounting period of the Company from fiscal year June 30 to calendar year December 31.

The accompanying comparative financial statements as at and for the years ended December 31, 2014 and 2013 shows different periods as compared to the statutory financial statements discussed above. The prior year financial statements have been prepared to present the financial position and financial performance of the Company based on the new accounting period (calendar year ending December 31) with comparative periods.

b. *Increase in Authorized Capital Stock and Subscription of VDC*

On June 16, 2014, the Company's BOD approved the increase in MRSGI's authorized capital stock from ₱100.00 million to ₱10,000.00 million at ₱1.00 par value. On July 3, 2014, the SEC approved the Company's increase in authorized capital stock. Of the increase in the Company's authorized capital of ₱9,900.00 million, at least 25% thereof or ₱2,480.00 million was subscribed to by VDC. The said subscription resulted to VDC owning 98% of the Company and the remaining 2% by Value Shop Stores, Inc. (VSSI) (see Note 15). Prior to the subscription, the Company was 100% owned by VSSI.

c. *Acquisition of Retail Business Enterprise*

On June 30, 2014, MRSGI executed an "Agreement to Purchase and Sell Retail Business Enterprise" (the Agreement) with the Retail Entities to acquire their retail business. Using the proceeds of the VDC subscription, on August 1, 2014 (pursuant to the June 30, 2014 Agreement), MRSGI and the Retail Entities executed Deeds of Conveyance of Retail Business Enterprise whereby the Retail Entities sold, transferred and conveyed, absolutely and unconditionally, to MRSGI, all their rights, title, ownership, and interests in and to their respective Retail Business Enterprise.

The acquisition of Retail Business Enterprise, as discussed above, includes transfer of certain assets and liabilities, assignment of contracts and agreements with its employees, concessionaires, suppliers, service providers and other agreements necessary to retail operations. The Company has determined that the respective Retail Business Enterprise acquired from the Retail Entities have met the definition of business that should be accounted for under PFRS 3, *Business Combinations.* Also, as both the Company and Retail Entities are owned by the Metro Gaisano Family before and after the acquisition of the Retail Business Enterprise, the Company accounted for the transaction as a business combination of entities under common control and applied the pooling of interest method of which comparative prior periods reflected the effects of the business combination as if it occurred from the beginning of the earliest period presented in the financial statements. Under this method, the comparative prior periods as of and for the years ended December 31, 2013 and 2012 reflected the effects of the business combination as if it occurred from the beginning of the earliest period presented in the financial statements.

Under the pooling of interest method, MRSGI accounted for the combination as follows:

- assets and liabilities reflected as at every year end is the combined assets and liabilities of the Retail Entities purchased and MRSGI using their existing historical carrying values prior to acquisition of the retail business enterprise;

- profit and loss and other comprehensive income reflects the full year results of the Retail Entities purchased and MRSGI, irrespective of when the restructuring took place;

- retained earnings reflects the accumulated earnings of MRSGI and the earnings of Retail Entities purchased as if the combination occurred from the beginning of the earliest period presented;

- capital stock represents the legal capital of MRSGI;

- equity reserve represents the net assets of the Retail Entities purchased at the earliest period presented plus any movements due to capital infusion, movements of other comprehensive income and difference of net assets or liabilities not acquired or assumed at the time of the purchase;

- the cash flows presented are operating, investing and financing cash flows of the Retail Entities purchased and MRSGI, irrespective of when the restructuring took place; and

- at acquisition date, the selected assets and liabilities of the Retail Entities purchased will be recognized at their carrying amounts and any difference between the total assets and liabilities at the time of purchase will be closed to equity reserve.

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



<u>Changes in Accounting Policies</u>
The accounting policies adopted by the Company are consistent with those of the previous financial years except for the amended and improved PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* and the following amendments to existing PFRS that became effective beginning January 1, 2015 and which have no impact on the Company's financial statements.

*Annual Improvements to PFRSs (2010-2012 cycle)*
The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary improvements to the following standards:

- PFRS 2, *Share-based Payment: Definition of Vesting Condition*
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures - Key Management Personnel Services*

*Annual Improvements to PFRSs (2011-2013 cycle)*
The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary improvements to the following standards:

- PFRS 3 - *Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement - Portfolio Exception*
- PAS 40, *Investment Property*

<u>Standards and interpretation issued but not yet effective</u>
The Company will adopt the following new and amended Standards and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

*Effective January 1, 2016*

- PAS 1, *Presentation of Financial Statements – disclosure initiative*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture – Bearer Plants*
- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investment in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- PFRS 14, *Regulatory Deferral Accounts*

*Annual Improvements to PFRSs (2012-2014 cycle)*
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. This includes:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*
- PAS 34, *Interim Financial Reporting – Disclosure of Information 'Elsewhere in the Interim Financial Report'*

*Effective January 1, 2018*

- PFRS 9, *Financial Instruments*

  In addition, the International Accounting Standards Board has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Company is currently assessing the impact of new standards and plans to adopt them on their required effective dates once adopted locally.

*Standards and Interpretation with Deferred Effectivity*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

*The following standard issued by the IASB has not yet been adopted by the FRSC*

- Philippine Interpretation PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 was issued in May 2014 by the International Accounting Standards Board (IASB) and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

  These amendments are expected to have an impact to the Company given that the Company has revenue arising from contracts with customers.



- PFRS 16, *Leases (effective January 1, 2019)*

  On January 13, 2016, the IASB issued its new standard, PFRS 16, *Leases*, which replaces Philippine Accounting Standards (PAS) 17, the current leases standard, and the related Interpretations.

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

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

  The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15, *Revenue from Contracts with Customers*. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

  These amendments are expected to have an impact to the Company given that the Company has operating leases.

Current and Noncurrent Classification
The Company presents assets and liabilities in the statement of financial position based on current/ noncurrent classification. An asset as current when it is:
- expected to be realized or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose trading;
- expected to be realized within twelve months after the reporting period; or
- cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

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

The Company classifies all other liabilities as noncurrent.

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

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

Short-term Investments
Short-term investments are short term, high 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 and Financial Liabilities
*Date of Recognition*
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial Recognition and Classification of Financial Instruments*
Financial assets and liabilities are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and liabilities at fair value through profit or loss (FVPL), includes transaction costs.

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

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

As of December 31, 2015 and 2014, the Company's financial assets and financial liabilities are in the form of loans and receivables and other financial liabilities only.

*Loans and Receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at amortized cost using the



effective interest rate method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and other receivables are derecognized or impaired, as well as through the amortization process. Loans and other receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2015 and 2014, the Company's loans and other receivables consist of "Cash and cash equivalents", "Short-term investments" and "Receivables" (excluding "Advances to employees and officers") in the statements of financial position.

*Other Financial Liabilities*
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

As of December 31, 2015 and 2014, other financial liabilities consist of "Trade and other payables" (excluding "Deferred revenue") and "Loans payable".

*Determination of Fair Value*
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

*"Day 1" Difference*
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the amount "Day 1" difference.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal

payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to receivables, a provision for impairment is made when there is no objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
*Financial Assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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



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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

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

<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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

<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 method. NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

<u>Other Current Assets</u>
*Advances to Suppliers*
Advances to suppliers are down payments to the Company's suppliers for the acquisition of supplies and merchandise inventories. These are recognized based on the amount paid at the transaction date and are applied against the outstanding balances to the related suppliers.

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

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulation. 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.

The input VAT is recognized as an asset and will be used to offset against the Company's current output VAT liabilities. Input VAT is stated at face value less provision for impairment, if any. A provision for impairment of unrecoverable input VAT is established when there is objective evidence that the Company will not be able to recover the asset.

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 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 following estimated useful lives of the property and equipment:

| | 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.

Other Noncurrent Assets
*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.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:
a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

*Operating Leases*
Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b). 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 - the Company as a Lessee*
The Company has entered into various lease agreements as lessee. These lease agreements are all accounted for as operating leases since the lessor retains all significant risks and rewards of ownership of the leased properties due to the following:
- the ownership of the assets does not transfer at the end of the lease term;
- the Company has no option to purchase the assets at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;

- the lease term is not for the major part of the economic life of the assets even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets; and
- the leased assets are not of such a specialized nature that only the Company can use them without major modifications.

