ANNUAL **REPORT** 2019

METRO
RETAIL STORES GROUP, INC.

ONE Team.
ONE Dream.

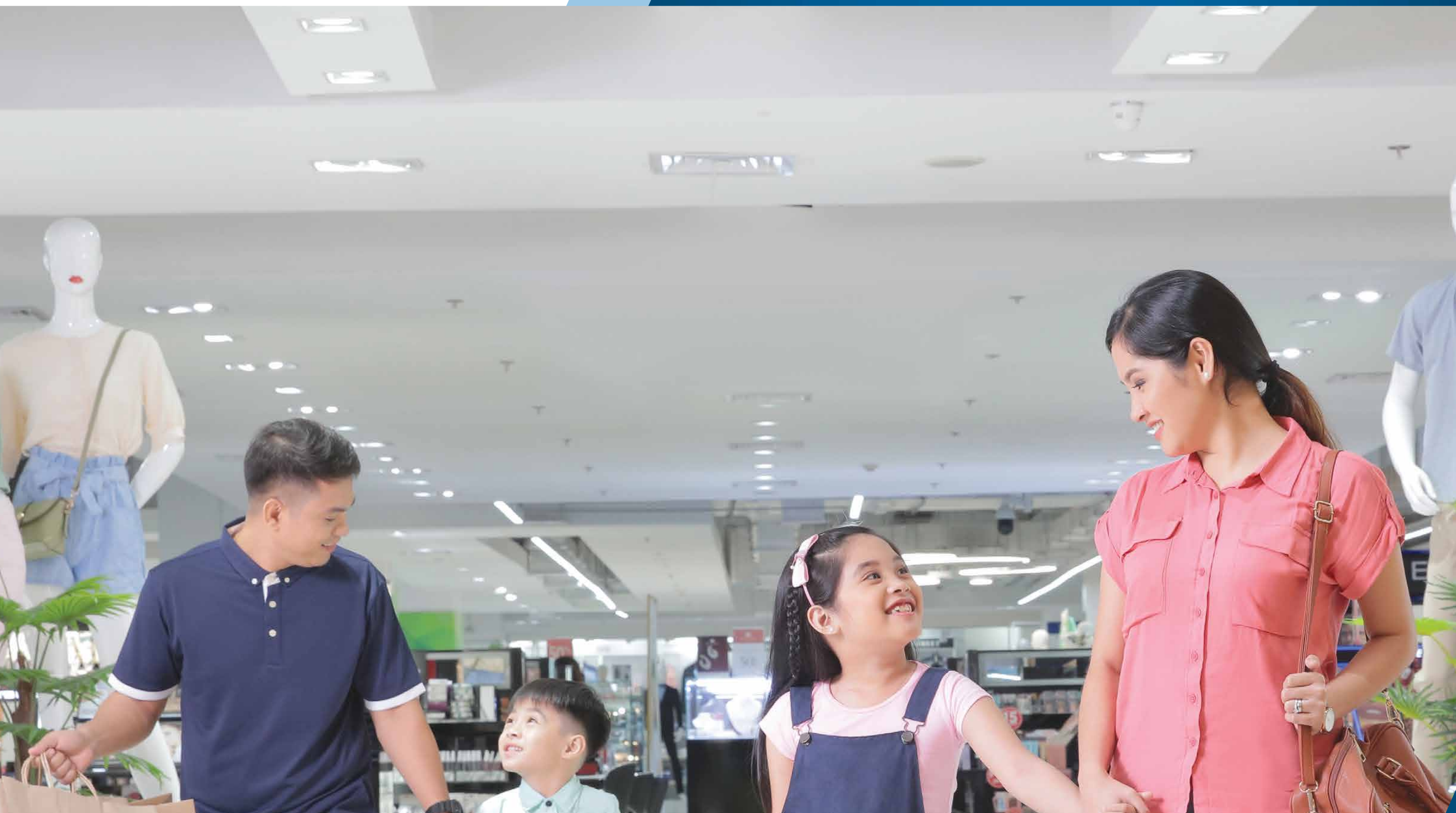
METRO

RETAIL STORES GROUP, INC.

ONE Team. ONE Dream.

2019 ANNUAL REPORT

CONTENTS


METRO
DEPARTMENT STORE
SUPERMARKET
METRO

MISSION - **VALUES**

To delight our customers with products and services that give the best value for money in exciting ways.

Make our **CUSTOMERS** happy.
Engage with our **COMMUNITIES**.
Take Care of our **ENVIRONMENT**.
Returns for our **SHAREHOLDERS**.
Our **PEOPLE** are our partners.

VISION **STATEMENT**

By 2025, we will be an agile retail-based company in the Philippines that provides best-in-class customer experience through operational excellence.

HISTORY AND **MILESTONES**

In 1982, Victor Gaisano and his wife Sally, built the first Gaisano Metro Department Store and Supermarket in Colon, Cebu City. They started the business from very humble beginnings with their children, Margaret, Jack, Edward, and Frank.

Eventually, Gaisano Metro was renamed Metro Gaisano, and through the years evolved into what is now known as Metro Department Store and Supermarket. Metro remains at the forefront as the premier homegrown retailer from Cebu. Much more than the capital that started the business, the core values set forth by its patriarch serve as the foundation of the business, which has advanced from a start-up to the present professional organization.

Consequently, an aggressive expansion brought Metro to major cities outside Cebu and the Visayas region. Metro established its presence in Central Luzon, Southern Luzon, National Capital Region, Calabarzon, and the Bicol region.

Today, Metro Retail Stores Group, Inc. has transformed itself into a company encompassing multiple store formats: Metro Department Store, Metro Supermarket, Super Metro Hypermarket; and has grown into a company of over 9,000 employees with 57 stores serving the needs of over 250,000 shoppers a day.

It has been an eventful 37 years of operations from the time Metro started as Gaisano Metro, to Metro Gaisano, and to the present Metro Retail Stores Group, Inc. And it has all been for the good.

Victor Gaisano and his family proved that good products and good services can only go so far, but a good name built on hard work and trust, is what wins loyalty in customers.

The second-generation Gaisano siblings are never remiss in looking back at where their parents, Victor and Sally, started. Their businesses are a testament to hard work and perseverance backed by two generations of successful entrepreneurs led by their parents.

For some, having a good business sense is a gift. But most of the time, good business sense is simply a long-term vision of greater things for something presently small. And that is exactly what Victor and Sally Gaisano had for Metro.

"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, fueling our passion to serve and delight."

