RETAIL STORES GROUP, INC.

2020
ANNUAL REPORT

CREATE. COLLABORATE. CONQUER.

Forging Ahead The MRSGI Way

METRO
RETAIL STORES GROUP, INC.

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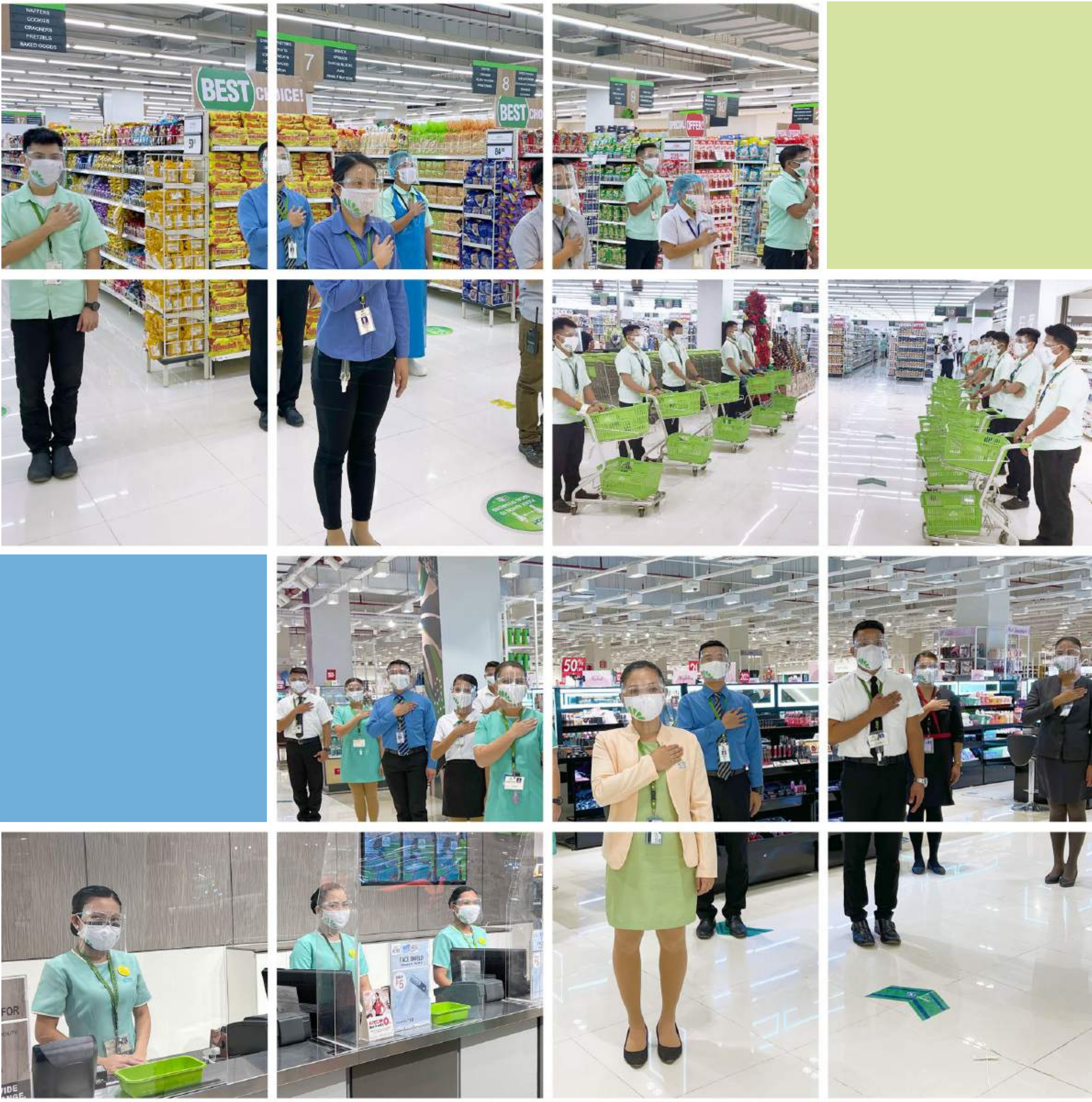


BEST
SPECIAL OFFER!
FACE SHIELD
50%

MISSION-VALUES AND VISION

VALUES

Make our **CUSTOMERS** happy.