*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 nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

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

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



Retirement Benefit Obligation
The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered under Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641.

In accordance with PIC Q&A No. 2013-03, the obligation for post-employment benefits of an entity that provides a defined contribution plan as its only post-employment benefit plan, is not limited to the amount it agrees to contribute to the fund, if any. In this case, therefore, the Company's retirement plan shall be accounted for as a defined benefit plan. Accordingly, the Company accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC plan.

The DC liability is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits.

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary 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.

*Share-based Payments*
The Company has an employee stock ownership plan (ESOP) which allows the grantees to purchase the Company's shares at a discounted price. The Company recognizes stock compensation expense over the holding period. The Company treats its ESOP plan as an option exercisable within a given period. These are measured by reference to the fair value at the date

on which they are granted. Dividends paid on the awards that have vested are deducted from equity and those paid on awards that are unvested are charged to profit or loss. The Company revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of the original estimates, if any, in profit or loss for the year, and a corresponding adjustment to the equity compensation reserve over the remaining vesting period.

As of December 31, 2015 and 2014, no actual grant has been made.

Related Parties Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

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

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

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



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

Equity

*Capital Stock*

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

Where the Company purchases its own capital stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity.

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

*Retained Earnings*

The amount included in retained earnings includes profit (loss) attributable to the Company's equity holders and dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the Company's stockholders. 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.

*Equity Reserve*

Equity reserve represents the effect of the application of the pooling-of-interest method as discussed under Note 2 of the financial statements. These were recognized as follows:

a. as of December 31, 2013 and 2012, the equity reserve consists of the legal capital of the Retail Entities before the acquisition on June 30, 2014;
b. as of December 31, 2014, the consideration transferred to acquire Retail Entities is equal to the net assets purchased thus no equity reserve is recognized.

Revenue Recognition

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

*Net Sales*

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

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

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

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

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

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

*General and Administrative Expenses*
Expenses incurred in the direction and general administration of day-to-day operations of the Company and are generally recognized when the services are used or the expenses arise.

*Selling and Marketing Expenses*
Selling and marketing expenses consist of costs associated with the development and execution of marketing promotion activities. Marketing expenses are generally recognized when the services are incurred or the expenses arise.

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.



Customer Loyalty Program
The Company's customer loyalty program is used to allow their customers to accumulate points when they purchase the Company's products. The points can then be redeemed or used to pay for the purchase of the Company's merchandise inventories, subject to a minimum number of points being obtained.

The consideration received is allocated between the products sold and points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is the amount for which the award credits could be sold separately. The fair value of the points issued is deferred, presented as deferred revenue in the statement of financial position and recognized as revenue when the points are redeemed.

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. Financial 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.

For comparative purposes, the number of shares used in EPS calculation for the previous periods presented is the number of shares outstanding at the time of restructuring.

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

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

3. **Significant Accounting Judgments, Estimates and Assumptions**

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

The effects of any change in accounting estimates are reflected in the Company 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.

*Determining Whether the Company is Acting as a Principal or Agent*

The Company assesses its revenue arrangements against specific criteria in order to determine if it's acting as principal or agent. The following criteria indicate whether the Company is acting as a principal or an agent:

- the Company has the primary responsibility for providing services to the customer;
- the Company has latitude in establishing price, either directly or indirectly, for example by providing additional services; and
- the Company bears the customer's credit risk for the amount of receivables from the customer.

*Determination of Operating Segment*

PFRS 8 requires segment disclosure based on components of the entity that management monitors in making decisions about operating matters. Such components or segments are identified on the basis of internal reports that the entity's CODM reviews regularly in allocating resources to segments and in assessing their performance. 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.

*Identifying a Business Combination*

PFRS 3 requires an entity to determine whether a transaction or event is a business combination. The Company exercises judgment in determining if its assets acquired and liabilities assumed constitute a business. The standard defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower cost or other economic benefits directly to investors or other owners, members or participants. The Company assesses the components of a business as inputs and processes applied to those inputs that have the ability to create outputs, which means that outputs do not need to be present for an integrated set of assets and activities to be a business.



The Company assessed all the components of a business are present in the acquisition of the Retail Business Enterprise as discussed in Notes 2 and 4, therefore the said acquisition is considered as an acquisition of a business as defined by PFRS 3.

*Determining Whether an Entity is Under Common Control*

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The Company assessed that the same group of individuals collectively have the power to govern the financial and operating policies of the Retail Entities before and after the purchase, therefore the transaction as discussed in Notes 2 and 4, is an acquisition of business under common control.

*Operating Leases - the Company as a Lessee*

The Company has entered into various lease agreements as lessee. These lease agreements are all accounted for as operating leases since the lessor retains all significant risks and rewards of ownership of the leased properties due to the following:

- the ownership of the assets does not transfer at the end of the lease term;
- the Company has no option to purchase the assets at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is not for the major part of the economic life of the assets even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased assets; and
- the leased assets are not of such a specialized nature that only the Company can use them without major modifications.

*Operating Leases - the Company as a Lessor*

Leases where the Company does not transfer substantially all the risks and rewards 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.

*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 2015 and 2014.

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

*Estimating Allowance for Impairment Losses of Loans and Receivables*
The Company assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The determination of impairment requires the Company to estimate the future cash flows based on certain assumptions, as well as to use judgment in selecting an appropriate rate in discounting. The Company uses specific impairment on its loans and receivables. The Company did not assess its loans and receivables for collective impairment due to few counterparties which can be specifically identified. The amount of loss is recognized in profit or loss with a corresponding reduction in the carrying value of the loans and receivables through an allowance account.

Allowance for impairment of receivables amounted to ₱9.49 million, ₱10.93 million and ₱10.93 million as of December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, receivables, net of valuation allowance, amounted to ₱839.07 million and ₱869.35 million, respectively (see Note 7).

*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.

As of December 31, 2015 and 2014, merchandise inventories amounted to ₱3,679.82 million and ₱3,168.23 million, respectively (see Note 8).

*Estimating Useful Lives of Property and Equipment*
The useful lives of property and equipment are estimated based on the period over which these assets are expected to be used. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. Any reduction in the estimated useful lives of property and equipment would increase the Company's recorded costs and expenses and decrease noncurrent assets. There is no change in the estimated useful lives of items of property and equipment in 2015, 2014 and 2013. As of December 31, 2015 and 2014, the net book values of property and equipment amounted to ₱1,646.91 million and ₱1,350.97 million as of December 31, 2015 and 2014, respectively (see Note 10).

*Estimating Impairment of Nonfinancial Assets*
The Company determines if "Advances to employees", "Other current assets", "Property and Equipment" and "Other noncurrent assets" are impaired at least on an annual basis. This requires an estimation of recoverable amount, which is the higher of an asset's or cash-generating unit's fair value less cost to sell and value-in-use. Estimating the value-in-use requires



the Company to make an estimate of the expected future cash flows from the cash-generating unit and to choose an appropriate discount rate in order to calculate the present value of those cash flows. Estimating the fair value less cost to sell is based on the information available to reflect the amount that the Company could obtain as of the reporting date. In determining this amount, the Company considers the outcome of recent transactions for similar assets within the same industry. See Notes 7, 9, 10 and 11 for the related balances.

*Estimating Realizability of Deferred Tax Asset*
The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts 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. As of December 31, 2015 and 2014, the Company has recognized deferred tax assets amounting to ₱136.80 million and ₱137.41 million, respectively (see Note 22).

*Estimating Retirement Benefits Liability*
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 liability. The Company's retirement benefits costs amounted to ₱41.68 million, ₱39.88 million and ₱40.02 million in 2015, 2014 and 2013, respectively. As of December 31, 2015 and 2014, retirement benefits liability amounted to ₱354.69 million and ₱297.30 million, respectively (see Note 20).

*Provisions and Contingencies*
The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the financial statements. Accordingly, no provision for probable losses arising from contingencies was recognized by the Company in 2015, 2014 and 2013.

*Sale of Merchandise - Loyalty Program*
The Company operates a customer loyalty program called Metro Rewards Card Program (MRC). This allows customers to accumulate points when they purchase products from the Company's retail store. The points accumulated can be used as a form of payment on the customer's future purchases, subject to certain restrictions. Fair value of the points is determined by applying statistical analysis. At every reporting date, the Company estimates the fair value of the points that their customers will redeem. The fair value of points issued is deferred and recognized as revenue when the points are redeemed.