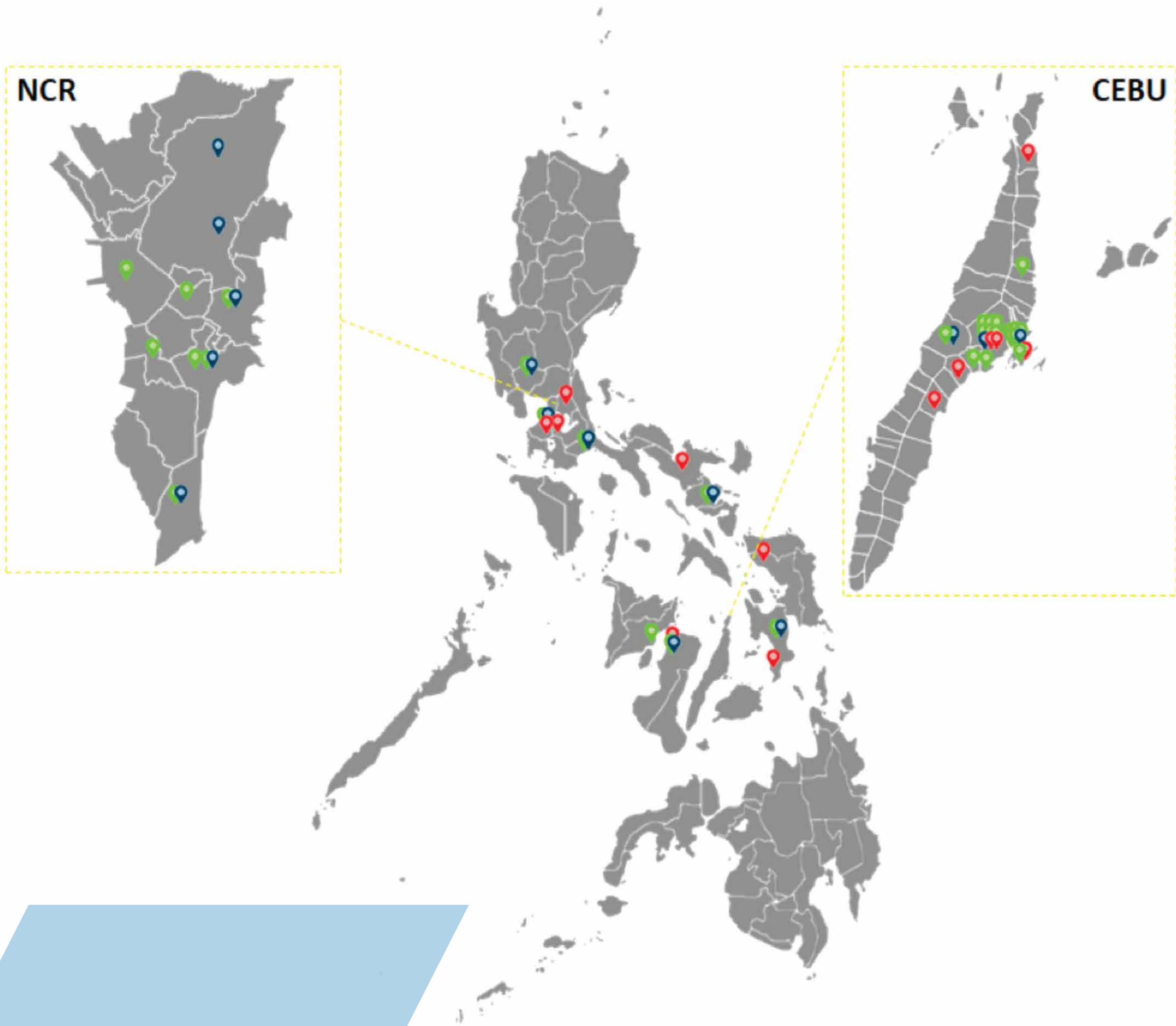
- Mr. Victor Gaisano

STORE **FORMATS** | 2019

Supermarket	
NCR	7
Luzon	4
Visayas	19
Total	**30**

Department Store	
NCR	5
Luzon	4
Visayas	5
Total	**14**

Hypermarket	
NCR	-
Luzon	4
Visayas	9
Total	**13**

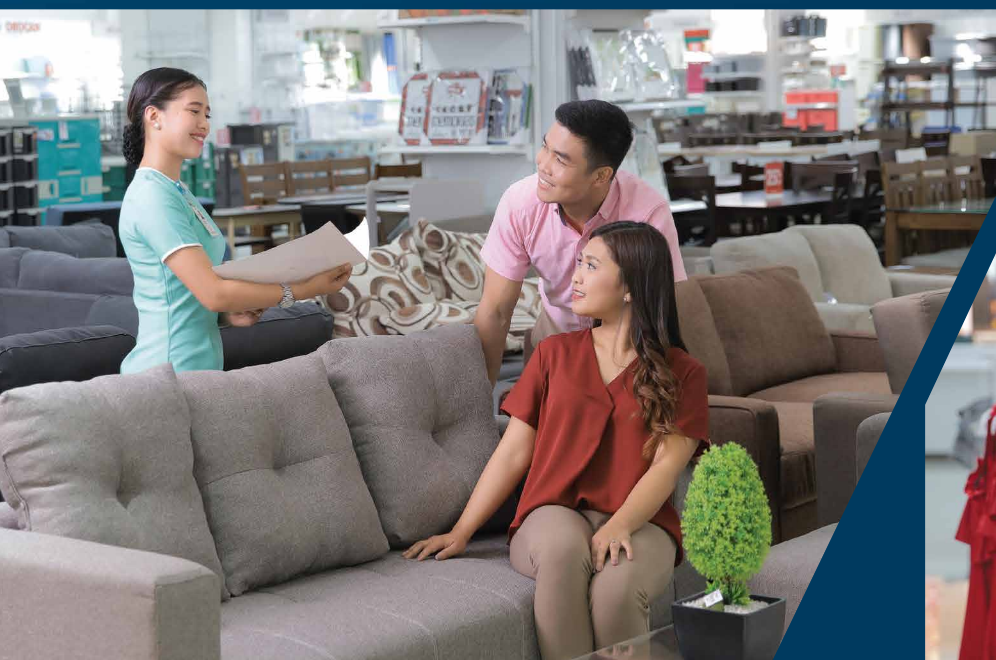


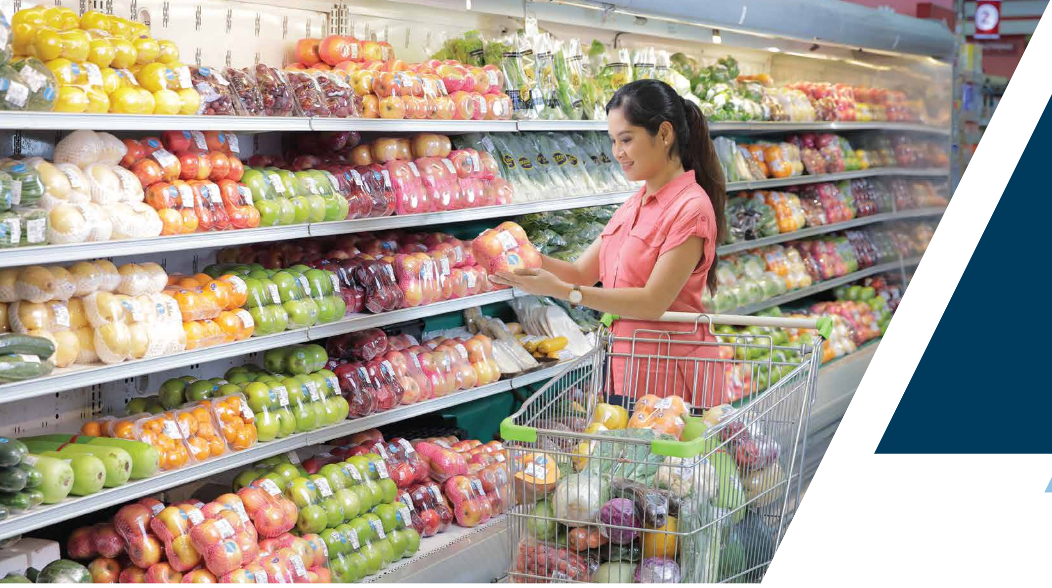
Responsive to the needs and changing lifestyles of Filipinos, Metro Retail Stores is a trusted provider of quality merchandise and a wide assortment of products featuring both local and international brands at competitive prices.

METRO DEPARTMENT STORE

From basic personal necessities to stylish buys, shoppers find their every need under one roof. On top of these, Metro Department Store is known for its efficient customer service and dedication to deliver a great shopping experience for everyone. Currently, there are fourteen (14) Metro Department Stores across the country.

Metro Alabang Town Center
Metro Mandaue
Metro Bacolod
Metro Market! Market!
Metro Baybay
Metro Marquee Mall Angeles
Metro Colon
Metro Ayala Pasig
Metro Fairview Terraces
Metro The District Imus
Metro Legazpi
Metro Toledo
Metro Lucena
Metro U.P. Town Center





METRO SUPERMARKET

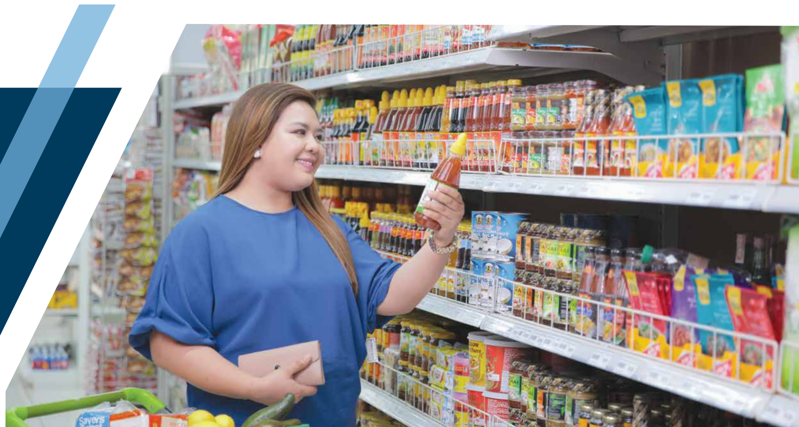
Customers come regularly to Metro Supermarket for its wide range of products: from the freshest-of-the-fresh produce, meat, poultry, and seafood, to household supplies and its complete selection of international products. A world-class shopping experience is guaranteed in its thirty (30) locations across the country that all adhere to global safety standards.

Metro Alabang Town Center
Metro Atria
Metro Ayala Center Cebu
Metro Bacolod
Metro Baybay
Metro Binondo Lucky Chinatown
Metro Canduman
Metro Carmen
Metro Colon
Metro Cebu IT Park

Metro Fresh 'N Easy Banilad
Metro Fresh 'N Easy Basak
Metro Fresh 'N Easy Mactan
Metro Fresh 'N Easy Minglanilla
Metro Fresh 'N Easy Punta

Metro Legazpi
Metro Lucena
Metro Mandaluyong
Metro Mandaue
Metro Market! Market!
Metro Marquee Mall Angeles
Metro Ayala Pasig
Metro Plaza 66 Newport City
Metro The District Imus
Metro Toledo

Metro Fresh 'N Easy Tabok
Metro Fresh 'N Easy Tabunok
Metro Fresh 'N Easy Taguig
Metro Fresh 'N Easy Umapad
Metro Wholesale Mart Colon



SUPER **METRO** HYPERMARKET

Super Metro Hypermarket offers utmost ease and convenience, complementing the on-the-go lifestyle of today's shoppers. With especially designed one-stop shop providing an expansive selection of general merchandise, groceries, and food items; Super Metro Hypermarket is the choice of many smart shoppers who want to get the best value for their money. Super Metro Hypermarket is currently present in thirteen (13) strategic locations nationwide.

Super Metro Antipolo
Super Metro Bogo
Super Metro Calamba
Super Metro Calbayog
Super Metro Camarines Sur
Super Metro Carcar
Super Metro Colon

Super Metro Lapu-Lapu
Super Metro Maasin
Super Metro Mambaling
Super Metro Naga
Super Metro North Point Tagaytay
Super Metro Talisay

ANCILLARY BUSINESSES

Metro's complementary outlets enable shoppers to enhance their overall shopping experience.

FOOD AVENUE

Showcases a wide selection of delicious and affordable meals that can be enjoyed in a comfortable, vibrant, and modern food court ambiance.

SUISSE COTTAGE

Prepares freshly baked breads, cakes, and pastries for any occasion, all handmade using the finest quality ingredients.

METRO GOURMET

A dine-in café and deli offering an assortment of international meats and cheeses, gourmand sandwiches, and curated selection of pastas, soups, and short order.

METRO PHARMACY

Serves the needs for health and wellness products with its competitively priced branded and generic medicines from top pharmaceutical companies.

MESSAGE FROM THE **CHAIRMAN**

To our dear shareholders,

The previous year has been an eventful one for Metro Retail Stores Group, Inc. (MRSGI).

We have shared the gains brought about by increased consumer confidence and we continue to work on meeting the demands of the ever-shifting consumer preferences. Despite the adversities we faced, our results show that we have successfully delivered a broad and compelling assortment of goods and merchandise to today's value-driven shoppers.

In all these, it was our collective belief in each other's abilities that has placed us in a position of strength. As such, it is just appropriate that our theme this year is One Team, One Dream.

This year, we continue to build resiliencies as we seize opportunities given the vibrancy and dynamism of the Philippine retail sector.

Growing MRSGI network

Urbanization outside city centers and the rise in average household incomes have fueled the demand for more stores in different formats. The strong performance of MRSGI's network and retail sales is a reflection of the industry's encouraging outlook.

We capped 2019 with a 16.3% increase in pre-PFRS 16 EBITDA to PhP2.07 billion buoyed by an 11.3% increase in sales to PhP36.8 billion coupled with a more tempered growth in operating expenses at 9.3%. Network-wide same-store sales growth registered at 2.2% for the year driven by the improving performance of our new comparable stores.

These positive outcomes have been strengthened by our continued creation of new touch points in city centers and emerging locales.

In 2019, MRSGI unveiled its department stores and supermarkets in Pasig, Negros Occidental, and Leyte.

Metro Ayala Feliz, with its 21,200 square meter (sq.m.) Department Store and 6,600 sq.m. Supermarket, has been delighting Pasigueños with its wide assortment of premium quality merchandise. Meanwhile, we gave the people of Bacolod more reasons to smile with the opening of Metro Ayala Capitol Supermarket and Department Store.

In August, we unveiled our first compact department store and first store in Western Leyte with the opening of Metro Baybay. The two-storey development now provides the Baybay residents with a wide array of great finds and world-class shopping experiences. Moreover, it has spurred economic activity in the area by providing employment for the community and business for auxiliary industries in surrounding barangays.

Striding into the future

As we look back on the gains of 2019, we are also mindful of the challenges that have stretched our capabilities and sharpened our strengths – as an organization, a family, and as individuals passionately committed to serve our customers.

I believe that it is this passion, combined with the familial values of trust and hard work passed on to us by our founders, my parents Victor and Sally Gaisano, that will fuel us as we march into the future.

MRSGI's vision statement for the next five years is infused with the same dynamism and resilience that have transformed us from a small department store in Colon, Cebu to a publicly listed corporation with a nationwide presence.

By 2025, we will be an agile retail-based company in the Philippines that provides best-in-class customer experience through operational excellence.

How do we make this vision a reality?

Our 37 years of experience has taught us that earning the loyalty of our customers is deeply rooted in anticipating their changing lifestyle needs. With every innovation and fresh concept, we strive to strike the balance between satisfying customer demands and consistently growing the underlying earnings capability of our businesses.

To achieve this, we have framed our strategic priorities into three key areas where we will carry our 2020-2025 mission of delighting MRSGI customers with products and services that give the best value for money in exciting ways:

- Foster growth in emerging city centers and business hubs. We will continue to build our presence in Luzon and Visayas as part of our continued effort to create opportunities for more Filipinos while providing our customers with world-class shopping experiences. This endeavor will be a two-pronged approach of organic expansion and active pursuit of partnerships; both geared towards accelerating growth in our business.

- Delight customers with unmatched shopping experiences: provide the right products at the right time and place at affordable prices. Our customers remain the catalyst of our growth and innovation, and we value their continued patronage. We will continue to invest in the next generation look and feel of our stores to deliver shopping experiences that will appeal to a wide demographic. Our stores will fast become the go-to store as we give shoppers greater access to an extensive assortment of competitively priced premium quality products, from groceries to fresh produce, daily basic necessities to essential must-haves, and premium gift items.

- Create a culture of community care. As our company grows, so too must the economic, environmental, and social sustainability of our communities. This is our responsibility to a broader constituency that includes not just our customers but also our employees and partners that share our commitment to service excellence.

These priorities are a testament to MRSGI's firm commitment in increasing shareholder value but we cannot do it alone. I would like to express my heartfelt appreciation and gratitude to our associates, management team, Board of Directors, and stockholders who have stood with us through the years – we cherish your unwavering support.

Another eventful year awaits us; we hope that you stand beside us once again as we mark many more milestones for MRSGI.

Frank S. Gaisano
Chairman and Chief Executive Officer

PRESIDENT'S REPORT

To our dear shareholders,

In the last year, it has been my privilege to be at the helm of Metro Retail Stores Group, Inc. (MRSGI) as we sought to meet our consumer's evolving needs and stay in step with the increasingly dynamic business environment. Synergies between different units of MRSGI were strengthened as we came together to respond to the challenges that came our way.

Indeed, our singular ideal of delivering best-in-class products and services at the best price possible has been key to our growth. From putting a smile on customers' faces as they navigate our selling floors to yielding strong returns for shareholders - all of these are made possible by MRSGI's legacy of trust and teamwork.

Strong, steady, and soaring

In 2019, we witnessed steady progress that rode on MRSGI's continued commitment to innovations in pursuit of operational excellence, above par customer experiences, and the delivery of a wide array of quality merchandise at affordable prices.

We closed the year strong with further expansions to the MRSGI network. Our focus has been to be able to deliver our well-loved core brands and unique finds to customers in underserved locations.

Most notably, we unveiled our 'compact department store' concept with the opening of Metro Baybay in Leyte. The new location showcases the next generation look and feel of Metro stores – complete with an al fresco dining area by the sea.

Meanwhile, the opening of Metro Department Store and Metro Supermarket in Ayala Malls Feliz underscores our progressive vision. The four-storey department store houses a wide array of general merchandise that ranges from personal care, apparel, electronics, and luggage to furniture. Aside from a well-curated product assortment, the sleek and modern amenities of Metro Ayala Feliz have been a draw for the younger market.

We believe that by providing value-for-money shopping across our three different store formats – we currently have 57 stores in our nationwide network: 30 supermarkets, 13 hypermarkets, and 14 department stores – we will be able to sustain our growth.