Engage with our **COMMUNITIES.**

Take care of our **ENVIRONMENT.**

Returns for our **SHAREHOLDERS.**

Our **PEOPLE** are our partners.

MISSION

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

VISION

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 6,000 employees with 56 stores serving the needs of its customers.

It has been an eventful 38 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 | 2020

Supermarket

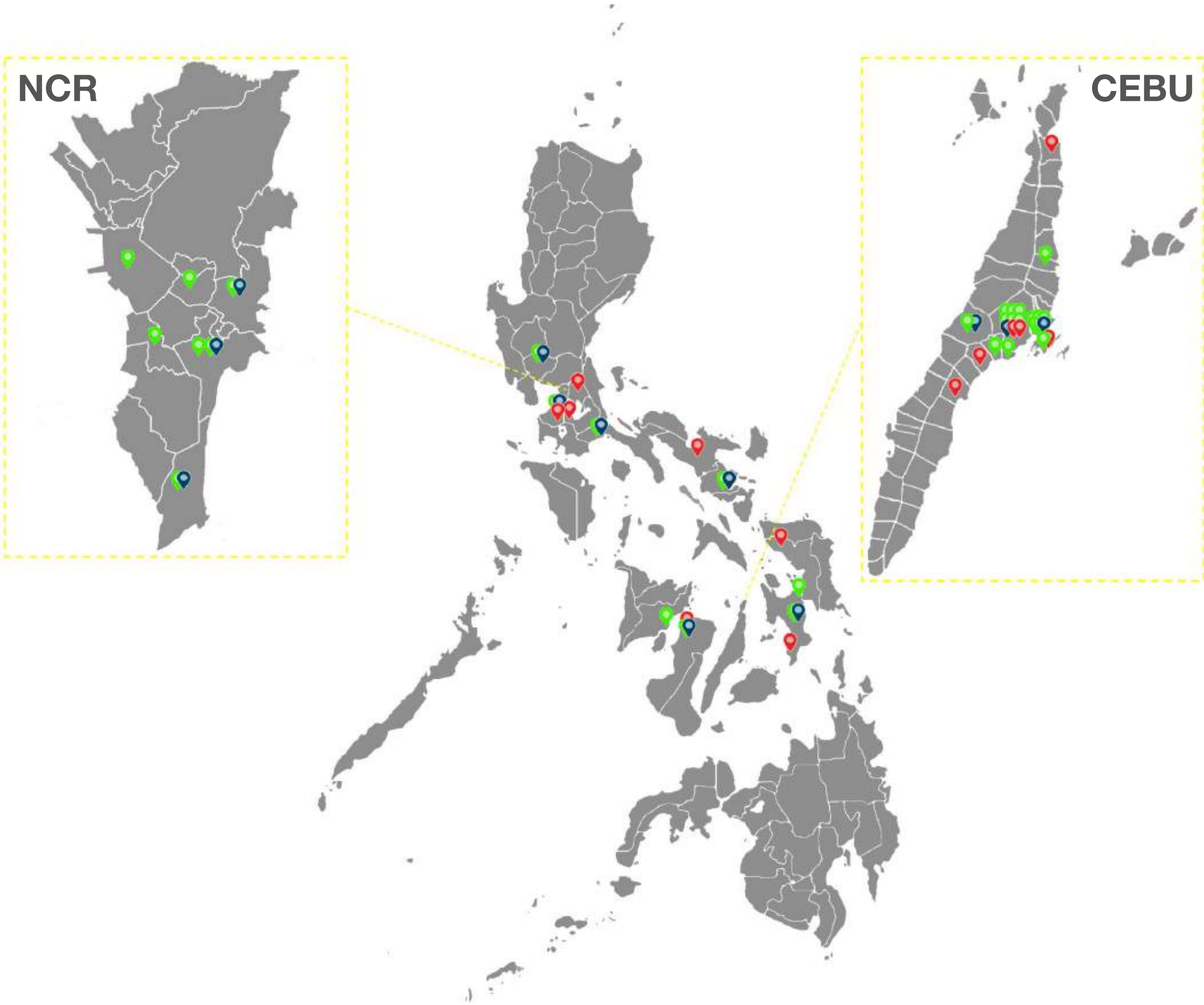
NCR	7
Luzon	4
Visayas	20
Total	**31**

Department Store

NCR	3
Luzon	4
Visayas	5
Total	**12**

Hypermarket

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



Responsive to the needs and changing lifestyles of Filipinos, Metro Retail Stores Group, Inc. 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 twelve (12) Metro Department Stores across the country.