As of December 31, 2015 and 2014, deferred revenue arising from MRC amounted to ₱91.81 million and ₱149.82 million, respectively.

4. **Common Control Business Combination**

As discussed in Note 2, the acquisition of Retail Business Enterprise, includes transfer of certain assets and liabilities, assignment of contracts and agreements with its employees, concessionaires, suppliers, service providers and other agreements necessary to retail operations. MRSGI accounted for the transaction as a business combination of entities under common control.

As of August 1, 2014, the total assets transferred and liabilities assumed from Retail Entities are as follows:

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash | ₱32,596,125 |
| Receivables | 528,184,589 |
| Inventories | 2,340,491,924 |
| Other current assets | 475,297,514 |
| **Total Current Assets** | 3,376,570,152 |
| **Noncurrent Assets** | |
| Property and equipment | 1,048,714,706 |
| Other noncurrent assets | 23,117,111 |
| **Total Noncurrent Assets** | 1,071,831,817 |
| **TOTAL ASSETS** | ₱4,448,401,969 |
| **LIABILITIES** | |
| **Current Liabilities** | |
| Trade and other payables | ₱1,066,286,459 |
| **Noncurrent Liabilities** | |
| Retirement benefit obligation | 301,726,407 |
| Other noncurrent liabilities | 312,173,189 |
| **Total Noncurrent Liabilities** | 613,899,596 |
| **TOTAL LIABILITIES** | 1,680,186,055 |
| **NET ASSETS** | ₱2,768,215,914 |

Following is the amount of net cash used for the purchase of Retail Business Enterprise:

| | |
|---|---|
| Acquisition cost | ₱2,768,215,914 |
| Cash acquired | (32,596,125) |
| Net cash flow | ₱2,735,619,789 |



5. **Cash and Cash Equivalents**

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Cash on hand | **₱107,071,368** | ₱76,130,386 |
| Cash in banks | **1,293,966,022** | 1,549,601,039 |
| Cash equivalents | **950,000,000** | – |
| | **₱2,351,037,390** | ₱1,625,731,425 |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash and cash equivalents amounted to ₱8.15 million, ₱15.63 million and ₱5.97 million in 2015, 2014 and 2013, respectively (see Note 16).

6. **Short-term Investments**

These pertain to money market placements with maturities of more than three months but less than one year and earn interest ranging from 2.5% to 2.75%.

Interest income earned from short-term investments amounted to ₱5.77 million in 2015 (see Note 16).

7. **Receivables**

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Trade | | |
| Third parties | **₱721,647,508** | ₱803,449,997 |
| Related parties (Note 21) | **49,458,115** | – |
| Rentals | **34,210,536** | 27,864,316 |
| Advances to employees and officers | **9,169,062** | 13,309,455 |
| Others | **34,074,153** | 35,662,237 |
| | **848,559,374** | 880,286,005 |
| Less allowance for impairment losses | **9,488,256** | 10,932,803 |
| | **₱839,071,118** | ₱869,353,202 |

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

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

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

Other receivables pertain to accrued interest receivable and other miscellaneous receivables.

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

| | **2015** | 2014 |
|---|---|---|
| Beginning of year | **₱10,932,803** | ₱10,932,803 |
| Provision for impairment losses (Note 17) | **6,645,155** | – |
| Write-off | **(6,645,155)** | – |
| Reversal | **(1,444,547)** | – |
| End of year | **₱9,488,256** | ₱10,932,803 |
| Gross amounts of receivables individually determined to be impaired | **₱9,488,256** | ₱10,932,803 |

In 2015, the Company has written off receivables amounting to ₱6.65 million and subsequently collected receivables amounting to ₱1.44 million previously written off.

## 8. Merchandise Inventories

Summary of the movement in merchandise inventories is set out below:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Beginning inventory | **₱3,168,232,389** | ₱3,189,818,672 | ₱2,242,328,961 |
| Add purchases - net | **26,232,330,298** | 22,315,010,306 | 20,913,344,712 |
| Cost of goods available for sale | **29,400,562,687** | 25,504,828,978 | 23,155,673,673 |
| Less cost of sales | **(25,720,747,192)** | (22,336,596,589) | (19,965,855,001) |
| Ending inventory | **₱3,679,815,495** | ₱3,168,232,389 | ₱3,189,818,672 |

No inventories have been used or pledged as security for the Company's obligations in 2015 and 2014.

The Company does not have any purchase commitments as of December 31, 2015 and 2014.

## 9. Other Current Assets

This account consists of:

| | **2015** | 2014 |
|---|---|---|
| Advances to suppliers | **₱342,136,202** | ₱383,470,944 |
| Supplies | **80,725,904** | 80,460,055 |
| Prepayments | **58,279,867** | 60,361,435 |
| Input VAT - net | **–** | 99,296,448 |
| Others | **472,915** | 1,090,331 |
| | **₱481,614,888** | ₱624,679,213 |



Advances to suppliers pertain to down payments for the Company's trade suppliers and nontrade suppliers for purchases of supplies, merchandise inventories and other services.

Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes.

Prepayments consist of prepaid insurance and advance rental payments.

Input VAT - net is comprised of input VAT from purchases of goods and services net of output VAT and other tax credits.

Others pertain to advances to e-commerce payment partners and other miscellaneous advances.

10. **Property and Equipment**

The rollforward analysis of this account follows:

**2015**

| | Machinery and Equipment | Store and Office Equipment | Computer Equipment | Transportation Equipment | Leasehold Improvements | Construction-in-Progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| **At January 1** | **₱85,127,986** | **₱1,048,859,559** | **₱693,673,853** | **₱18,207,121** | **₱522,775,689** | **₱107,747,084** | **₱2,476,391,292** |
| **Additions** | **48,953,575** | **191,574,007** | **107,586,045** | **161,198,512** | **66,466,236** | **107,409,817** | **683,188,192** |
| **Disposals** | **–** | **(84,743)** | **(69,125)** | **–** | **–** | **–** | **(153,868)** |
| **Reclassification** | **–** | **–** | **–** | **–** | **132,200,125** | **(132,200,125)** | **–** |
| **At December 31** | **134,081,561** | **1,240,348,823** | **801,190,773** | **179,405,633** | **721,442,050** | **82,956,776** | **3,159,425,616** |
| **Accumulated Depreciation and Amortization:** | | | | | | | |
| **At January 1** | **12,617,096** | **612,358,260** | **362,447,624** | **13,728,987** | **124,267,194** | **–** | **1,125,419,161** |
| **Depreciation and amortization (Note 17)** | **9,303,773** | **163,970,011** | **146,632,248** | **6,693,776** | **60,527,738** | **–** | **387,127,546** |
| **Disposals** | **–** | **(8,249)** | **(24,451)** | **–** | **–** | **–** | **(32,700)** |
| **At December 31** | **21,920,869** | **776,320,022** | **509,055,421** | **20,422,763** | **184,794,932** | **–** | **1,512,514,007** |
| **Net Book Value** | **₱112,160,692** | **₱464,028,801** | **₱292,135,352** | **₱158,982,870** | **₱536,647,118** | **₱82,956,776** | **₱1,646,911,609** |



2014

| | Machinery and Equipment | Store and Office Equipment | Computer Equipment | Transportation Equipment | Leasehold Improvements | Construction-in- Progress | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At January 1 | ₱47,431,020 | ₱885,343,131 | ₱633,855,573 | ₱17,876,764 | ₱466,706,933 | ₱– | ₱2,051,213,421 |
| Additions | 37,696,966 | 163,516,428 | 59,818,280 | 330,357 | 56,068,756 | 107,747,084 | 425,177,871 |
| At December 31 | 85,127,986 | 1,048,859,559 | 693,673,853 | 18,207,121 | 522,775,689 | 107,747,084 | 2,476,391,292 |
| Accumulated Depreciation and Amortization: | | | | | | | |
| At January 1 | 5,651,834 | 451,557,532 | 219,889,257 | 11,063,953 | 92,902,321 | – | 781,064,897 |
| Depreciation and amortization (Note 17) | 6,965,262 | 160,800,728 | 142,558,367 | 2,665,034 | 31,364,873 | – | 344,354,264 |
| At December 31 | 12,617,096 | 612,358,260 | 362,447,624 | 13,728,987 | 124,267,194 | – | 1,125,419,161 |
| Net Book Value | ₱72,510,890 | ₱436,501,299 | ₱331,226,229 | ₱4,478,134 | ₱398,508,495 | ₱107,747,084 | ₱1,350,972,131 |

The Company recognized depreciation expense amounting to ₱387.13 million, ₱344.35 million and ₱251.40 million in 2015, 2014 and 2013, respectively (see Note 17). Purchases of property and equipment which remains unpaid amounted to ₱47.58 million as of December 31, 2015.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2015 and 2014.