In 2019, we have successfully grown our total net selling space to more than 234,000 square meters (sq.m.) composed of 24 stores in Luzon and 33 stores in Visayas. To ensure that our stores remain efficiently supplied, we operated a total of 17 warehouses strategically located in areas where Metro stores operate to serve as storage and cross-docking facility for our Department Stores and Supermarket. These warehouses are managed by a team of experienced supply-chain professionals and were further enhanced by a state-of-the-art ORACLE warehouse management system. Through this investment along with key programs implemented in store operations, merchandising, and marketing, we were to end the year with a net income of PhP776 million.

People are our passion

Since the beginning, MRSGI's heritage has been anchored on seeing its people as family. Their contributions to our achievements are truly noteworthy.

Each day, MRSGI associates across different store formats uphold our commitment to customer happiness. No task is too small and no challenge is too great for our associates. It is through them that we are able to forge lasting relationships with the people who visit our stores.

Our staff are truly MRSGI's most valuable team members. We take pride in each milestone of their professional growth. Training and leadership will continue to be a focal point of our people's development.

We have launched our newly-improved Management Training Program that is currently developing trainees with the revised induction, classroom, and learning plan of immersion following MRSGI's value chain – Plan, Buy, Move, and Sell.

On top of which, our Human Resource capabilities development team conducted a total of 73 courses equivalent to more than 23,840 training hours focusing on Management, Foundational, and Technical Competencies.

A talent inventory was also conducted during the year with the goal of identifying the number of high potential individuals who will attend the Leadership courses.

Meanwhile, safety remains a top priority in MRSGI and our Safety Management Team actively and proactively implements our Safety Program through daily safety inspection conducted by Store Safety Officers. An internal company-wide general safety inspection of all stores, warehouses, and offices are conducted on a regular basis led by a Safety Manager of the Corporate Safety Management Team. This is to ensure that the safety programs, especially the Fire Safety Program, are consistently complied with and implemented across all levels of the Company.

We have also seen our share of recognitions in 2019. Most notably, we were hailed as the Regional Retailer of the Year at the 21st Outstanding Filipino Retailers (OFR) Awards 2019. Presented by the Philippine Retailers Association (PRA) and the Department of Trade and Industry (DTI), the OFR Awards celebrate Filipino retailers who are outstanding in terms of growth, creativity, and best business practices.

Serving with hand and heart

More than three and a half decades of providing quality merchandise and great value to our shoppers have ensured the solid position of Metro Retail Stores in the industry. While our significant gains in 2019 are cause for celebration, we also take these positive markers as inspiration to push onwards and upwards.

Enhancing branded customer experience in our stores and in new channels or fresh formats and coupling this with operational excellence will continue to be a focus area as our vision of becoming a customer-centric and agile retail-based company in the Philippines by 2025 takes shape.

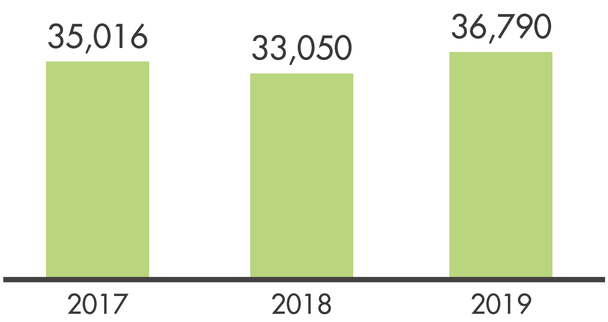
Every MRSGI unit, from our front liners, our supply chain, administrative and management teams to the executive team will be leading the charge – doing their utmost to provide best-in-class customer experiences.

We are well aware that next year will bring its own share of challenges and opportunities. We are grateful for your continued commitment to our shared goals. With your support, we are stepping into the new year confident, expectant, and excited.

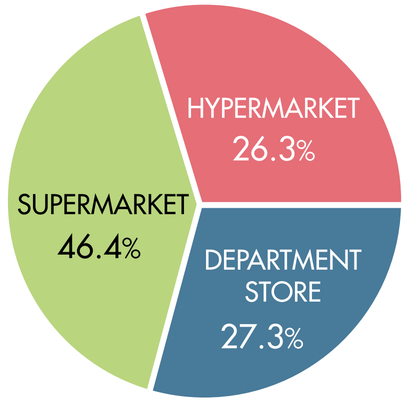
Manuel C. Alberto
President and Chief Operating Officer

FINANCIAL AND **OPERATING** HIGHLIGHTS

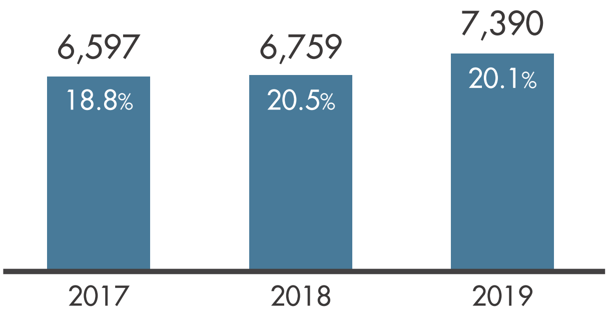
Net Sales



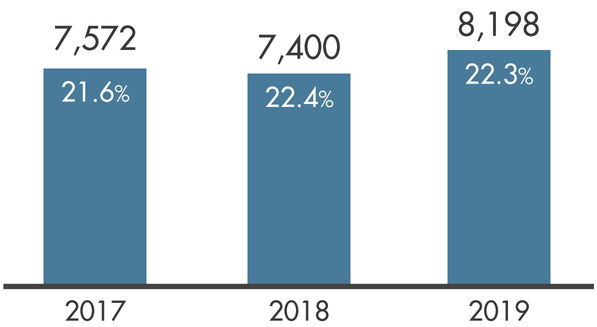
Share to Business*



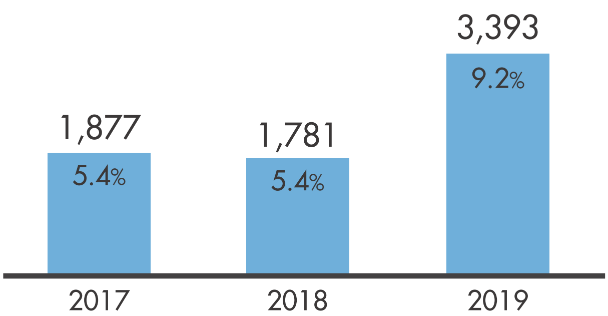
Operating Expenses



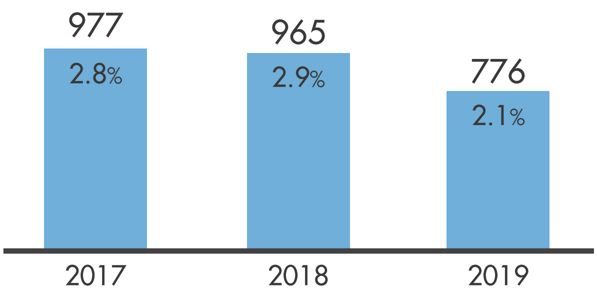
Gross Margin



EBITDA**



Net Income



Notes: Figures are in PhP million and percentages represent share to net sales
*Figures are in percent to net sales
**Earnings Before Interest, Tax, Depreciation, and Amortization

FINANCIAL AND **OPERATING** HIGHLIGHTS

(In million pesos, unless indicated)

Income Statement	**2019**	**2018**	**2017**
Revenue	36,790	33,050	35,016
Gross Margin	8,198	7,400	7,572
EBITDA	3,393	1,781	1,877
Net Income	776	965	977

Balance Sheet	**2019**	**2018**	**2017**
Total Assets	23,365	13,868	12,788
Total Liabilities	14,129	5,165	4,845
Stockholder's Equity	9,236	8,703	7,943

Financial Ratios	**2019**	**2018**	**2017**
Current Ratio	1.47	2.01	2.20
Debt to Equity Ratio	-	-	-
Net Debt to Equity Ratio	(0.31)	(0.41)	(0.47)
Asset to Equity Ratio	2.53	1.59	1.61
Return on Total Asset	4.17%	7.24%	7.83%
Return on Equity	8.65%	11.60%	12.95%

CORPORATE GOVERNANCE

The MRSGI Board of Directors and Management remain committed to good corporate governance (CG) practices. As in the previous years, the Company's operations and decision-making were guided by its CG policy framework that covers the following:

- CG formalities;
- Rights and equitable treatment of shareholders;
- Stakeholder relations;
- Disclosure and transparency;
- Control environment and processes; and
- Board of Directors structure and effectiveness.

The Company continues to endeavor in further strengthening its CG framework and align this with applicable international practices. Significant efforts were made not only to comply with the mandates of the Philippine Stock Exchange (PSE) and Securities and Exchange Commission (SEC) but also to adopt best practices that fill in the gaps whether in practice or policies.

Corporate Governance Formalities

On May 5, 2017, the MRSGI Board approved and adopted the Amended Manual on Corporate Governance. The revised version has since guided the Company's CG-related activities throughout the year, and served as the overarching policy framework that guided all initiatives, decisions, and actions that had CG implications.

In addition to the Manual, MRSGI has in place the following CG-related policies and processes which likewise governed the actions of the Management and the Board in 2019:

- Independent Director selection process;
- Board of Directors performance evaluation system;
- Audit and Risk Committee charter;
- Investment Committee charter;
- Governance Committee charter;
- Nomination and Remuneration Committee charter;
- Guidelines on matters requiring Board of Directors, Shareholders, and Management approval;
- Whistleblower policy;
- Related-party transaction policy; and
- Code of Conduct for Directors and Senior Management.

The Company, through its Chief Strategy and Governance Officer – Jonathan Juan Moreno, actively participated in various corporate governance-related fora organized by the SEC, PSE, Management Association of the Philippines (MAP), Shareholders Association of the Philippines (SharePHIL), and the Institute of Corporate Directors (ICD). He participated both as a delegate and speaker and provided valuable insights to the discussions, primarily representing the perspective of publicly-listed and family-controlled companies.

Rights and Equitable Treatment of Shareholders

The Board of Directors remained committed to its duty of promoting shareholder rights. Though there were no known impediments to the exercise of shareholders' rights in 2019, the Board nevertheless ensured that an adequate venue for them to seek timely redress for violation of their rights existed. The Company's Investor Relations Department (IRD), the Office of Chief Strategy and Governance Officer (CSGO), the Office of the Chief Finance Officer (CFO), and the Legal Office actively engaged with the investing public and the regulators to make sure that shareholder matters and concerns were properly addressed.

Recognizing that all stockholders should be treated equally and without discrimination, MRSGI provides 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. In 2019, no such requests or proposals were formally received by the Company.

Committed to transparency and fairness in the conduct of Annual and Special Stockholders' Meetings, the MRSGI Board through its Management, was encouraged to personally attend to such affairs. They were likewise apprised beforehand of their right to appoint a proxy should they be unable to attend the Company's Annual Shareholders Meeting which was conducted on May 3, 2019 at the Mandani Bay Showroom in Mandaue City, Cebu. Notices of Annual Stockholders' Meeting were sent to the shareholders either by personal delivery, e-mail, or electronic means at least two (2) weeks prior to the date of the said meeting.

Related Party Transaction

The Audit and Risk Committee (ARC), which is composed of a majority of independent directors, reviewed all related party transactions in 2019 and ensured that such transactions were done at arm's length. These transactions were likewise reviewed by the External Auditor and included in the financial statements to provide assurance as to the accuracy of the reported information.

The Company's policy on related party transactions provides the overall guidance and framework for all such transactions in 2019 and no violations of the policy were recorded or observed, thereby indicating that the mechanisms are set in place to ensure that the interests of non-controlling shareholders are protected and are working.

Investor Relations

The Company continues to engage with its shareholders primarily through the CSGO, CFO, and the Investor Relations Department. As a team, they ensured that relations with investors are maintained and nurtured. MRSGI's strategies and quarterly performance were communicated through a combination of one-on-one meetings with various investor groups, quarterly earnings calls, and other mediums of correspondence.

Stakeholder Relations

The Board of Directors and Management remained steadfast in its belief that responsible business practices require that the Company's stakeholders be productively engaged and treated in a fair and just manner. In 2019, the Company worked closely with the following stakeholder groups through carefully developed and executed engagement programs:

Suppliers and Contractors

Through constant dialogues and joint planning sessions with suppliers and contractors, the Company continued with its program of improving the supplier's overall selling and payment experience, which consequently improved the general business relationship and performance of the counterparties.

Customers

Through various customer service programs such as mystery shopping, one-on-one and focus group dialogues, customer satisfaction surveys, and technology-enabled customer analytics, the Company continuously improved its customer-oriented systems and processes to provide a pleasant and memorable customer experience that would make them return to our stores. These initiatives have resulted in having the freshest and widest assortment of products available on the shelves, faster checkouts, clean and comfortable stores, and other attributes that make the Company's customers continue to patronize our stores.