Metro Alabang Town Center
Metro Ayala Pasig
Metro Bacolod
Metro Baybay
Metro Colon
Metro Legazpi

Metro Lucena
Metro Mandaue
Metro Market! Market!
Metro Marquee Mall Angeles
Metro The District Imus
Metro Toledo

METRO SUPERMARKET

Customers come regularly to Metro Supermarket for 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-one (31) locations across the country that all adhere to global safety standards.

Metro Alabang Town Center
Metro Atria
Metro Ayala Center Cebu
Metro Ayala Pasig
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 Plaza 66 Newport City
Metro Tacloban
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 adaptive lifestyle of today's shoppers. With specially 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 ambience.

SUISSE COTTAGE

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

METRO CAFE

is a dine-in café that offers gourmand sandwiches and a curated selection of pastas, soups, and short orders.

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,

No other year presented so many extraordinary challenges than 2020. All of us have had to dig deep and draw upon vast resources of strength and capacity to forge ahead past difficulties, minimize the risks and losses, and continue serving and anticipating the changing needs of our shoppers.

This is evident in the retail industry. As the pandemic upended everything that many of us knew and did in the past, we had to dramatically pivot our processes and projections for the year and set new long-term directions in response to customers' new shopping habits and demands.

Create. Collaborate. Conquer. Forging Ahead the MRSGI Way. Our theme truly sums up our resilience in times of uncertainty, our strength through partnerships remained at the forefront of our working environment, and our fortitude to lead and succeed in honor of the MRSGI legacy of trust and service that we have nurtured for nearly four decades.

2020 financial results

Looking back on this year in review, we were starting out strong as we marked an increase in our operating income in the first quarter, coming from improved sales and lowered operating expenses. However, by mid-March, COVID-19 impacted the whole country, movements were heavily restricted, and shopping was focused primarily on acquiring household essentials.

Despite the quarantine restrictions that disrupted our operations and reduced customer traffic, our Company's EBITDA still stood at a positive position of PhP1.3 billion. Our balance sheet remained solid with a cash reserves of PhP2.3 billion that was sufficient to cover current debt. This provided cushion as our gross profit declined by 22.8% to PhP6.3 billion and we posted a net loss of PhP450 million, reversing the gains we achieved in 2019.

In the early months of the nationwide quarantine, we had to temporarily close our department stores. While we gradually reopened these, we experienced low customer traffic owing to the persistent community quarantine levels throughout the year. As a result, our total general merchandise business contracted by 45.7% compared to 2019, whereas our food retail business posted a modest increase of 1.1% as consumers prioritized the purchase of essential items.

Overall, the corresponding shift in consumer preference and disruption in our operation influenced our financial results, with net sales contracting by 15.0%, from PhP36.8 billion in 2019 to PhP31.3 billion in 2020.

Faced with the need to better consolidate our operations for the future, we had to close two non-performing department stores. This, along with other disruptions, lowered our operating expenses by 8.3% to PhP6.8 billion from PhP7.4 billion in 2019. This was partially offset by the recognition of non-recurring expenses amounting to PhP270.2 million in connection with the streamlining of our operations and the rationalization of our stores and workforce.

Identifying growth opportunities

The adversities in year 2020 enabled MRSGI to demonstrate its flexibility and creativity as it transforms into its long-term operating model. While we remained true to our fundamental values of delighting our customers with best-in-class shopping experience, we recognized how shopping behaviors quickly changed, and immediately sought ways to adapt to the new retail landscape to support our long-term goals and sustain our growth.

Our initial decisions brought forward by this challenging year were made in consideration of the needs of our stakeholders. We ensured the safety and well-being of our valued frontliners, our employees, as they resolutely and dedicatedly performed their duties of serving our customers. We then took actions to safeguard our business, and we focused on the potential opportunities in this new environment to set ourselves up for long-term success.