There are no contractual purchase commitments for property and equipment as of December 31, 2015 and 2014.

*Fully depreciated property and equipment*

The cost of fully depreciated property and equipment still in use amounted to ₱465.17 million and ₱323.15 million as of December 31, 2015 and 2014, respectively.

*Construction-in-progress*

Construction-in-progress pertains to ongoing construction, 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.

11. **Other Noncurrent Assets**

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Deposits | **₱229,183,601** | ₱237,320,473 |
| Deferred input VAT | **82,223,541** | 70,305,627 |
| | **₱311,407,142** | ₱307,626,100 |

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.

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.

12. **Trade and Other Payables**

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Trade | | |
| Third parties | **₱2,465,801,362** | ₱2,353,797,108 |
| Related parties (Note 21) | **–** | 6,460,811 |
| Nontrade | **383,354,666** | 408,108,199 |
| Accrued expenses | **201,740,299** | 144,222,973 |
| Deferred revenue | **162,561,171** | 270,849,614 |
| Others | **160,785,464** | 100,546,445 |
| | **₱3,374,242,962** | ₱3,283,985,150 |

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

Nontrade payables consist of purchases of supplies, property and equipment and other services 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 as of December 31, 2015 consist of accruals for utilities, suppliers and contractors, rentals, marketing-related cost, professional fees, and other accruals amounting to ₱65.32 million, ₱58.13 million, nil, ₱24.87 million, ₱19.89 million, and ₱33.53 million, respectively; and as of December 31, 2014 these amounted to ₱41.11 million, ₱49.42 million, ₱31.92 million, nil, nil, and ₱21.77 million, respectively.

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



Others consist of amounts payable to government agencies for mandatory contributions and payments to the Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF), withholding tax payables, excise tax payables, accrued interest payable and other sundry payables.

13. **Loans Payable**

In 2013, VDC allocated a portion of its loans payable outstanding to the retail segment amounting to ₱1,200.00 million for its working capital requirements. This amount was subsequently settled by the retail segment in the first half of 2014.

On various dates in 2014, the Company availed from local banks, short-term notes payable amounting to ₱1,400.00 million bearing interest at prevailing market rates. The interest rates from these notes range from 3.00% to 3.25%. As of December 31, 2014, the total outstanding balance from these short-term notes payable amounted to ₱1,100.00 million.

On various dates in 2015, the Company availed from local banks additional short-term notes payable amounting to ₱1,450.00 million, bearing interest at prevailing market rates. The interest rates from these notes range from 2.70% to 3.25%. As of December 31, 2015, the total outstanding balance from these short-term notes payable amounted to ₱950.00 million.

The loans are payable within twelve months after the reporting date and were availed for additional working capital requirements. The Company has no collaterals, no negative covenants and no prepayment options for its loans payable outstanding as of December 31, 2015 and 2014.

Finance cost pertaining to loans payable amounted to ₱22.25 million, ₱26.62 million and ₱11.59 million in 2015, 2014 and 2013, respectively.

As of December 31, 2015 and 2014, the Company has remaining available short-term credit facilities from various banks amounting to ₱9,970.00 million and ₱8,400.00 million, respectively.

14. **Other Noncurrent Liabilities**

| | 2015 | 2014 |
|---|---|---|
| Credit cash bonds | **₱301,471,304** | ₱298,461,895 |
| Deposits | **53,299,760** | 45,852,181 |
| | **₱354,771,064** | ₱344,314,076 |

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 based on accumulated cash bond and purchases volume.

Finance cost included in the statements of comprehensive income pertains to cash bonds amounting to ₱13.82 million, ₱13.43 million and ₱12.78 million in 2015, 2014 and 2013, respectively. These were settled through deduction in the credit account holders' receivable balance.

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

## 15. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2015 and 2014 are as follows:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount** | No. of shares | Amount |
| Common stock - ₱1 par value | | | | |
| Authorized | **10,000,000,000** | **₱10,000,000,000** | 10,000,000,000 | ₱10,000,000,000 |
| Issued and outstanding | **3,429,375,000** | **₱3,429,375,000** | 2,524,000,000 | ₱2,524,000,000 |

On June 16, 2014, the BOD approved the increase in the Company's authorized capital stock from ₱100.00 million to ₱10,000.00 million and was approved on July 3, 2014 by the SEC. As of December 31, 2014, of the net increase in the authorized capital stock of ₱9,900.00 million, 25% or ₱2,480.00 million was subscribed and fully paid by VDC which resulted to the Company being 98% owned by VDC and 2% by VSSI.

*Initial Public Offering*

On October 14, 2015, the Board of Directors of the Philippine Stock Exchange, Inc. (PSE), in its regular meeting, approved, subject to the conditions set out in its Notice of Approval dated October 21, 2015, the application of the Company for the initial listing of up to 3,444,000,000 common shares, with a par value of ₱1.00 per share, under the Main Board of the PSE, to cover the Company's Initial Public Offering.

On November 6, 2015, the SEC through its Markets and Securities Regulation Department (MSRD) issued the Order of Registration (SEC-MSRD Order No. 75 Series of 2015) dated November 6, 2015, rendering effective the Company's Registration Statement and the registration of up to 3,429,375,000 common shares of the Company at an offer price of ₱3.99 per share. On the same day, the SEC through the MSRD issued a Certificate of Permit to Sell or Offer for Sale Securities dated November 6, 2015, covering the securities of the Company consisting of 3,429,375,000 common shares covered by SEC-MSRD Order No. 75 Series of 2015.

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.

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*

On July 27, 2015, the stockholders approved and authorized the Company to establish a Stock Option Plan to enable the Company to attract and maintain the best possible talents in its fold to help it enhance its values as a publicly listed company. The Company allots 103,320,000 common shares out of the unissued portion of its authorized capital stock for the Stock Option Plan. As of December 31, 2015 and 2014, no actual grant has been made.

Retained Earnings

As of January 1, 2012, the Company's appropriation on its retained earnings amounted to ₱50.00 million was approved by the BOD on January 5, 2011. The appropriation was for the Company's business expansion through improvement and additions of its retail stores for the subsequent years.

Subsequently, for the same purpose, the BOD approved an additional appropriation on retained earnings amounting to ₱50.00 million and ₱20.00 million on May 4, 2012 and June 15, 2013, respectively, which is expected to commence in their respective subsequent years.

On December 20, 2013, the BOD approved the reversal of appropriated retained earnings amounting to ₱120.00 million.

There were no appropriations made by the Company in 2014.