Employees

MRSGI gives high importance to people-related activities. Initiatives were made in 2019 to support overall business strategies and goals, on the following areas:

People Development

HR Capability Development team was able to provide:

- MRSGI Competency Model in three (3) clusters: Core/Foundational Competencies, Management/Leadership Competencies, and Technical/Functional Competencies. Courses focused on the following competencies:
  - Customer Service
  - Analytical Thinking
  - Human Capital Management/People Management
  - Strategic Thinking

- A newly-improved Management Training Program that is currently developing a total of eleven (11) trainees with the revised induction, classroom, and learning plan of immersion following MRSGI's value chain – Plan, Buy, Move, Sell which was launched in October 2019.
- 100% participation rate in the Oracle Technical Training for end-to-end users.
- A total of 73 courses or 23,840.50 total training hours (both internal and external) focusing on Management, Foundational, and Technical Competencies. A talent inventory was conducted to identify the number of high potentials, mid-management, C-levels, and retirees. Identified high potentials and incumbents were prioritized to attend the Leadership courses initiated in Q2 and Q3 of 2019.

Aside from the regular conduct of trainings for Cashier Certification, Work Attitude, and Values Enhancement, MRSGI responds to government regulations and Security and Safety compliances through Regular safety drills, Food Safety training, Occupational Health, and Crisis Management, among others.

Talent Acquisition

MRSGI is proud to have hired its VICSAL Scholar who topped the 2019 Electrical Engineering Board Exam as Project Manager. He is currently handling the Solar Project and is directly reporting to the Chairman and CEO, Mr. Frank S. Gaisano.

Engagement

MRSGI continues to engage its employees through its Store General Assemblies, themed contests in the offices, Founder's Day, "Metro Challenge", and the recently concluded Thanksgiving Party. It also recognizes the employees who stayed in the company for five (5), ten (10), fifteen (15), twenty (20), twenty-five (25), and thirty (30) years through its Annual Loyalty Awarding Ceremony.

Health, Wellness, and Employee Welfare

"Our People are our Partners", and to uphold this Metro Core Value, we promote work-life blending thru Employee Health Awareness Programs like "Health Talks", Annual Physical Examination, and enrolment to life, hospitalization, and accident insurance for all active regular full-time employees.

MRSGI has facilitated timely distribution of employee benefits during Typhoon Tisoy last December 2, 2019 in Legaspi and Naga, Camarines Sur. Relief goods were distributed to affected employees and cash benefits were deposited into their bank accounts.

Labor Compliance

In compliance with the Department of Labor and Employment (DOLE) policies, the following initiatives were realized:

- Organization-wide cascade of the Updated Manual on Company Rules and Regulations Governing Employee Conduct and Discipline;
- Compliance with legitimate contractualization and orientation of line managers on how to manage and handle third party employees such as promodisers, agency workers, and the like;
- Compliance with DOLE policies on anti-sexual harassment, drug-free workplace, tuberculosis, and Hepatitis B prevention and with DOLE Order No. 178 on Safety and Health Measures for Workers who by the Nature of their Work have to Stand at Work by allowing the use of more practical and comfortable footwear, providing more break periods, and providing common rest areas.

Technology

The Human Resource Information System (HRIS) is in-place for efficient timekeeping and payroll processing. Upgrades on the current system were done to improve user interface, and data extraction and analytics. HR plans to further upgrade or replace the HRIS in order to capture full cycle HR processes, and take advantage of current technologies for dynamic reporting and analytics.

Community

Through the Company's Corporate Affairs Department led by Anna Marie Periquet, MRSGI implemented various community-oriented programs such as the METRO CSR Employees Volunteer Program, which encourages company employees to contribute their time and effort during relief operations, medical missions, and other CSR projects of the Company. Details on the community-related activities of 2019 are further elaborated under the Corporate Social Responsibility section of this annual report.

Transparency and Disclosure

MRSGI remains committed to fully disclosing 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. Through its Compliance Officer, Atty. Tara Tsarina B. Perez-Retuya, MRSGI diligently complied with all required information through the mechanisms established for listed companies by the SEC and the Philippine Stock Exchange.

- **External Audit and Non-Audit Fees**

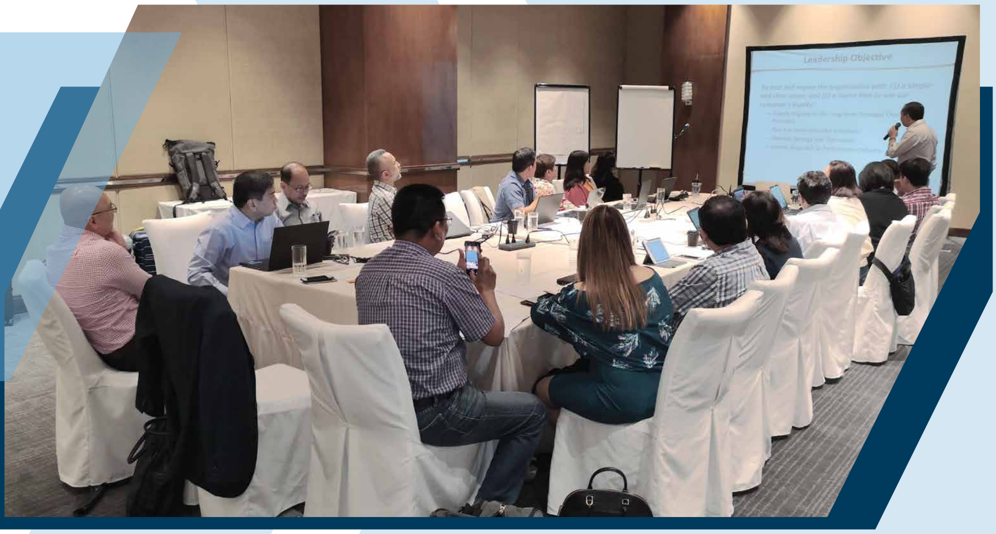
Name of Auditor	Audit Fee	Non-Audit Fee
SGV & Co.	PhP2,079,000.00	PhP150,000.00

- **Ownership Structure**
  Indicated below is the ownership structure of MRSGI as of December 31, 2019.

Stockholder	Nationality	No. of Shares Subscribed and Paid-Up	% to Total Outstanding Shares
Vicsal Development Corporation	Filipino	2,627,427,300	76.62
Valueshop Stores, Inc.	Filipino	24,801,489	0.72
Frank S. Gaisano	Filipino	2	0.00
Edward S. Gaisano	Filipino	2	0.00
Margaret Gaisano Ang	Filipino	2	0.00
Jack S. Gaisano	Filipino	2	0.00
Manuel C. Alberto	Filipino	1	0.00
Guillermo L. Parayno, Jr.	Filipino	1	0.00
Ricardo Nicanor N. Jacinto	Filipino	1	0.00
Others	Various	777,146,200	22.66
Total		**3,429,375,000**	**100.00**

Control Environment and Processes

In 2019, the Board of Directors together with MRSGI Management continued to strengthen its internal control and audit system through the implementation of policies that ensure efficiency of operations, reliability of financial reporting, safeguarding assets, and compliance with laws and regulations.



Through the active leadership of the ARC, the Company focused on risk management, safety management, internal audit, control, and compliance. The objective was to manage or effectively minimize risks that deter the Company's growth.

Risk Management

The ARC worked closely with MRSGI Management to identify, assess, and manage all business risks to maintain a sound risk management system that allows for a comprehensive and organized approach in risk mitigation. This provides the Company the ability to respond to relevant and material risks as they rise and develop.

As a result of this close coordination, all store locations, all warehouses, and majority of corporate departments have developed their own Risk Registers through the guidance of the Enterprise Risk Management (ERM) group under the General Loss Prevention (GLP) Department Head Mariven Bacalso Jayme. The risks previously identified were reassessed to check if these were reduced or minimized. The actions taken to reduce these risks were likewise validated for effectiveness. New or emerging risks were noted and included in the risk register of 2019 for proper management and monitoring at store level.

Critical risks not within the control of the stores and departments were automatically escalated to the Risk Management Committee (RMC). The RMC is an executive-level committee composed of the heads of the Corporate IT, Finance, Legal, GLP, Engineering, Distribution, Store Operations, and Strategy, and was organized to ensure the proper management of the most critical risk factors of the organization as collated and submitted to the RMC by the GLP – ERM team.

Safety Management

As a directive from RMC, Safety Management Team was established in the last quarter of 2018 which is headed by a Safety Manager and installing a Safety Officer for each store.

The responsibility of this team is to ensure that all safety programs of the Company such as occupational health and safety, fire safety, environmental safety, and public safety are implemented across all sites and stores of the Company. This is to protect and secure the life and welfare of employees, contractors, concessionaires, partners, and most especially customers as well as protection of assets/properties from major damages or loss.

Safety Management Team has been actively and proactively implementing the Safety Program through daily safety inspection of Store Safety Officers on their respective area of responsibility. The internal Company-wide general safety inspection to all stores, warehouses and offices in an annual, semi-annual, and/or quarterly basis are conducted by Corporate Safety Management Team led by Safety Manager. This is to ensure that the safety program, especially the Fire Safety Program, are complied with and implemented in the store and warehouse level with full commitment and support of all key leaders. In the same manner that all major concerns by interested stakeholders such as insurer, LGU-OBO, BFP, DOLE, DENR, and other interested government agencies are resolved and properly addressed by consistent monitoring and proactive follow-through to the responsible parties within the Company.

As recommended and monitored by Safety Management Team, the Company has allocated big capital and operational expenditure projects to properly address the top risks identified by the Insurer. The Company continued to strive in achieving a sustainable safety program that aims to prevent major loss, of both lives of employees and customers and company properties. Management supports Safety Program by allocating resources on initiated trainings and workshops to further develop and enhance the technical knowledge and skills of key leaders. These learnings will help maintain and sustain the Safety Program for the improvement of Fire Prevention Program, Emergency Response Protocol, and Business Continuity Planning.

Internal Audit

The Internal Audit Group (IAG) at MRSGI operates on a risk-based approach that primarily focuses on risk-involved activities and ensures that these risks are being managed within controllable levels. The IAG, headed by Kareen Tablizo and Martin Lorenzo Mendones, is set up to assist in overseeing the integrity of MRSGI's operation, internal control system, and compliance with laws and regulation. IAG helps MRSGI accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and compliance processes.

To ensure its independence and integrity, the IAG reports functionally to the ARC and administratively to the Chairman and CEO.

Internal Audit Group performs regular audit engagements on the following areas:

- Store Operations
- Network Expansion
- Supply Chain Management
- Merchandising and Marketing
- Corporate Audit (e.g., Human Resource, Treasury and Finance, Leasing)

Internal Control

The Company's Standard Operating Procedures (SOPs) remained the core of its Internal Control System. In 2018, several of these SOPs were developed, updated, and/or incorporated in MRSGI's existing policies and operating manual through the leadership of the Systems and Procedures Group. These operating standards have, likewise, became the basis of the Internal Audit Group in reviewing compliance to company policies and procedures.

Management is confident that the policies, procedures, and activities are within a controlled framework due to the effort of the Internal Audit Group and the Company SOPs.

Compliance Officer

To ensure adherence to corporate policies as well as external regulatory requirements, MRSGI's Compliance Officer, Atty. Tara Tsarina B. Perez-Retuya, ensured that the Company remained compliant with all relevant laws, rules, and regulations of regulatory agencies and MRSGI's Amended Manual on Corporate Governance. The Compliance Officer likewise advised and coordinated closely with the company officers and managers to ensure their compliance with their responsibilities to the shareholders and the general public.

Atty. Perez-Retuya ensured that the Board of Directors and senior officers of the Company are compliant with the Company CG-related policies namely, Amended Manual on Corporate Governance, the Guidelines on matters requiring Board of Directors, Shareholders, and Management Approval, Whistle-blowing Policy, Amended Policy on Related-Party Transactions, and Code of Conduct for Directors and Senior Management.

Board Structure and Effectiveness

Being primarily responsible for the governance of the Company, and for fostering its long-term success, the MRSGI Board conducted itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities. Specifically, it ensured that Management's actions were in line with the strategic direction that it had set in its five-year strategic roadmap.

To outline its directions for the year, the Board conducted its "Annual Board Retreat" on February 22, 2019 at the Ascott Hotel Bonifacio Global City, 5th Avenue 28th St., Taguig City, Metro Manila. The retreat is an annual exercise by the MRSGI Board where they discuss and provide direction on key strategic areas that impact the company's growth and profitability. For the 2019 retreat, the MRSGI Board focused its discussions on the following topics:

- Human resources
- Network expansion
- Operational excellence
- Strategic plans

To further improve its overall function and effectiveness, the MRSGI Board and select executives, attended the Corporate Governance Forum conducted by the Institute of Corporate Directors on November 11, 2019.