Faced with stay-at-home restrictions, limited travel, social distancing, and health and safety protocols, our consumers displayed new purchasing habits that compelled us to focus our initiatives on the ever-growing digital world.

This gave rise to our online market platform shop.themetrostores.ph, which presented our customers with a virtual portal to purchase a vast array of household, health, and beauty essentials, and have these delivered to their doorsteps. This is complemented by our mobile commerce initiatives as well as our partnerships with online grocers and last-mile delivery providers to further expand our reach.

As we place our customers at the center of everything we do, we will continue to invest in our digital capabilities in order to address their increasing demand for online shopping. For this reason, we upgraded and launched version 2.0 of our online shopping portal, with more participating stores and exciting products as well as a “one-cart” shopping experience to purchase from our Supermarket and Department Store.

Even with all that we have faced, we were able to open our new store Metro Tacloban-Supermarket, just in time for the holidays when quarantine restrictions were eased. We remain committed to expanding our retail footprint as we aim to open a few more supermarkets in strategic areas.

Over the coming months, our initiatives will be directed at increasing our market reach in both digital and physical channels, enhancing the look and feel of our existing stores, and undertaking a workforce rationalization and rightsizing program to improve our profitability, merchandise reach, and customer satisfaction.

Alongside these, we will continue with our initiatives towards uplifting the lives of everyone in the communities in which we operate. Corporate social responsibility is at the heart of our business, and we have certainly made wonderful and innovative strides to help communities and small businesses at the height of the pandemic. It is heartwarming to see that MRSGI is an empowering place for our employees who, despite their own personal difficulties, display their sense of *Malasakit* and continue with their selfless service through the pillars of Livelihood, Education, and Community Outreach.

The year 2020 tested our limits as an organization. Strength is indeed forged in the fires of adversity, and through the passion, commitment, and sheer tenacity of our leaders, employees, and partners to continue our service, we came out more resilient and better equipped for the obstacles ahead.

With the guidance of our Board of Directors, the dedication and hardwork of our people, the loyalty of our clients, and the trust of our shareholders, we have gained greater confidence and motivation in charting the course of our recovery. My sincerest gratitude goes to every one of you.

Frank S. Gaisano
Chairman and Chief Executive Officer

PRESIDENT'S REPORT

To our dear shareholders,

The year 2020 was one filled with uncertainties, challenges, and adjustments for many of us; nevertheless, your Metro Retail Stores Group, Inc. (MRSGI) family remained steadfast and united amidst the confluence of pandemic-driven hurdles that beset our organization. The adversities rising from the COVID-19 global pandemic provided us with the necessary impetus to become more creative and collaborative in terms of generating solutions on how we can better serve our customers. During this most critical time, we drew strength from our collective knowledge and experiences to develop plans that will not only ensure business continuity but place MRSGI in a stronger position in the future.

As we navigated the challenging paths of the pandemic, it was our shared commitment to our customers that enabled us to advance our goals to find opportunities, initiate innovations to engage with our customers, partners, suppliers, and other stakeholders, and create a safer and better shopping experience. Guided by these aspirations, we shall relentlessly pursue a better normal as we forge ahead through the MRSGI way.

Addressing immediate health and safety needs

Throughout this pandemic, securing the welfare of our employees while meeting the demands of our customers remained as one of our top priorities, hence ensuring the safety and cleanliness of our stores is paramount.

Recognizing that our employees are our frontliners, we have implemented comprehensive hygiene standards across all our locations and provided them with clear guidance, including preventive measures they should take. For employees who faced greater mobility restrictions, we provided them with alternative transport and housing options, thus covering their most basic needs to safeguard their well-being. We likewise worked hand-in-hand with local government units to quell the spread of COVID-19 and temporarily closed our stores and offices in line with local regulations.

In those months of the most stringent quarantine measures, when we had to limit the operations of our Department Stores, we remained firm in our commitment to preserve jobs and guarantee continuity of compensation.

Ensuring the safety and sanitation of our stores translates to greater reassurance for our employees as well as for our customers. In addition to our constant in-store hygiene and safety reminders, we also partnered with the Department of Health to align our initiatives with its *BIDA Solusyon sa COVID-19* campaign of proper health and safety protocols. We also launched the Metro Community Talks, which provides additional tips on keeping homes and the environment clean, on proper food handling, and other relevant topics.