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

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2015 amounted to ₱443.16 million.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital 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 during the year. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

| | **2015** | 2014 |
|---|---|---|
| Capital stock | **₱3,429,375,000** | ₱2,524,000,000 |
| Additional paid-in capital | **2,455,542,149** | – |
| Retained earnings | **575,241,224** | 466,640,635 |
| | **₱6,460,158,373** | ₱2,990,640,635 |

16. **Interest and Other Income**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Scrap sales | **₱14,624,197** | ₱40,559,485 | ₱17,821,648 |
| Interest income (Notes 5 and 6) | **13,915,394** | 15,633,815 | 5,967,382 |
| Others | **47,577,300** | 39,433,149 | 15,187,506 |
| | **₱76,116,891** | ₱95,626,449 | ₱38,976,536 |

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

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

17. **General and Administrative Expenses**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Personnel cost (Note 18) | **₱1,981,527,025** | ₱1,765,493,715 | ₱1,746,260,233 |
| Rental (Notes 21 and 23) | **1,269,388,075** | 1,073,564,983 | 946,457,156 |
| Light, water and communication | **730,069,018** | 691,167,043 | 529,833,214 |
| Depreciation and amortization (Note 10) | **387,127,546** | 344,354,264 | 251,400,388 |
| Contracted services | **354,810,542** | 358,519,396 | 317,056,442 |
| Taxes and licenses | **250,390,498** | 237,970,220 | 177,069,928 |
| Supplies | **162,088,334** | 201,326,134 | 244,809,735 |
| Repairs and maintenance | **109,716,168** | 105,677,780 | 75,468,314 |
| Transportation and travel | **77,560,683** | 67,210,782 | 74,837,054 |
| Subscriptions | **38,111,704** | 12,362,859 | 18,498,073 |
| Insurance | **27,113,186** | 23,738,585 | 30,225,834 |
| Professional fees | **26,719,940** | 32,461,647 | 41,936,803 |
| Provision for impairment losses (Note 7) | **6,645,155** | – | 189,288 |
| Others | **12,276,596** | 17,270,919 | 17,873,112 |
| | **₱5,433,544,470** | ₱4,931,118,327 | ₱4,471,915,574 |

Others pertain to representation, entertainment, donations and contributions.

18. **Personnel Cost**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Salaries and wages | **₱1,666,424,782** | ₱1,485,089,669 | ₱1,477,102,236 |
| Retirement benefits costs (Note 20) | **41,677,864** | 39,876,938 | 40,018,737 |
| Other employee benefits | **273,424,379** | 240,527,108 | 229,139,260 |
| | **₱1,981,527,025** | ₱1,765,493,715 | ₱1,746,260,233 |



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

19. **Selling and Marketing Expenses**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Advertising | **₱210,011,048** | ₱247,656,043 | ₱177,628,588 |
| Commission | **99,828,222** | 91,178,191 | 65,780,915 |
| | **₱309,839,270** | ₱338,834,234 | ₱243,409,503 |

Selling and marketing expenses consist of advertising expenses for sponsorships, endorsements and media broadcasting, and other expenses for the Company's promotional events and commission expenses related to Company's bankcard sales.

20. **Retirement Benefit Obligation**

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

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

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

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Current service cost | **₱27,704,941** | ₱25,514,886 | ₱23,791,206 |
| Interest cost | **13,972,923** | 14,362,052 | 16,227,531 |
| | **₱41,677,864** | ₱39,876,938 | ₱40,018,737 |

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

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Actuarial gain (loss) due to: | | | |
| Experience adjustments | **(₱33,861,242)** | (₱47,989,531) | ₱31,337,744 |
| Changes in financial assumptions | **18,149,726** | 42,536,068 | 22,637,308 |
| | **(₱15,711,516)** | (₱5,453,463) | ₱53,975,052 |

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

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **₱297,296,232** | ₱251,965,831 |
| Current service cost | **27,704,941** | 25,514,886 |
| Interest cost | **13,972,923** | 14,362,052 |
| Actuarial (gain) loss due to: | | |
| Experience adjustments | **33,861,242** | 47,989,531 |
| Changes in financial assumptions | **(18,149,726)** | (42,536,068) |
| Balance at end of year | **₱354,685,612** | ₱297,296,232 |

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

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Salary increase rate | **4.00%** | 4.00% | 6.00% |
| Discount rate | **5.10%** | 4.70% | 5.70% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant.

**2015**

| | **Increase (decrease)** | **Effect - Increase (decrease)** |
|---|---|---|
| **Salary increase rate** | **0.5%** | **₱22,055,732** |
| | **(0.5%)** | **(20,359,043)** |
| **Discount rate** | **0.5%** | **(20,925,280)** |
| | **(0.5%)** | **22,897,346** |

2014

| | Increase (decrease) | Effect - Increase (decrease) |
|---|---|---|
| Salary increase rate | 1.5% | ₱69,518,435 |
| | 0.5% | 21,259,685 |
| Discount rate | 0.5% | (20,049,964) |
| | (0.5%) | 22,021,284 |



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:

| | **2015** | 2014 |
|---|---|---|
| 1 year and less | **₱–** | ₱– |
| More than one year to 5 years | **98,019,593** | 47,409,839 |
| More than 5 years to 10 years | **132,136,314** | 105,974,633 |
| More than 10 years to 15 years | **249,990,172** | 210,098,784 |
| More than 15 years to 20 years | **1,811,364,465** | 1,673,944,728 |
| | **₱2,291,510,544** | ₱2,037,427,984 |

The weighted average duration of the defined benefit obligation is 14 years in 2015 and 2014.

## 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 equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, non-interest-bearing and settlement occurs 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, 2015 and 2014 are as follows:

| | **Amount/Volume for the year ended December 31, 2015** | **Outstanding Balance as of December 31, 2015** | Amount/Volume for the year ended December 31, 2014 | Outstanding Balance as of December 31, 2014 | Terms and Conditions |
|---|---|---|---|---|---|
| **Parent Company (VDC)** | | | | | |
| Rental expense | **(₱715,241,550)** | **₱2,796,664** | (₱623,941,031) | ₱– | Non-interest-bearing; and due in 30 days, not impaired |
| Advances | **(14,365,285)** | – | (12,000) | (793,131) | Non-interest-bearing; and due in 30 days, not impaired |
| **Entities Under Common Control** | | | | | |
| Purchase, sale of goods and services and rent income | **(1,300,113,934)** | **46,661,451** | (851,803,861) | (5,667,680) | Non-interest-bearing and payable in 30 days, unsecured |
| **Due from (to) related parties** | **(₱2,029,720,769)** | **₱49,458,115** | (₱1,475,756,892) | (₱6,460,811) | |

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

a. Rent expense from leases for the Company's store spaces and warehouses;
b. short-term noninterest-bearing payables/receivables in the normal course of business pertaining to intercompany recovery of expenses and trade-related transactions;
c. purchases of goods, services and concession activities;
d. rent income from related party tenants that lease spaces in the Company's stores. These are noninterest-bearing and are collectible within 15 days; and
e. use of perpetual trademark licensing agreements covering several trademarks for various products.

Cash placements and bank accounts with Wealth Development Bank (an entity under common control) amounted to ₱878.52 million which earn interest based on prevailing market interest rates.

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

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Short-term employee benefits | **₱121,533,053** | ₱77,578,612 | ₱39,407,954 |
| Post-employment benefits | **5,376,444** | 5,144,125 | 5,162,417 |

There are no amounts due to or due from members of key management as of December 31, 2015 and 2014.

The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2015 and 2014. 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 Tax

Provision for income tax consists of:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Current | | | |
| RCIT | **₱315,719,159** | ₱283,679,679 | ₱274,931,959 |
| Final | **1,798,889** | 2,614,081 | 250,712 |
| Deferred | **5,331,817** | (20,068,805) | (12,722,614) |
| | **₱322,849,865** | ₱266,224,955 | ₱262,460,057 |

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

| | **2015** | 2014 |
|---|---|---|
| Retirement benefit obligation (Note 20) | **₱106,405,684** | ₱89,188,870 |
| Deferred revenue from customer loyalty program | **27,543,455** | 44,945,267 |
| Allowance for impairment of receivables (Note 7) | **2,846,477** | 3,279,841 |
| | **₱136,795,616** | ₱137,413,978 |



The Company recognized deferred tax assets amounting to ₱4.71 million and ₱1.64 million in 2015 and 2014, respectively, and deferred tax liability amounting to ₱16.19 million in 2013 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:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Tax at 30% on income before tax | **₱324,435,136** | ₱268,528,613 | ₱262,781,849 |
| Tax effects of: | | | |
| Nondeductible interest expense | **1,113,063** | 1,617,463 | 54,606 |
| Income subjected to final tax | **(2,698,334)** | (3,921,121) | (376,398) |
| | **₱322,849,865** | ₱266,224,955 | ₱262,460,057 |

## 23. Lease Commitments

Operating leases - Company as lessee

The Company enters into lease agreements with third parties and related parties for Company's stores, warehouses and corporate office space. These leases have terms ranging from one to twenty five years and generally provide for either: (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.