The in-house training program covered topics such as the following:

- Digital Trade-Offs and Culture of Innovation
- Toxicity in Success: What Got You Here Won't Get You There. Reflections from the AMP at IESE

These training sessions were attended by the following MRSGI directors and executives:

Name	Position
Frank S. Gaisano	Chairman and Chief Executive Officer
Edward S. Gaisano	Non-executive Director
Margaret Gaisano Ang	Non-executive Director
Jack S. Gaisano	Non-executive Director
Guillermo L. Parayno, Jr.	Independent Director
Ricardo Nicanor N. Jacinto	Independent Director
Manuel C. Alberto	Executive Director and President/COO
Joselito G. Orense	Treasurer and Chief Finance Officer
Atty. Vincent E. Tomaneng	Corporate Secretary and Chief Legal Counsel
Jonathan Juan D.C. Moreno	Chief Strategy and Governance Officer
Atty. Tara Tsarina B. Perez-Retuya	Assistant Corporate Secretary and Compliance Officer

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

Director's Name	Type*	If Nominee, Identify the Principal	Nominator in the Last Election**	Date First Elected	Date Last Elected***	Elected When (Annual/ Special Meeting)	No. of Years Served as Director
Frank S. Gaisano	ED	ED	Vicsal Dev't Corp. (VDC)	August 28, 2003	May 3, 2019	Annual	16
Edward S. Gaisano	NED	NED	VDC	August 28, 2003	May 3, 2019	Annual	16
Margaret Gaisano Ang	NED	NED	VDC	August 28, 2003	May 3 2019	Annual	16
Jack S. Gaisano	NED	NED	VDC	August 28, 2003	May 3, 2019	Annual	16
Manuel C. Alberto	ED	VDC	VDC	December 17, 2018	May 3, 2019	Annual	1
Guillermo L. Parayno, Jr.	ID	No relation	N/A	July 16, 2015	May 3, 2019	Annual	4
Ricardo Nicanor N. Jacinto	ID	No relation	N/A	July 27, 2015	May 3, 2019	Annual	4

* Executive (ED), Non-Executive (NED), or Independent Director (ID)
** If ID, state the relationship with the nominator
*** If ID, state the number of years served as ID

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, which directly aids the Board in the performance of its functions. The Board of Directors has 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 as follows:

Audit and Risk Committee (ARC)

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.

In 2019, the discussion and resolutions in the ARC meetings included topics on strengthening MRSGI's internal control structure and system, related party transactions, identifying opportunities for processes, policy and control improvements, and monitoring compliance to government regulations, internal policies, and standard operating procedures. Specifically, the ARC covered findings in audit engagements on institutional sales, marketing, non-trade procurement, merchandising, and supply chain operations, among others.

The ARC is composed of the following directors:

- Guillermo L. Parayno, Jr. – Chairman
- Margaret Gaisano Ang – Member
- Ricardo Nicanor N. Jacinto – Member

Nomination and Remuneration Committee (NRC)

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

In 2019, the discussions and resolutions in the NRC meetings included topics on top team development, the MRSGI retirement plan, compensation and benefits program design implementation, strategic HR programs, and company performance management systems.

The NRC is composed of the following directors:

- Frank S. Gaisano – Chairman
- Margaret Gaisano Ang – Member
- Ricardo Nicanor N. Jacinto – Member

Governance Committee (GC)

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.

In 2019, the GC discussions covered, among others, topics on board functioning and effectiveness, succession planning for senior executives, director training, and Board-Management engagement.

The GC is composed of the following directors:

- Edward S. Gaisano – Chairman
- Margaret Gaisano Ang – Member
- Guillermo L. Parayno, Jr. – Member
- Manuel C. Alberto – Member
- Ricardo Nicanor N. Jacinto – Member

Investment Committee (IC)

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.

In 2019, the discussions and resolutions in the IC meetings included topics on site selection, potential mergers and acquisitions projects, store formats and budgets, and strategic partnership opportunities.

The IC is composed of the following directors:

- Margaret Gaisano Ang – Chairman
- Jack S. Gaisano – Member
- Frank S. Gaisano – Member
- Ricardo Nicanor N. Jacinto – Member
- Guillermo L. Parayno, Jr. – Member

Board Meeting and Attendance

The Board of Directors meets at least once every two (2) months. 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 2019, MRSGI conducted meetings as illustrated below:

Position	Name	No. of Meetings Held During the Year	No. of Meetings Attended	Attendance Rate
Chairman	Frank S. Gaisano	5	5	100%
Member	Edward S. Gaisano	5	5	100%
Member	Jack S. Gaisano	5	3	60%
Member	Margaret Gaisano Ang	5	5	100%
Member	Manuel C. Alberto	5	5	100%
Independent	Guillermo L. Parayno, Jr.	5	5	100%
Independent	Ricardo Nicanor N. Jacinto	5	5	100%

Board Remuneration

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

By resolution of the Board, there are currently no standard arrangements pursuant to which Directors of MRSGI are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, except reasonable per diem for attendance in Board and/or Committee meetings, as follows:

	Fixed Remuneration	Per Diem Allowance per BOD Meeting	Per Diem Allowance per Committee Meeting
Executive Directors	Fixed monthly compensation	Nominal per diem of PhP10,000.00 (net of tax)	Nominal per diem of PhP10,000.00 (net of tax)
Non-Executive Directors	None	Nominal per diem of PhP10,000.00 (net of tax)	Nominal per diem of PhP10,000.00 (net of tax)
Independent	None	PhP150,000.00 (gross of tax)	Chairman: PhP45,000.00 (gross of tax) Member: PhP40,000.00 (gross of tax)

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

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.

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 well-being 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 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

Implemented by the Office of Corporate Affairs, the CSR programs are designed to enhance the Company's long-term social value for its stakeholders, from the management and employees to its customers and host communities.

Education

YSLEP Scholarship Program
2017 scholars = 19
2018 scholars = 46
2019 scholars = 59
Graduates = 9 (2017-2018)
Graduates = 20 (2018-2019)

Vicsal Foundation scholars: 100
1 Topnotcher Mechanical Engineering Board exam - 1st placer
1 Topnotcher Chemical Engineering Board exam - 9th placer
2 New Licensed Chemical Engineers
3 New Licensed Mechanical Engineers
5 New Certified Public Accountants
4 New Licensed Professional Teachers
1 New Registered Psychometrician

Volunteerism

Philippine Red Cross Bloodletting
conducted in 14 Metro stores nationwide (910 donors or 409,500cc blood)

City and Coastal Clean-up Drive
MRSGI employees supported the city and coastal clean-up projects of the LGU and DENR

Livelihood

GreenEarth Heritage Foundation, Inc.
Retail of moringa tea and powder in 11 Metro Supermarkets

Metro Caritas Margins
Proceeds of the sale from Metro Caritas Margins' kiosks in Metro Market! Market! And Metro Alabang Town Center Supermarkets fund the MRSGI-Caritas YSLEP Scholarship Program

Environmental Protection

Metro TREEvolution Project
MRSGI partners with LGUs for the Metro Treevolution in communities where Metro stores operate

Coastal Clean-up Drive
In coorperation with DENR and LGUs to keep Metro communities clean and healthy

Community Service

National Mother's Day Movement
A fun-filled day honoring mothers in cooperation with the Philippine Retailers Association

Metro Community Talks
In-store events and community conversations tackling informative and relevant topics to uplift lives

Metro Gift-giving Program
Families cared by the KALINGA (KAin-LIgo-NG-Ayos) program of St. Arnold Janssen Kalinga Center

Adopt-A-School Program
MRSGI distributes school kits to various schools in communities where Metro stores operate. Shoppers are also invited to participate in this back-to-school program

Volunteers from MRSGI and PRA come together to celebrate the holidays with children of DSWD Reception and Study Center

Personal Care Donations to Religious Sectors are conducted during the Christmas season

CSR Month Celebration

Ribbon Cutting at Metro Supermarket


Ornamental Accessories by St. Arnold Janssen Kalinga Center

Organic Herbal Moringa Tea by GreenEarth Heritage Foundation, Inc.

Fun and functional merchandise made from recycled Coca-Cola bottles and cans

Caritas Margins products produced by marginalized community partners


Handicrafts by Persons Deprived of Liberty of BJMP

School kits for distribution to various schools under Metro's Adopt-a-Schoolchild Program

2019 HIGHLIGHTS

STORE OPENING

Metro Supermarket and Department Store opened at Ayala Capitol Central in Bacolod City
Continuing its expansion in the Visayas, MRSGI opened the Metro Supermarket and Department Store on April 5, 2019 at the Ayala Capitol Central in Bacolod City. The new store strengthens the retailer's presence in the region and underscores its commitment to grow through operational excellence and quality customer service.

MRSGI launched Metro Baybay Supermarket and Department Store in Baybay City, Leyte
Metro Baybay Supermarket and Department Store opened its doors in Baybay City, Leyte on July 30, 2019. The two-level Metro Baybay showcases the next generation look and feel of Metro stores. The ground level houses the Metro Department Store, which features branded clothing, shoes, bags, accessories, and other merchandise; complete with an al fresco dining fronting the sea. Metro Supermarket occupies the second level with an air-conditioned dining area.

SITE GROUND-BREAKING

MRSGI held ground-breaking ceremony for Metro Supermarket Sum-ag in Bacolod City
MRSGI continued to expand its footprint in Western Visayas with the ground-breaking of Metro Supermarket Sum-ag within a 6,377 sq.m. property along Araneta Street, National Highway in Bacolod City, Negros Occidental. The new Metro store in Sum-ag is expected to help boost the community's economy and provide employment opportunities. Furthermore, residents of Sum-ag and nearby districts will have access to a wide assortment of quality merchandise – from daily essentials to fresh produce.

FORGING PARTNERSHIPS

MRSGI formed joint venture with Samar LGU to develop mixed-use project in Catbalogan City
MRSGI entered into a joint venture agreement with the Province of Samar for the development of a 22,000 sq.m. parcel of land in Poblacion 7 (Barangay 7), Catbalogan City owned by the provincial government. Under the agreement, MRSGI will develop, construct, and operate a supermarket and department store, with a convention center, government center, transport terminal, and a hotel.

MRSGI featured products of CSR partners in its first community bazaar
MRSGI celebrated National CSR Month with the launch of the first ever Metro Community Bazaar. As part of its CSR initiatives, MRSGI offered its patrons various products for a cause such as the upcycled accessories from the Artisan Women of Tondo, food products from Caritas Margins, Moringa Tea and Powder products from GreenEarth Heritage Foundation, Inc., and bonsai decor crafted by Persons Deprived of Liberty through BJMP.

MRSGI partnered with Globe Business for the use of G Suite to boost digital transformation
MRSGI partnered with Globe Business, the enterprise arm of Globe Telecom, for the use of the G Suite office collaboration tool to boost team productivity and further enhance digital transformation efforts. With the partnership, MRSGI will be able to work better through the use of secure and reliable workplace tools for email, calendar, text and video chat, document creation, project websites, and online storage and sync.

AWARDS

MRSGI was recognized as Regional Retailer of the Year

MRSGI was hailed as the Regional Retailer of the Year at the 21st Outstanding Filipino Retailers (OFR) Awards 2019. Presented by the Philippine Retailers Association and the Department of Trade and Industry, the OFR Awards celebrate Filipino retailers who are outstanding in terms of growth, creativity, and best business practices. Winning the Regional Retailer of the Year award underscores MRSGI's Cebuano heritage and efforts in maintaining a strong presence in the Visayas alongside its continued expansion in Metro Manila and Luzon.

Super Metro Calamba received Silver Bagwis Award from DTI

Super Metro Calamba's Supermarket and Department Store received the prestigious Silver Bagwis Award conferred by the Department of Trade and Industry (DTI) – Laguna. The DTI – Bagwis Program recognizes establishments that overall uphold consumer rights, responsible business, and provide the best value for money.

Metro Supermarket Cebu retained GMP, HACCP certifications

Echoing the unwavering commitment of MRSGI in upholding best practices in quality and food safety, the Metro Supermarket in Ayala Center Cebu received a continued certification for Good Manufacturing Practices (GMP) and Hazard Analysis and Critical Control Point (HACCP) standards based on Codex Alimentarius Commission (CAC), audited by Societe Generale de Surveillance (SGS) Philippines, a leading inspection, verification, testing, and certification company. The renewed accreditation means that the store continues to comply with the highest quality standards, pre-requisite programs, and HACCP systems. Metro Supermarket in Ayala Center is the first supermarket in Cebu that holds this certification. In the country, MRSGI is the only retailer that has the distinction of holding GMP and HACCP citations for three of its supermarkets – Metro Alabang Town Center, Metro Ayala Center Cebu, and Metro Market! Market!.

EXECUTIVE PROFILES

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 (4) 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 Venture Development Corporation, 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.

MANUEL C. ALBERTO
President and Chief Operating Officer

Manuel C. Alberto is the President and Chief Operating Officer of the MRSGI. Before his appointment, he served as the Company's Chief Merchandising and Marketing Officer. A seasoned retail executive, Alberto's career spans more than two decades, most of which he spent handling key leadership positions in top companies that included Philippine FamilyMart CVS Inc., Rustan Supercenters Inc., Avon Cosmetics Inc., and Jollibee Foods Corporation, to name a few.

Over the years, Alberto has built expertise in retail strategy, store operations, franchise development and relations, merchandising, food safety, supply chain, organizational and systems development, and loss prevention. He is recognized as a strategic and results-oriented leader with a consistent track record of achieving sales and profit targets, cost savings, business development, and implementation of brand strategies for start-up, turn-around, and market-leading companies. He is also adept in site selection as well as store design and development.

Alberto received his Bachelor of Arts degree in Communication from Santa Clara University in California, USA, and has completed his Master's degree from Asian Institute of Management.

MARGARET GAISANO ANG
Director

Margaret Gaisano Ang has been a Director of MRSGI since 2003. She also served as Corporate Secretary and Treasurer of the Company. 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 also serves as the Vice-Chairman of SBS Philippines Corporation (a publicly-listed corporation) and director of its subsidiary, SBS Holdings and Enterprise Corporation. He is also an executive director of the Torre Lorenzo Development Corporation. His previous directorships were at the Manila Water Corporation and the Socialized Housing Finance Corporation, a government-owned and controlled corporation (GOCC).

Apart from his private sector directorships, Jacinto also serves as a Trustee of the Institute of Corporate Directors where he is also a highly-rated lecturer and facilitator for the organization's director training seminars and strategic planning workshops that cater to the needs of publicly-listed companies, privately-held family firms, and GOCCs. Jacinto is also the Treasurer and Trustee of the Judicial Reform Initiative, a not-for-profit corporation which advocates reforms in the judiciary with particular emphasis on its impact on business and the economy.

He also recently joined the faculty of the MBA program of the University of the Philippines Virata School of Business in Bonifacio Global City as a lecturer.

His work experience spans over 26 years. From 1997-2011, he worked in various capacities at Ayala Corporation. From 1997-2004, he was seconded to Ayala Land, Inc. as Vice President for the Land and Community Development Group where 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. Prior to joining Ayala, he worked at Bankers Trust Company (Manila OBU) and AB Capital and Investment Corporation.

Jacinto received a degree in Business Economics (magna cum laude) from the University of the Philippines in 1982. In 1986 he obtained his Master's degree in Business Administration from the Harvard Business School. Jacinto has continued his professional development by attending executive education courses at Harvard and IESE in Barcelona.

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 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

ARTHUR EMMANUEL
Senior Adviser to the Board

Arthur Emmanuel is a Senior Adviser to the Board of MRSGI. He was appointed as President and COO of MRSGI from 2014 to 2018. He also served as Consultant for Merchandising and Store Operations at Vicsal Development Corporation. He brings decades of retail experience honed at Walmart, 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 Walmart University and a frequent keynote speaker on behalf of Walmart, Inc. His contributions have earned him accolades, including the Walmart Hero, Al Johnson Buck at a Time, Jewelry Industry Achievement, and the Walmart International Awards, recognizing Walmart's growth in Argentina, Brazil, and Mexico. 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.

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 Advanced Management Program of the Harvard Business School in 1999. Nuesa is the recipient of the ING-FINEX Philippines CFO of the Year Award in 2008.

KEY EXECUTIVES AND **SENIOR** MANAGEMENT

Frank S. Gaisano
CHAIRMAN & CHIEF EXECUTIVE OFFICER

Manuel C. Alberto
PRESIDENT & CHIEF OPERATING OFFICER

Luz A. Bitang
VICE PRESIDENT FOR CORPORATE SERVICES

Rex Jun T. Cabanilla
CHIEF TECHNOLOGY OFFICER

Hermar L. Guitering
VICE PRESIDENT FOR SUPPLY CHAIN

Antonio P. Jacomina III
VICE PRESIDENT FOR HUMAN RESOURCES

Arnold M. Leoncio
VICE PRESIDENT FOR NETWORK EXPANSION

Lucille S. Malazarte
VICE PRESIDENT FOR FINANCIAL COMPTROLLERSHIP

Fili P. Mercado
CHIEF MERCHANDISING OFFICER

Benedict Clark T. Miranda
VICE PRESIDENT FOR LAND & SPACE

Jonathan Juan D.C. Moreno
CHIEF STRATEGY & GOVERNANCE OFFICER

Joselito G. Orense
CHIEF FINANCE OFFICER

Anna Marie K. Periquet
VICE PRESIDENT FOR CORPORATE AFFAIRS

Vincent A. Tomaneng
CORPORATE SECRETARY & CHIEF LEGAL COUNSEL

Results of Operations

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

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

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

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

	2019				2019 versus 2018 % Increase/(Decrease)	
	As reported	Before PFRS 16	Effect of adoption	2018	As reported	Before PFRS 16
REVENUE						
Net Sales	36,790.2	36,790.2	-	33,050.1	11.3%	11.3%
Rentals	255.8	255.8	-	233.7	9.5%	9.5%
	37,046.0	**37,046.0**	**-**	**33,283.8**	**11.3%**	**11.3%**
COSTS AND EXPENSES						
Cost of sales	28,592.5	28,592.5	–	25,650.0	11.5%	11.5%
Operating expenses	7,390.2	7,458.8	(68.6)	6,758.8	9.3%	10.4%
	35,982.7	**36,051.3**	**(68.6)**	**32,408.8**	**11.0%**	**11.2%**
Operating Income	**1,063.3**	**994.7**	**68.6**	**875.0**	**21.5%**	**13.7%**
OTHER INCOME (CHARGES)						
Interest and other income	709.3	709.3	–	490.6	44.6%	44.6%
Finance costs	(607.5)	(19.3)	588.2	(19.0)	3,097.4%	1.6%
	101.8	**690.0**	**588.2**	**471.6**	**-78.4%**	**46.3%**
Income before Income Tax	**1,165.1**	**1,684.7**	**(519.6)**	**1,346.6**	**-13.5%**	**25.1%**
Provision for income tax	389.4	545.3	(155.9)	381.2	2.2%	43.0%
Net Income	**775.7**	**1,139.4**	**(363.7)**	**965.4**	**-19.7%**	**18.0%**

Revenue

Net Sales

For the year ended December 31, 2019, our net sales were P36,790.2 million, an increase of 11.3% compared to P33,050.1 million for the year ended December 31, 2018. The opening of four (4) new stores and the partial re-opening of the fire-damaged supermarket and department store boosted sales, in addition to the same store sales growth of 2.2%.

Rental income

For the year ended December 31, 2019, our rental income was P255.8 million, an increase of 9.5% compared to P233.8 million for the year ended December 31, 2018. Increase in rental income is primarily due to the opening of new stores and partial re-opening of the fire-damaged supermarket and department store, which increased net leasable space, coupled with increase in rental fees due to escalation clauses in our existing lease agreements.

Costs and expenses

Cost of sales

For the year ended December 31, 2019, our cost of sales was P28,592.5 million, an increase of 11.5% compared to P25,650.0 million for the year ended December 31, 2018. Cost of sales grew slightly faster than net sales due to faster rate of growth of our food retail business, which typically have a higher cost of sales compared to our general merchandise.

Operating expenses

For the year ended December 31, 2019, our operating expenses were P7,390.2 million, an increase of 9.3% compared to P6,758.8 million for the year ended December 31, 2018. The increase in operating expenses was primarily driven by the opening of new stores, as well as, the partial re-opening of the fire-damaged supermarket and department store, offset by the effect of PFRS 16 Leases adoption as at January 1, 2019. Operating expenses for same stores, warehouses and shared services grew by 3.1% lower than the increase in sales due to increased efficiency, cost saving measures, and closure of a non-performing store in 2018.

Interest and other income

For the year ended December 31, 2019, our interest and other income was P709.3 million, an increase of 44.6% compared to P490.6 million for the year ended December 31, 2018. The increase was primarily due to recovery from insurance claims of the Company for inventory, property, and business interruption of a supermarket and department store that were damaged by fire in January 2018. This amounted to P538.7 million and P350.7 million in 2019 and 2018, respectively. In addition, there was an increase in interest income from money market placements due to higher placements and interest rates in 2019. This amounted to P101.9 million and P75.1 million in 2019 and 2018, respectively.

Finance costs

For the year ended December 31, 2019, our finance costs were P607.5 million, an increase of 3,097.4% compared to P19.0 million for the year ended December 31, 2018. The increase in finance costs is primarily driven by the adoption of PFRS 16 Leases as at January 1, 2019.

Provision for income tax

For the year ended December 31, 2019, our provision for income tax was P389.4 million, an increase of 2.2% compared to P381.2 million for the year ended December 31, 2018. Although, there is a decrease in income before tax in 2019, Provision for income tax increased due to the tax effects of non-deductible expenses, income subject to final tax, and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2019, Net income was P775.6 million, a decrease of 19.7% compared to P965.4 million for the year ended December 31, 2018.

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

Revenue

Net Sales

For the year ended December 31, 2018, our net sales were P33,050.1 million, a decrease of 5.6% compared to P35,015.7 million for the year ended December 31, 2017. The decrease was largely due to the combined effect of a temporary closure of a supermarket and department store that were damaged by fire, discontinuance of operation of a non-performing hypermarket, and rationalization of sales to resellers which were not profitable. The same caused the transaction count and average basket size to fall by 4.9% and 0.7%, respectively, in 2018 as compared to 2017. A more focused marketing and sales efforts resulted to an increase of 5.1% on the same stores sales in 2018.

Rental income

For the year ended December 31, 2018, our rental income was P233.8 million, a decrease of 22.0% compared to P299.9 million for the year ended December 31, 2017. The decrease was largely due to a decrease in net leasable space resulting from a temporary closure of a supermarket and department store. This is despite the increase in rental fees from the escalation clauses in our existing lease agreements in the remaining stores.

Costs and expenses

Cost of sales

For the year ended December 31, 2018, our cost of sales was P25,650.0 million, a decrease of 6.5% compared to P27,443.4 million for the year ended December 31, 2017. This results to an improvement in gross margin as the decline in cost of sales is greater than the decline in net sales. The margin improvement was driven by a well-executed enhancement plan that included among others, negotiation with suppliers, and rationalization of unprofitable sales to resellers.

Operating expenses

For the year ended December 31, 2018, our operating expenses were P6,758.8 million, an increase of 2.5% compared to P6,596.9 million for the year ended December 31, 2017. The increase in operating expenses was primarily due to increases in insurance, taxes and licenses, professional fees, and personnel cost due to opening of new stores and salary rate adjustments.

Interest and other income

For the year ended December 31, 2018, our interest and other income was P490.6 million, an increase of 255.5% compared to P138.0 million for the year ended December 31, 2017. The increase in interest and other income was primarily due to recovery from insurance claims of the company against insurance coverage for inventories, properties, and business interruptions of a supermarket and department store that were damaged by fire.

Finance costs

For the year ended December 31, 2018, our finance costs were P19.0 million, an increase of 8.0% compared to P17.6 million for the year ended December 31, 2017. The increase in finance costs is primarily driven by the increase in interest payments for credit cash bonds of credit account holders.

Provision for income tax

For the year ended December 31, 2018, our provision for income tax was P381.2 million, a decrease of 9.0% compared to P418.8 million for the year ended December 31, 2017. The decrease in provision for income tax was primarily due to the decrease in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2018, our net income was P965.4 million, a decrease of 1.2% compared to P977.0 million for the year ended December 31, 2017.

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

Revenue

Net sales

For the year ended December 31, 2017, our net sales were P35,015.7 million, an increase of 1.8% compared to P34,410.9 million for the year ended December 31, 2016. The increase in net sales was primarily due to the opening of a new hypermarket and a new supermarket. Same stores sales fell by 0.7% due to decisions to rationalize sales to resellers which were unprofitable. Transaction count fell by 5.2% in 2017 compared to 2016 but more focused marketing and sales efforts resulted to an average basket size increase of 7.3%.

Rental income

For the year ended December 31, 2017, our rental income was P299.9 million, an increase of 0.5% compared to P298.4 million for the year ended December 31, 2016. The increase in rental income was primarily due to the opening of two new stores, which led to an increase in net leasable space.

Costs and expenses

Cost of sales

For the year ended December 31, 2017, our cost of sales was P27,443.4 million, a decrease of 0.1% compared to P27,476.2 million for the year ended December 31, 2016. Margins have improved in 2017 compared to 2016 due to a well-executed margin enhancement plan that included among others, negotiations with suppliers, improvement of share to business of outright sales, lesser clearance sale events, and rationalization of sales to resellers.