Rent expense amounted to ₱1,269.39 million, ₱1,073.57 million and ₱946.46 million in 2015, 2014 and 2013, respectively (see Note 17).

Minimum lease payments amounted to ₱1,040.59 million, ₱691.38 million and ₱802.74 million in 2015, 2014 and 2013, respectively.

Contingent rent payments amounted to ₱228.80 million, ₱382.19 million and ₱143.72 million in 2015, 2014 and 2013, respectively.

Payments made for sublease rentals amounted to ₱709.33 million, ₱196.71 million and nil in 2015, 2014 and 2013, respectively.

Operating leases - Company as lessor

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

Rent income amounted to ₱201.08 million, ₱89.14 million and ₱74.49 million in 2015, 2014 and 2013, respectively.

24. **Earnings Per Share**

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

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Net income | **₱758,600,589** | ₱628,870,419 | ₱613,479,441 |
| Weighted average number of common shares | **2,599,447,917** | 2,524,000,000 | 2,524,000,000 |
| Basic EPS | **₱0.29** | ₱0.25 | ₱0.24 |

The Company also assessed that there were no potential dilutive common shares as of December 31, 2015, 2014 and 2013.

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**

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 general and administrative expenses and operations. 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, 2015, 2014 and 2013 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, 2015**

| | **On Demand** | **Within Three (3) Months** | **More than Three (3) Months** | **Total** |
|---|---|---|---|---|
| **Financial Liabilities** | | | | |
| **Trade and other payables** | | | | |
| **Trade** | **₱–** | **₱2,465,801,362** | **₱–** | **₱2,465,801,362** |
| **Non-trade** | **–** | **383,354,666** | **–** | **383,354,666** |
| **Accrued expenses** | **–** | **201,740,299** | **–** | **201,740,299** |
| **Others*** | **–** | **53,707,100** | **–** | **53,707,100** |
| **Loans payable** | **–** | **950,000,000** | **–** | **950,000,000** |
| | **₱–** | **₱4,054,603,427** | **₱–** | **₱4,054,603,427** |

***Others excludes payables to government***

December 31, 2014

| | On Demand | Within Three (3) Months | More than Three (3) Months | Total |
|---|---|---|---|---|
| Financial Liabilities | | | | |
| Trade and other payables | | | | |
| Trade | | | | |
| Third parties | ₱– | ₱2,353,797,108 | ₱– | ₱2,353,797,108 |
| Related parties | 6,460,811 | – | – | 6,460,811 |
| Non-trade | – | 408,108,199 | – | 408,108,199 |
| Accrued expenses | – | 144,222,973 | – | 144,222,973 |
| Others* | – | 55,763,760 | – | 55,763,760 |
| Loans payable | – | 1,100,000,000 | – | 1,100,000,000 |
| | ₱6,460,811 | ₱4,061,892,040 | ₱– | ₱4,068,352,851 |

*Others excludes payables to government*

*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:

| | 2015 | | | |
|---|---|---|---|---|
| | **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** | **₱712,159,252** | **₱301,471,304** | **₱410,687,948** | **₱301,471,304** |
| **Related parties** | **49,458,115** | **–** | **49,458,115** | **–** |
| **Rentals** | **34,210,536** | **44,825,165** | **–** | **44,825,165** |
| **Others** | **34,074,151** | **–** | **34,074,151** | **–** |
| | **₱829,902,054** | **₱346,296,469** | **₱494,220,214** | **₱346,296,469** |

| | 2014 | | | |
|---|---|---|---|---|
| | Maximum exposure to credit risk | Fair value of collaterals or credit enhancements | Net exposure | Financial effect of collaterals or credit enhancements |
| Receivables | | | | |
| Trade | ₱792,517,195 | ₱298,461,895 | ₱494,055,300 | ₱298,461,895 |
| Rentals | 27,864,316 | 39,985,919 | – | 39,985,919 |
| Others | 35,662,237 | – | 35,662,237 | – |
| | ₱856,043,748 | ₱338,447,814 | ₱529,717,537 | ₱338,447,814 |

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



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

**December 31, 2015**

| | **Neither Past Due Nor Impaired** | | **Past Due** | | |
|---|---|---|---|---|---|
| | **High Grade** | **Standard Grade** | **But Not Impaired** | **Impaired** | **Total** |
| **Cash and cash equivalents*** | **₱2,243,966,022** | **₱–** | **₱–** | **₱–** | **₱2,243,966,022** |
| **Short-term investments** | **2,225,000,000** | **–** | **–** | **–** | **2,225,000,000** |
| **Receivables** | | | | | |
| **Trade** | | | | | |
| **Third parties** | **663,334,959** | **–** | **48,824,293** | **9,488,256** | **721,647,508** |
| **Related parties** | **49,458,115** | **–** | **–** | **–** | **49,458,115** |
| **Rentals** | **34,210,536** | **–** | **–** | **–** | **34,210,536** |
| **Others** | **34,074,151** | **–** | **–** | **–** | **34,074,151** |
| | **₱5,250,043,783** | **₱–** | **₱48,824,293** | **₱9,488,256** | **₱5,308,356,332** |

***Cash and cash equivalents excludes cash on hand***

December 31, 2014

| | Neither Past Due Nor Impaired | | Past Due | | |
|---|---|---|---|---|---|
| | High Grade | Standard Grade | But Not Impaired | Impaired | Total |
| Cash in banks | ₱1,549,601,039 | ₱– | ₱– | ₱– | ₱1,549,601,039 |
| Receivables | | | | | |
| Trade | 728,887,824 | – | 63,629,370 | 10,932,803 | 803,449,997 |
| Rentals | 27,864,316 | – | – | – | 27,864,316 |
| Others | 35,662,237 | – | – | – | 35,662,237 |
| | ₱2,342,015,416 | ₱– | ₱63,629,370 | ₱10,932,803 | ₱2,416,577,589 |

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

**December 31, 2015**

| | **Neither past** | **Past due but not impaired** | | | | |
|---|---|---|---|---|---|---|
| | **due nor Impaired** | **Less than 30 days** | **30 - 60 days** | **More than 60 Days** | **Impaired** | **Total** |
| **Cash and cash equivalents*** | **₱2,243,966,022** | **₱–** | **₱–** | **₱–** | **₱–** | **₱2,243,966,022** |
| **Short-term investments** | **2,225,000,000** | **–** | **–** | **–** | **–** | **2,225,000,000** |
| **Receivables:** | | | | | | |
| **Trade** | | | | | | |
| **Third parties** | **663,334,959** | **23,475,142** | **4,542,815** | **20,806,336** | **9,488,256** | **721,647,508** |
| **Related parties** | **49,458,115** | **–** | **–** | **–** | **–** | **49,458,115** |
| **Rentals** | **34,210,536** | **–** | **–** | **–** | **–** | **34,210,536** |
| **Others** | **34,074,151** | **–** | **–** | **–** | **–** | **34,074,151** |
| | **₱5,250,043,783** | **₱23,475,142** | **₱4,542,815** | **₱20,806,336** | **₱9,488,256** | **₱5,317,844,588** |

***Cash and cash equivalents excludes cash on hand***

December 31, 2014

| | Neither past due nor Impaired | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|
| | | Less than 30 days | 30 - 60 days | More than 60 Days | Impaired | Total |
| Cash in banks | ₱1,549,601,039 | ₱– | ₱– | ₱– | ₱– | ₱1,549,601,039 |
| Receivables: | | | | | | |
| Trade | 728,887,824 | 35,265,395 | 5,228,827 | 23,135,148 | 10,932,803 | 803,449,997 |
| Rentals | 27,864,316 | – | – | – | – | 27,864,316 |
| Others | 35,662,237 | – | – | – | – | 35,662,237 |
| | ₱2,342,015,416 | ₱35,265,395 | ₱5,228,827 | ₱23,135,148 | ₱10,932,803 | ₱2,416,577,589 |

Fair Value of Financial Instruments
The fair value of the Company's financial instruments approximates the carrying amount as of December 31, 2015 and 2014.

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

Financial Liabilities
Due to the short-term nature of "Trade and other payables" (excluding "Deferred revenue"), and "Loans payable" their carrying values approximate 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: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2015 and 2014, the Company has no financial asset and liability carried at fair value. There were no transfers among Levels 1, 2 and 3 in 2015, 2014 and 2013.

## 27. Subsequent Events

a. On March 1, 2016, the Company has entered into a Deed of Absolute Sale with Specialty Retailers, Inc. (SIAL), whereby the Company acquired from SIAL the store assets of its two department stores. The assets sold are the fit-outs, furniture, fixtures and equipment of the two department stores. SIAL sold its Wellworth department store assets for ₱499.00 million to MRSGI. SIAL is a joint venture company owned 50% by each by Ayala Land, Inc. and the SSI Group, Inc. (SSI), both are listed companies.

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



## 28. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2015:

Value added tax (VAT)
The National Internal Revenue Code (NIRC) of 1997 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. 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 2015 are as follows:

| | Net Sales/Receipts | Output VAT |
|---|---|---|
| Sales subject to 12% VAT | ₱28,852,892,298 | ₱3,462,347,076 |
| Zero-rated sales | 40,532,324 | – |
| Tax-exempt sales | 3,697,705,745 | – |
| | ₱32,591,130,367 | ₱3,462,347,076 |

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

| | |
|---|---|
| Beginning of the year | ₱99,296,450 |
| Input tax on purchases of goods exceeding P1 million deferred from prior period | 70,305,627 |
| Current year's domestic purchases of goods | 3,316,602,000 |
| Current year's capital goods purchases | 33,583,442 |
| Total available input VAT | 3,519,787,519 |
| Less: deductions from input VAT | |
| Input tax on purchases of goods exceeding P1 million deferred for the succeeding period | 82,223,542 |
| Input tax allocable to exempt sales | 24,536,799 |
| Total allowable input tax | ₱3,413,027,178 |

Taxes and Licenses
The following are taxes, licenses, registration fees and permit fees lodged under "Taxes and Licenses" account under expenses for the year ended December 31, 2015.

| | |
|---|---|
| Business tax | ₱183,367,069 |
| Real property tax | 55,077,586 |
| Documentary tax | 7,924,196 |
| Motor vehicle tax | 59,436 |
| Others | 3,962,211 |
| | ₱250,390,498 |

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

| | |
|---|---|
| Tax on compensation and benefits | ₱14,733,792 |
| Expanded withholding taxes | 41,595,501 |
| Final withholding taxes | 92,675 |
| | ₱56,421,968 |

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

SGV
Building a better working world

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1226 Makati City
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ey.com/ph

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

**INDEPENDENT AUDITORS' 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. (formerly Valueshop Market Market, Inc.) (the Company) as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 included in this Form 17-A, and have issued our report thereon dated March 16, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules A to K listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2015,
March 24, 2015, valid until March 23, 2018
PTR No. 5321616, January 4, 2016, Makati City

March 16, 2016

## INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES





**METRO RETAIL STORES GROUP, INC.**
**(Formerly Valueshop Market Market, Inc.)**

**SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS**
**DECEMBER 31, 2015**

| 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 | ₱878,515,861 | ₱878,515,861 | |
| Land Bank of the Philippines | 528,635,815 | 528,635,815 | |
| Bank of the Philippine Islands | 335,169,598 | 335,169,598 | |
| Philippine National Bank | 212,117,928 | 212,117,928 | |
| Security Bank | 173,857,039 | 173,857,039 | |
| Others | 115,669,781 | 115,669,781 | |
| | 2,243,966,022 | 2,243,966,022 | 8,142,824 |
| **Short-term investments** | | | |
| Bank of the Philippine Islands | 1,500,000,000 | 1,500,000,000 | |
| Land Bank of the Philippines | 500,000,000 | 500,000,000 | |
| Development Bank of the Philippines | 225,000,000 | 225,000,000 | |
| | 2,225,000,000 | 2,225,000,000 | 5,772,570 |
| **Receivables** | | | |
| Third parties | 721,647,508 | 721,647,508 | |
| Related parties | 49,458,115 | 49,458,115 | |
| Rentals | 34,210,536 | 34,210,536 | |
| Others | 34,074,153 | 34,074,153 | |
| | 839,390,312 | 839,390,312 | – |
| | ₱5,308,356,334 | ₱5,308,356,334 | ₱13,915,394 |

SCHEDULE B

## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**DECEMBER 31, 2015**

| 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.
**(Formerly Valueshop Market Market, Inc.)**

**SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2015**

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

## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

## SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS
## DECEMBER 31, 2015

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



## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

## SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
## DECEMBER 31, 2015

| 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.
**(Formerly Valueshop Market Market, Inc.)**

## SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
## DECEMBER 31, 2015

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

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



## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

## SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS
## DECEMBER 31, 2015

**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.
**(Formerly Valueshop Market Market, Inc.)**

## SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
## DECEMBER 31, 2015

| | Capital Stock | | | | | |
|---|---|---|---|---|---|---|
| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options warrants, conversion and other rights | Number of shares held by related parties | Directors, officers and employees | Others |
| Common Shares | 10,000,000,000 | 3,429,375,000 | 103,320,000 | 2,499,801,484 | 5,505,011 | – |
| Preferred Shares | – | – | – | – | – | – |
| | 10,000,000,000 | 3,429,375,000 | 103,320,000 | 2,499,801,484 | 5,505,011 | – |



## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

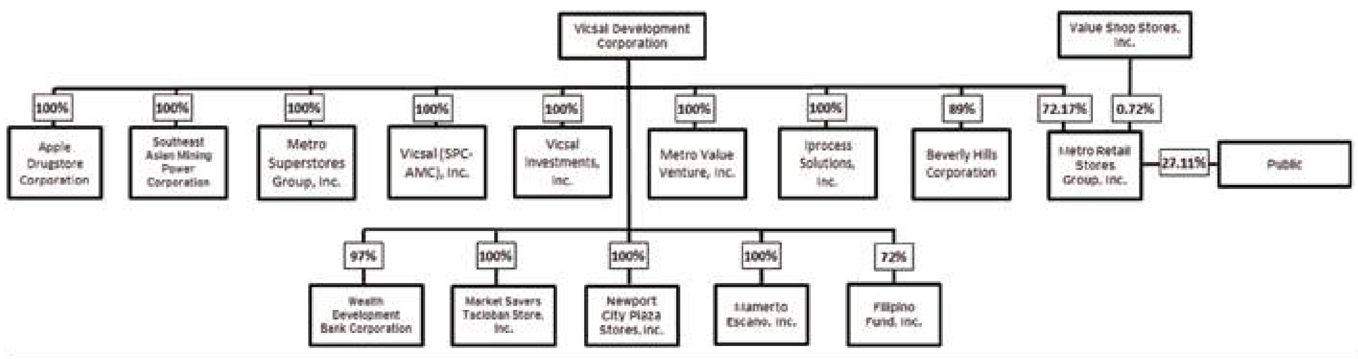
## SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
## DECEMBER 31, 2015

| | |
|---|---|
| Unappropriated Retained Earnings, beginning | ₱466,640,635 |
| Add (Less): adjustments | |
| Deferred tax assets | (137,413,978) |
| Gain on fair value adjustment of investment property - net of tax | – |
| Treasury shares | – |
| Unappropriated Retained Earnings as adjusted, beginning | 329,226,657 |
| Net income based on the face of AFS | 758,600,589 |
| Less: Non-actual/unrealized income net of tax | |
| Amount of provisions for deferred tax during the year | 5,331,817 |
| Equity in net income of associate/joint venture | – |
| Unrealized foreign exchange gain – net (except those attributable to Cash and Cash Equivalents) Unrealized gain | – |
| Fair value adjustment (M2M gains) | – |
| Fair value adjustment of Investment Property resulting to gain adjustment due to deviation from PFRS/GAAP – gain | – |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | – |
| Add: Non-actual losses | |
| Depreciation on revaluation increment (after tax) | – |
| Adjustment due to deviation from PFRS/GAAP – loss | – |
| Loss on fair value adjustment of investment property (after tax) | – |
| Net Income Actual/Realized | 763,932,406 |
| Less: Other adjustments | |
| Acquisition of retail business enterprise | – |
| Dividend declarations during the period | (650,000,000) |
| Unappropriated Retained Earnings, as adjusted, ending | ₱443,159,063 |