Operating expenses

For the year ended December 31, 2017, our operating expenses were P6,596.9 million, an increase of 5.9% compared to P6,227.0 million for the year ended December 31, 2016. The increase in operating expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses, and depreciation expenses resulting from the opening of new stores. In addition, nonrecurring expenses were incurred in 2017 amounting to P88.4 million resulting from the planned closure of an unprofitable store in the first quarter of 2018.

Interest and other income

For the year ended December 31, 2017, our interest and other income was P138.0 million, an increase of 0.7% compared to P137.1 million for the year ended December 31, 2016. The increase in interest and other income was primarily due to an increase in foreign currency gains resulting from the movements of the market exchange rates.

Finance costs

For the year ended December 31, 2017, our finance costs were P17.6 million, a decrease of 22.8% compared to P22.8 million for the year ended December 31, 2016. The decrease in finance costs is due to the payment of total outstanding loan of P950 million as of December 31, 2015 in March 2016. The company had minimal loans for working capital in 2017 and had nil loans outstanding as of the end of December 2017.

Provision for income tax

For the year ended December 31, 2017, our provision for income tax was P418.8 million, an increase of 26.5% compared to P331.0 million for the year ended December 31, 2016. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2017, our net income was P977.0 million, an increase of 23.7% compared to P789.5 million for the year ended December 31, 2016.

Financial Position

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

As of December 31, 2019 and 2018, our net current assets, or the difference between total current assets and total current liabilities, were P3,123.8 million and P4,730.4 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories, and other current assets. Total current assets as of December 31, 2019 and 2018 were P9,816.0 million and P9,420.9 million, respectively. The increase of 4.2% in current assets is due to the increase in inventories and short-term investments, offset by the decrease in receivables and cash and cash equivalents.

As of December 31, 2019, short-term investment totaled P629.6 million, receivables totaled P1,149.1 million, merchandise inventories totaled P4,636.6 million, and other current assets totaled P491.6 million. As of December 31, 2018, short-term investment totaled P358.4 million, receivables totaled P1,371.6 million, merchandise inventories totaled P3,589.6 million, and other current assets totaled P495.1 million.

As of December 31, 2019, cash and cash equivalents amounted to P2,909.1 million, a decrease of 19.3% from P3,606.2 million as of December 31, 2018. The decrease were mainly attributable to the additions to property and equipment amounting to P1,942.4 million, dividend payment amounting to P205.8 million, and payment for lease liabilities of P1,300.3 million but were offset by the P3,297.7 million generated from operating activities.

Non-current Assets

Our non-current assets consist of property and equipment, right-of-use assets, deferred tax assets–net, and non-current assets. Total non-current assets as of December 31, 2019 and 2018 were P13,548.6 million and P4,447.5 million, respectively. The increase of 2,046.3% in non-current assets is significantly due to the recognition of right-of-use assets as result of adoption of PFRS 16, Leases, applied prospectively.

Current Liabilities

Total current liabilities as of December 31, 2019 and 2018 were P6,692.2 million and P4,690.6 million, respectively. As of December 31, 2019 and 2018, trade and other payables totaled P5,409.5 million and P4,392.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Non-current Liabilities

Total non-current liabilities as of December 31, 2019 and 2018 were P7,436.4 million and P474.9 million, respectively. The increase of 1465.9% in non-current liabilities is significantly due to the recognition of lease liabilities as result of adoption of PFRS 16, Leases, applied prospectively.

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

As of December 31, 2018 and 2017, our net current assets, or the difference between total current assets and total current liabilities, were P4,730.4 million and P5,273.4 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories, and other current assets. Total current assets as of December 31, 2018 and 2017 were P9,420.9 million and P9,660.0 million, respectively. The decrease of 2.5% of current assets is due to the decrease in short-term investments and inventories.

As of December 31, 2018, short-term investment totaled P358.4 million, receivables totaled P1,371.6 million, merchandise inventories totaled P3,589.6 million, and other current assets totaled P495.1 million. As of December 31, 2017, short-term investment totaled P755.2 million, receivables totaled P878.5 million, merchandise inventories totaled P4,002.5 million, and other current assets totaled P316.7 million.

As of December 31, 2018, cash and cash equivalents amounted to P3,606.2 million, a decrease of 2.7% from P3,707.2 million as of December 31, 2017. The decrease were mainly attributable to the additions to property and equipment amounting to P1,447.7 million and dividend payment amounting to P205.8 million but were offset by the P1,450.2 million generated from operating activities.

Current Liabilities

Total current liabilities as of December 31, 2018 and 2017 were P4,690.6 million and P4,386.6 million, respectively. As of December 31, 2018 and 2017, trade and other payables totaled P4,392.3 million and P4,167.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

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

As of December 31, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were P5,273.4 million and P4,788.1 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories, and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were P9,660.0 million and P8,973.7 million, respectively. The increase of 7.6% of current assets is significantly due to the increase of cash and cash equivalents, short-term investments, and receivables.

As of December 31, 2017, short-term investment totaled P755.2 million, receivables totaled P878.5 million, merchandise inventories totaled P4,002.5 million, and other current assets totaled P316.7 million. As of December 31, 2016, short-term investment totaled P525.0 million, receivables totaled P846.3 million, merchandise inventories totaled P4,014.7 million, and other current assets totaled P280.7 million.

As of December 31, 2017, cash and cash equivalents amounted to P3,707.2 million, an increase of 12.1% from P3,307.0 million as of December 31, 2016. The increase were mainly attributable to P1,349.5 million generated from operation activities and were offset by the increase of short-term investments by P230.2 million, addition to property and equipment amounting to P446.3 million, and dividends payment amounting to P171.5 million.

Current Liabilities

Total current liabilities as of December 31, 2017 and December 31, 2016 were P4,386.0 million and P4,185.6 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled P4,167.9 million and P3,940.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Cash Flows

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

	For the years ended December 31,		
	2019	2018	2017
		(P million)	
Net cash flows generated from operating activities	P3,297.7	P1,450.2	P1,349.5
Net cash flows used in investing activities	(2,480.2)	(1,352.2)	(763.0)
Net cash flows used in financing activities	(1,506.1)	(219.6)	(202.6)
Net increase in cash	**(P688.6)**	**(P121.6)**	**P383.9**

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

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

	For the years ended December 31,		
	As Reported	Before PFRS 16	Effect of adoption
		(P million)	
Net cash flows generated from operating activities	P3,297.7	P2,011.4	(P1,286.3)
Net cash flows used in investing activities	(2,480.2)	(2,480.2)	–
Net cash flows used in financing activities	(1,506.1)	(219.8)	1,286.3
Net increase in cash	**(P688.6)**	**(P688.6)**	–

Net cash flows from operating activities

Our net cash flows from operating activities for the year ended December 31, 2019 was P3,297.7 million, which is comprised of operating income before working capital changes of P2,935.0 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption, and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in trade and other payables of P1,016.7 offset by the increase in merchandise inventories of P1,047.0 million and receivables of P127.4 million.

Our net cash flows from operating activities for the year ended December 31, 2018 was P1,450.2 million, which is comprised of operating income before working capital changes of P1,494.7 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and business interruption, and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in other current assets amounting to P184.4 million and decrease in merchandise inventories of P112.4 million, as well as, the increase in trade and other payables and contract liabilities of P221.7 million P103.2 million, respectively.

Our net cash flows generated from operating activities for the year ended December 31, 2017 was P1,349.5 million, which comprised operating income before working capital changes of P1,992.5 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in receivables, other current assets, and trade and other payables, and decrease in noncurrent liabilities.

Net cash flows used in investing activities

For the year ended December 31, 2019, net cash flows used in investing activities was P2,480.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to P1,942.4 million, increase in other non-current assets by P266.7 million due to advance payments to suppliers for purchases of property and equipment, and increase in short-term investments by P271.1 million.

For the year ended December 31, 2018, net cash flows used in investing activities was P1,352.2 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to P1,447.7 million and increase in other non-current assets by P434.7 million due to advance payments to suppliers for purchases of property and equipment, and offset by the decrease in short-term investments by P396.8 million and proceeds from insurance claims on property and equipment by P133.4 million.

For the year ended December 31, 2017, net cash flows used in investing activities was P763.0 million, which resulted from the increase in short-term investment by P230.2 million, additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to P446.3 million and increase in other non-current assets by P86.5 million.

Net cash flows used in financing activities

Net cash flows used in financing activities was P1,506.1 million for the year ended December 31, 2019, as a result of payments of lease liabilities amounting to P1,300.3 million and payment of cash dividends amounting to P205.8 million declared on March 18, 2019.

Net cash flows used in financing activities was P219.6 million for the year ended December 31, 2018, as a result of payments of finance lease liability amounting to P13.9 million and payment of cash dividends amounting to P205.8 million declared on March 16, 2018.

Net cash flows used in financing activities was P202.6 million for the year ended December 31, 2017, as a result of payments of finance lease liability amounting to P31.1 million and payment of cash dividends amounting to P171.5 million declared on March 16, 2017.

Indebtedness

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

Key Performance Indicators

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

**excludes discontinued operations and temporary closure of stores*

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

Quantitative and Qualitative Disclosure of Market Risk

Our principal financial instruments consist of cash and receivables. The main purpose of our financial instruments is to fund our operations and capital expenditures. We do not actively engage in the trading of financial assets for speculative purposes nor do we write options. The main risks arising from our financial instruments are liquidity risk and credit risk. See Note 26 of the notes to our audited financial statements.

Liquidity Risk

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

Credit Risk

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

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

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

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

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

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

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

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

FINANCIAL STATEMENTS

METRO
RETAIL STORES GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Metro Retail Stores Group, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 18, 2020

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 0 6 2020
DPQA SECTION INITIAL

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

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

Doc. No. 199
Page No. 41
Book No. LIX
Series of 2020

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

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

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

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

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

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

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 18, 2020

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 0 6 2020
DPQA SECTION INITIAL

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metro Retail Stores Group, Inc., which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Metro Retail Stores Group, Inc. as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

-

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

Adoption of PFRS 16, *Leases*

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

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

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

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

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

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

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

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

Existence and completeness of merchandise inventories

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

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

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

Other Information

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

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

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

-

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

-

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metro Retail Stores Group, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SGV
Building a better working world

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

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

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

March 18, 2020

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 0 6 2020
DPQA SECTION INITIAL

METRO RETAIL STORES GROUP, INC.
STATEMENTS OF FINANCIAL POSITION

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

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

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

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Retained Earnings (Note 14)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 20)	Total
Balances at January 1, 2019	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,775,475,030**	**₱42,627,159**	**₱8,703,019,338**
Net income for the year	**–**	**–**	**775,644,731**	**–**	**775,644,731**
Other comprehensive loss	**–**	**–**	**–**	**(36,937,100)**	**(36,937,100)**
Total comprehensive income	**–**	**–**	**775,644,731**	**(36,937,100)**	**738,707,631**
Declaration of dividends (Note 14)	**–**	**–**	**(205,762,500)**	**–**	**(205,762,500)**
Balances at December 31, 2019	**₱3,429,375,000**	**₱2,455,542,149**	**₱3,345,357,261**	**₱5,690,059**	**₱9,235,964,469**
Balances at January 1, 2018	₱3,429,375,000	₱2,455,542,149	₱2,015,860,010	₱42,487,257	₱7,943,264,416
Net income for the year	–	–	965,377,520	–	965,377,520
Other comprehensive income	–	–	–	139,902	139,902
Total comprehensive income	–	–	965,377,520	139,902	965,517,422
Declaration of dividends (Note 14)	–	–	(205,762,500)	–	(205,762,500)
Balances at December 31, 2018	₱3,429,375,000	₱2,455,542,149	₱2,775,475,030	₱42,627,159	₱8,703,019,338
Balances at January 1, 2017	₱3,429,375,000	₱2,455,542,149	₱1,210,371,451	₱49,956,150	₱7,145,244,750
Net income for the year	–	–	976,957,309	–	976,957,309
Other comprehensive loss	–	–	–	(7,468,893)	(7,468,893)
Total comprehensive income	–	–	976,957,309	(7,468,893)	969,488,416
Declaration of dividends (Note 14)	–	–	(171,468,750)	–	(171,468,750)
Balances at December 31, 2017	₱3,429,375,000	₱2,455,542,149	₱2,015,860,010	₱42,487,257	₱7,943,264,416

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

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

See accompanying Notes to Financial Statements.

1. Corporate Information and Approval of the Financial Statements

Corporate Information

Metro Retail Stores Group, Inc. (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003 in the Republic of the Philippines with a corporate life of 50 years. The Company is 76.62%-owned by Vicsal Development Corporation (VDC), 0.72%-owned by Value Shop Stores, Inc., and the rest by the public. Its primary purpose is to buy, sell and trade, goods, wares and merchandise of every kind and description and in general to carry on the businesses of a supermarket, hypermarket and department store operator. The Company began commercial operations on November 19, 2004.

The Company's common stock was listed with the Philippine Stock Exchange (PSE) on November 24, 2015 (see Note 14).

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

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

Approval of the Financial Statements

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

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

Basis of Preparation

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

Statement of Compliance

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

Adoption of New and Amended Accounting Standards and Interpretations

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

  Statement of comprehensive income:

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

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

Statement of financial position:

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

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

Statement of cash flows:

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

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

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

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

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

The Company also applied the available practical expedients wherein it:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2020

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

Summary of Significant Accounting Policies

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

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

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

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

Cash and Cash Equivalents

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

Short-term Investments

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVPL).

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

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

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

-

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

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

The Company has no financial assets measured at FVPL.

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Impairment of financial assets prior to January 1, 2018</u>
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.

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

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

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

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

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

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

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

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

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

<u>Derecognition</u>
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.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as disclosed in Note 26.

Offsetting of Financial Assets and Financial Liabilities
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Leases effective January 1, 2019

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

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

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

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

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

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

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

<u>Leases prior to January 1, 2019</u>

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

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

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that other current assets (excluding security deposits), property and equipment, right-of-use assets and other noncurrent assets (excluding security deposits - noncurrent) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

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

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

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

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

Pension cost comprise the following:

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

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

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

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

Equity

Capital Stock and Additional paid-in capital

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

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

Retained Earnings

The amount included in retained earnings includes accumulated profit (loss) less dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company's BOD. Interim dividends, if any, are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

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

Revenue recognition effective January 1, 2018

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

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

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

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

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

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

<u>Contract Balances</u>

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

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

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

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

Other Income
Other operating income pertains to scrap sales from items such as non-reusable cartons, sacks, containers and other items from the Company's stores, insurance recovery and other miscellaneous income. Other income is recognized upon completion of the earning process and the collectability of the amount is reasonably assured.

Revenue recognition prior to January 1, 2018

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

Deferred Revenue

Aside from the customer loyalty points, deferred revenue also includes redeemable credit, gift checks and commission arising from concession agreements. These are deferred and recognized as revenue when the goods are delivered or services are rendered.

Expenses

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

Cost of Sales

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

Operating Expenses

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

Income Taxes

Current Income Tax

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

Deferred Tax

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

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

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

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

<u>Segment Reporting</u>
The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker (CODM) in allocating resources. Information on reporting segment is represented in Note 25 to the financial statements.

<u>Earnings Per Share (EPS)</u>
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.

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

<u>Provisions</u>
Provisions, if any, are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as

an interest expense. Where the Company expects a provision to be reimbursed, reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed when material (see Note 28).

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Recognition of insurance recovery

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

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

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

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

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

Finance Lease - Company as a Lessee
The Company has entered into a lease agreement as lessee. This agreement is accounted for as finance leases since the Company assumed substantially all the risks and rewards incidental to ownership of the properties which are leased out under finance lease agreements due to the following:

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

Finance lease liability pertaining to leased computer equipment amounted to ₱65.39 million as of December 31, 2018 (see Notes 9 and 23).

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

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

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

Accordingly, no provision for probable losses was recognized by the Company in 2019 and 2018.

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

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

Merchandise inventories amounted to ₱4,636.58 million and ₱3,589.61 million as of December 31, 2019 and 2018, respectively (see Note 7).

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

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

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

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

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

Assessing Impairment for Financial Assets prior to January 1, 2018
The Company provides allowance for losses on financial assets to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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

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

The Company estimates the recoverable amount as the higher of the fair value les cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that may affect property and equipment. As of December 31, 2019 and 2018, the carrying value of the Company's nonfinancial assets are, as follows:

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

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

In 2017, the Company recognized provision for impairment losses amounting to ₱36.81 million pertaining to leasehold improvements and store equipment which may not be recoverable due to planned closure in 2018 of a non-performing store. In 2018, the Company completed the retirement of the store's property and equipment with carrying value of ₱36.65 million, resulting to a reversal of impairment loss of ₱0.16 million (see Note 9).

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

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

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

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

Estimating Retirement Benefits Obligation
The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions in calculating such amounts. Those assumptions are described in Note 20 of the financial statements and include, among others, discount rates and future salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's retirement benefits obligation.

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

4. Cash and Cash Equivalents

This account consists of:

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

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn annual interest at the respective short-term rates that range from 0.10% to 7.38% in 2019 and 2018 and 2.13% to 3.25% in 2017.

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

5. Short-term Investments

This account pertains to money market placements made for varying periods of up to one year depending on the immediate cash requirement of the Company and earn annual interest at the respective short-term investment rates that range from 4.0% to 6.6%, 3.9% to 6.3% and 2.4% to 3.0% in 2019, 2018 and 2017, respectively.

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

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

6. Receivables

This account consists of:

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

Trade receivables consist of receivables from third parties and related parties. Trade receivables from third parties pertain to credit sales significantly from the Company's credit account holders and credit card companies. These are noninterest-bearing and are generally collectible within 30 - 90 days.

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

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

Advances to employees and officers pertain mainly to cash advances for travel and expenses related to store operations such as purchases of supplies and other expenses and are normally settled through liquidation within 30 days.

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

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

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

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

7. Merchandise Inventories

The rollforward analysis of this account follows:

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

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

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

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

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

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

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

8. **Other Current Assets**

This account consists of:

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

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

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

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

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

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

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

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

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

9. **Property and Equipment**

The rollforward analysis of this account follows:

2019

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

2018

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱174,490,663	₱1,603,562,663	₱1,149,885,641	₱323,673,958	₱1,481,768,192	₱162,773,736	₱4,896,154,853
Additions	–	179,720,859	75,148,596	27,491,359	7,061,134	1,165,644,577	1,455,066,525
Retirements	(12,162,576)	(107,496,229)	(26,084,384)	(1,107,070)	(107,819,532)	–	(254,669,791)
At end of year	162,328,087	1,675,787,293	1,198,949,853	350,058,247	1,381,009,794	1,328,418,313	6,096,551,587
Accumulated Depreciation and Amortization:							
At beginning of year	55,675,722	1,156,258,450	786,757,788	107,759,565	382,492,494	–	2,488,944,019
Depreciation and amortization (Notes 17 and 18)	17,147,667	166,198,354	134,746,105	57,996,641	114,273,335	–	490,362,102
Retirements	(3,892,932)	(81,115,889)	(23,362,980)	(1,055,580)	(59,375,334)	–	(168,802,715)
At end of year	68,930,457	1,241,340,915	898,140,913	164,700,626	437,390,495	–	2,810,503,406
Net Book Value	₱93,397,630	₱434,446,378	₱300,808,940	₱185,357,621	₱943,619,299	₱1,328,418,313	₱3,286,048,181

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

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

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

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

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

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

10. **Other Noncurrent Assets**

This account consists of:

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

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

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

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

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

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

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

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

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

11. **Trade and Other Payables**

This account consists of:

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

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

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

Accrued expenses consist of:

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

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

Credit cash bonds pertain to cash bonds received by the Company as security for the unpaid balances of the receivables from credit account holders. This can also be applied against the account holder's remaining balance if the account holder no longer wants to avail of the Company's credit line. These bonds earn interest annually at a fixed rate ranging from 1% to 6% based on accumulated cash bond and purchases volume.

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

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

12. Contract Liabilities

This account consists of:

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

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

The rollforward analysis of this account follows:

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

13. Other Noncurrent Liabilities

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

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

14. **Equity**

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

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

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

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

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

Stock Option Plan
The BOD and stockholders of the Company have adopted resolutions on July 27, 2015 approving the establishment of a stock option plan to offer up to 103,320,000 shares out of its unissued capital stock to key personnel. However, the Company has not formalized the stock option plan, hence, no actual grant has been made as of December 31, 2019 and 2018.

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

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

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

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2019 amounted to ₱3,033.59 million.

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2019 and 2018. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

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

15. **Net sales**

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

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

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

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

16. **Other income (Charges)**

Interest and other income

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

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

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

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

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

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

Finance costs

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

17. **Cost of Sales**

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

Others pertain to the direct labor and other overhead costs.

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

18. **Operating Expenses**

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

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

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

Others pertain to representation, entertainment, donations and contributions.

19. **Personnel Cost**

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

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

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

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

20. Retirement Benefit Obligation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21. **Related Party Transactions**

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

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

The significant related party transactions and outstanding balances as of and for the years ended December 31, 2019 and 2018 are as follows:

December 31, 2019

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

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

**Due to adoption of PFRS 16*

December 31, 2018

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

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

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

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

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

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

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

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

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

The Company has not recognized any impairment losses on amounts due from related parties in 2019 and 2018. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

22. **Income Taxes**

Provision for income tax consists of:

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

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

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

The Company recognized net deferred tax asset amounting to ₱15.83 million in 2019 and deferred tax liability amounting to ₱0.06 million in 2018 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

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

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

23. **Lease Commitments**

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

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

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

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

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

(Forward)

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

The following are the amounts recognized in statement of income:

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

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

The rollforward analysis of lease liabilities follows:

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

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

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

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

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

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

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

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

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

24. **Earnings Per Share**

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

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

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

25. **Segment Reporting**

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

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

The Company conducts its operations through the following store formats:

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

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

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

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

26. **Financial Instruments**

Fair Value of Financial Instruments
As of December 31, 2019 and 2018, the Company has no financial asset and liability carried at fair value.

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

Financial Assets
Due to the short-term nature of the transaction, the fair values of cash and cash equivalents, short-term investments, trade receivables, rentals and receivable from related parties, other receivables (Claims from insurers and accrued interest receivable) and security deposits under "Other current assets" approximate the carrying values at year-end.

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

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

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

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

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

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

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

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

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

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

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

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

The table below shows the maturity profile of the financial liabilities of the Company as of December 31, 2019 and 2018 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

December 31, 2019

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

**excluding statutory payables*

December 31, 2018

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

**excluding statutory payables*

Credit risk

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

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

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

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

	2019			
	Maximum exposure to credit risk	**Fair value of collaterals or credit enhancements**	**Net exposure**	**Financial effect of collaterals or credit enhancements**
Receivables:				
Trade				
Third parties	**₱952,711,790**	**₱296,307,561**	**₱656,404,229**	**₱296,307,561**
Related parties	**1,409,351**	**–**	**1,409,351**	**–**
Nontrade				
Receivable from insurance	**104,364,149**	–	**104,364,149**	–
Rentals	**37,449,489**	**65,737,958**	**–**	**37,449,489**
Related parties	**20,934,612**	–	**20,934,612**	–
Accrued interest receivable	**14,518,808**	–	**14,518,808**	–
Others*	**15,500,741**	–	**15,500,741**	–
	₱1,146,888,940	**₱362,045,519**	**₱813,131,890**	**₱333,757,050**

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

	2018			
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
Receivables:				
Trade				
Third parties	₱838,558,786	₱328,163,607	₱510,395,179	₱328,163,607
Related parties	420,314	–	420,314	–
Nontrade				
Receivable from insurance	455,625,348	–	455,625,348	–
Rentals	29,838,612	53,216,403	–	29,838,612
Related parties	24,295,195	–	24,295,195	–
Accrued interest receivable	9,433,385	–	9,433,385	–
Others*	14,407,306	–	14,407,306	–
	₱1,378,981,602	₱381,380,010	₱1,014,576,727	₱358,002,219

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

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

Impairment of financial assets
The Company has the following financial assets that are subject to the expected credit loss model:

- trade receivables to third party and related parties for sales of inventory;
- other debt instruments carried at amortized cost

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

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

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

December 31, 2019

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

December 31, 2018

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

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

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

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

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

27. Notes to Statements of Cash Flows

The Company's noncash activities are as follows:

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

For the year ended December 31, 2019:

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

For the year ended December 31, 2018:

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

28. Events after the reporting date

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

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

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

29. Supplementary Information Required Under Revenue Regulations 15-2010

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

Value added tax (VAT)

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

The Company has zero-rated and exempt sales pursuant to Section 106(A)(2)(a)(5) of the Tax Code and Sections 109(A), 109(K) and 109 of the Tax Code, respectively.

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

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

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

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

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

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

Taxes and Licenses

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

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

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

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

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

CONTACT DETAILS

CEBU PRINCIPAL OFFICE
Vicsal Building corner of C.D. Seno and W.O. Seno Streets
Barangay Guizo, North Reclamation Area, Mandaue City
Cebu, Philippines 6014
Tel. No.: (+6332) 8236-8390
Fax No.: (+6332) 8236-9516

MANILA CORPORATE OFFICE
6F Metro Market! Market! McKinley Parkway
Bonifacio Global City, Taguig City
Metro Manila, Philippines 1634
Tel. Nos.: (+632) 8843-0099
(+632) 8843-0032
Telefax: (+632) 8836-8172

www.themetrostores.ph | www.metroretail.com.ph

METRO
RETAIL STORES GROUP, INC.