SCHEDULE J

**METRO RETAIL STORES GROUP, INC.**
(Formerly Valueshop Market Market, Inc.)

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES**
**DECEMBER 31, 2015**




SCHEDULE K

## METRO RETAIL STORES GROUP, INC.
**(Formerly Valueshop Market Market, Inc.)**

## LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS
**DECEMBER 31, 2015**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | ✓ | | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendments to PFRS 1: Borrowing costs | | | ✓ |
| | Amendments to PFRS 1: Meaning of 'Effective PFRSs | **Not early adopted** | | |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendments to PFRS 2: Definition of Vesting Condition* | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination* | | | ✓ |
| | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal* | **Not early adopted** | | |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | | | ✓ |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | **Not early adopted** | | |
| | Amendments to PFRS 7: Disclosures - Servicing Contracts* | **Not early adopted** | | |
| | Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* | **Not early adopted** | | |
| **PFRS 8** | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* | | | ✓ |
| **PFRS 9** | Financial Instruments: Classification and Movement (2010 version) | **Not early adopted** | | |
| | Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)* | **Not early adopted** | | |
| | Financial Instruments (2014 or final version)* | **Not early adopted** | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | **Not early adopted** | | |



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 10** | Consolidated Financial Statements | | | ✓ |
| | Amendments to PFRS 10: Investment Entities | | | ✓ |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** | **Not early adopted** | | |
| | Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception | **Not early adopted** | | |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations* | **Not early adopted** | | |
| **PFRS 12** | Disclosure of Interests in Other Entities | | | ✓ |
| | Amendments to PFRS 12: Investment Entities | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception* | | | ✓ |
| **PFRS 14** | Regulatory Deferral Accounts* | **Not early adopted** | | |
| **PFRS 15** | Revenue from Contracts with Customers** | **Not early adopted** | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Clarification of the requirements for comparative information | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | **Not early adopted** | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Date | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12-Deferred Tax: Recovery of Underlying Assets | | | ✓ |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of servicing equipment | ✓ | | |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation* | | | ✓ |
| | Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization* | **Not early adopted** | | |
| | Amendment to PAS 16: Bearer Plants* | **Not early adopted** | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | | | ✓ |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | | ✓ |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | **Not early adopted** | | |
| | Amendments to PAS 19: Regional Market Issue regarding Discount Rate* | **Not early adopted** | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel* | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | | | ✓ |



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 27 (Amended)** | Separate Financial Statements | | | ✓ |
| | Amendments to PAS 27: Investment Entities | | | ✓ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements* | **Not early adopted** | | |
| **PAS 28** | Investment in Associate and Joint Venture | | | ✓ |
| | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** | **Not early adopted** | | |
| | Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception | **Not early adopted** | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| | Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities | **Not early adopted** | | |
| | Amendments to PAS 34: – Disclosure of information 'elsewhere in the interim financial report* | **Not early adopted** | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | | | ✓ |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization* | **Not early adopted** | | |
| | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization* | **Not early adopted** | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PAS 39** *(cont'd)* | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| **PAS 40** | Investment Property | | | ✓ |
| | Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40* | | **Not early adopted** | |
| **PAS 40 (Amended)** | Investment Property | | | ✓ |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendment to PAS 41: Bearer Plants* | | **Not early adopted** | |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | ✓ | | |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 15** | Agreements for the Construction of Real Estate*** | | **Not early adopted** | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

**METRO RETAIL STORES GROUP, INC.**
**(Formerly Valueshop Market Market, Inc.)**

## FINANCIAL RATIOS
## DECEMBER 31, 2015

| | December 31 2015 | December 31 2014 |
|---|---|---|
| **CURRENT / LIQUIDITY RATIOS** | | |
| Current assets | ₱9,576,538,891 | ₱6,287,996,229 |
| Current liabilities | 4,516,974,545 | 4,455,695,770 |
| Current Ratios | 2.12 | 1.41 |
| | | |
| Current assets | ₱9,576,538,891 | ₱6,287,996,229 |
| Merchandise inventories | 3,679,815,495 | 3,168,232,389 |
| Other current assets | 481,614,888 | 624,679,213 |
| Quick assets | 5,415,108,508 | 2,495,084,627 |
| Current liabilities | 4,516,974,545 | 4,455,695,770 |
| Quick Ratios | 1.20 | 0.56 |

| | December 31 2015 | December 31 2014 |
|---|---|---|
| **SOLVENCY / DEBT-TO-EQUITY RATIOS** | | |
| Current portion of loans payable | ₱– | ₱– |
| Loans payable | 950,000,000 | 1,100,000,000 |
| Debt | 950,000,000 | 1,100,000,000 |
| Equity | 6,445,222,037 | 2,986,702,360 |
| Less: Non-controlling interests | – | – |
| Equity | 6,445,222,037 | 2,986,702,360 |
| Add/Less: Unrealized gain (loss) - AFS | – | – |
| Equity | 6,445,222,037 | 2,986,702,360 |
| Debt to Equity Ratio | 0.15 | 0.37 |
| | | |
| Debt | ₱950,000,000 | ₱1,100,000,000 |
| Less: Cash and cash equivalents | 2,351,037,390 | 1,625,731,425 |
| Net debt | (1,401,037,390) | (525,731,425) |
| Equity | 6,445,222,037 | 2,986,702,360 |
| Net Debt to Equity Ratio | (0.22) | (0.18) |

| | December 31 2015 | December 31 2014 |
|---|---|---|
| **ASSET TO EQUITY RATIOS** | | |
| Total assets | ₱11,671,653,258 | ₱8,084,008,438 |
| Total equity | 6,445,222,037 | 2,986,702,360 |
| Asset to Equity Ratios | 1.81 | 2.71 |



| | December 31 2015 | December 31 2014 | December 31 2013 |
|---|---|---|---|
| **INTEREST RATE COVERAGE RATIO** | | | |
| Net income | ₱758,600,589 | ₱628,870,419 | ₱613,479,441 |
| Add: | | | |
| Provision for income tax | 322,849,865 | 266,224,955 | 262,460,057 |
| Interest and other financing charges | 36,065,857 | 40,046,868 | 24,365,222 |
| | 358,915,722 | 306,271,823 | 286,825,279 |
| Less: | | | |
| Interest income | 13,915,394 | 15,633,815 | 5,967,382 |
| EBIT | 1,103,600,917 | 919,508,427 | 894,337,338 |
| Depreciation and amortization | 387,127,546 | 344,354,264 | 251,400,388 |
| EBITDA | 1,490,728,463 | 1,263,862,691 | 1,145,737,726 |
| Finance costs | 36,065,857 | 40,046,868 | 24,365,222 |
| Finance Costs Coverage Ratio | 41.33 | 31.56 | 47.02 |

| | December 31 2015 | December 31 2014 | December 31 2013 |
|---|---|---|---|
| **PROFITABILITY RATIOS** | | | |
| Net income | ₱758,600,589 | ₱628,870,419 | ₱613,479,441 |
| Revenue | 32,581,647,243 | 28,541,691,392 | 25,581,484,798 |
| Net Income Margin | 2.33% | 2.20% | 2.40% |
| | | | |
| Net Income | ₱758,600,589 | ₱628,870,419 | ₱613,479,441 |
| Total assets CY | 11,671,653,258 | 8,084,008,438 | 7,376,173,985 |
| Total assets PY | 8,084,008,438 | 7,376,173,985 | 5,606,249,294 |
| Average total assets | 9,877,830,848 | 7,730,091,212 | 6,491,211,640 |
| Return on Total Assets | 7.68% | 8.14% | 9.45% |
| | | | |
| Net Income | ₱758,600,589 | ₱628,870,419 | ₱613,479,441 |
| Total equity CY | 6,445,222,037 | 2,986,702,360 | 2,625,098,117 |
| Total equity PY | 2,986,702,360 | 2,625,098,117 | 2,010,955,005 |
| Average total equity | 4,715,962,199 | 2,805,900,239 | 2,318,026,561 |
| Return on Equity | 16.09% | 22.41% | 26.47% |


## OUR METRO STORES

METRO SUPERMARKET

METRO DEPARTMENT STORE

SUPER METRO


### CONTACT DETAILS

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RETAIL STORES GROUP, INC.

# 2015
# ANNUAL REPORT