I am proud to say that MRSGI has always invested much to uphold best practices in quality and food safety. Even before the pandemic, the Company already holds the distinction of being the only retailer that has certifications 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.

Metro Supermarket in Ayala Center Cebu is the first supermarket in the province of Cebu that holds such certification and has been recently recertified after an audit was conducted by the British Standards Institution (BSI) Group Philippines, Inc., a global leader in inspection and certification. Three other supermarkets holding the GMP and HACCP certifications are in Metro Alabang Town Center, Metro Market! Market!, and Metro Mandaue.

Creating a more meaningful customer engagement

As foot traffic dwindled and consumers migrated online -- including many who had never shopped from their mobile devices or computers before -- we had to transform our merchandising and marketing strategies to conform with the evident and rapid shifts in consumer behavior.

We took decisive actions to address the surge in demand for more essential products and bridge the distance through digital acceleration. We created our own e-commerce site as an additional retail channel, while we shifted our available resources towards our digital initiatives. Along with Click&Pick, Call&Pickup, and Text&Pickup mobile commerce programs, our online store – shop.themetrostores.ph – enables our customers to shop for products and have them delivered at their doorstep. Moreover, we partnered with leading e-commerce platforms to augment our tools and capacity to serve our clients.

We also saw a lot of opportunities in transforming our promotional strategies into solutions-oriented programs designed to enhance our customers' restricted living lifestyles. We continue to collaborate with our vendors and other partners to ensure the relevance of our assortment as well as the stability of our inventory. All of these contributed to the enrichment of our current omnichannel strategy that blends offline and online platforms into a seamless shopping experience for our customers.

Underpinning all these is our desire to continue our deep and long-standing commitment to deliver measurable and sustained social impact in the communities we serve. As we strove to work hard to pivot our resources, we also took strides to uplift businesses and communities that have been impacted by the pandemic.

One major corporate social responsibility (CSR) project that we successfully undertook was the Virtual Metro Community Bazaar (VMCB), wherein we partnered with select social enterprise brands, demonstrating our commitment to broaden our support for our business partners and communities through the promotion of livelihood opportunities.

The VMCB adopted the theme "We Rise as One Metro Family" because, through the many years that CSR has been ingrained in our corporate DNA, we regard everyone we work with as family. And adding the feather to this cap of achievement is the Merit Award that the VMCB received from the 18th Philippine Quill Awards, the country's most prestigious awards program in the field of business communication.

Growth opportunities abound

Moving beyond this pandemic, we will pursue a multi-pronged growth plan that aims to grow our business through the development of our e-commerce program, restructuring MRSGI as an agile organization, creating new channels, and implementing operational efficiency. We will complement these efforts with a deliberate store expansion plan positioned towards underserved markets -- where there is immense demand for our basic value proposition of providing world-class shopping experience. We intend to make these stores even more delightful by introducing a fresh new look and feel that will make it more customer-centric.

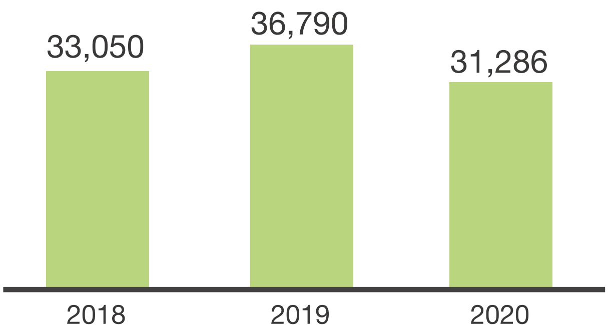
Our long-term strategies have been leading us towards addressing the ever-growing customer consideration of convenient product access. These will further drive MRSGI through the new normal. With the right plan, people, and partnerships, we at MRSGI will weather any storm and persist. We are well-positioned for long-term sustainable growth and to contribute to the broader economic recovery.

The commitment and discipline of our frontline employees and retail partners, and the loyalty and support of our customers and shareholders, deserve our utmost gratitude for assuring our business continuity. As we create deeper connections with our people, customers, and communities, I am confident that MRSGI will continue to deliver expectations and stronger returns in the future.

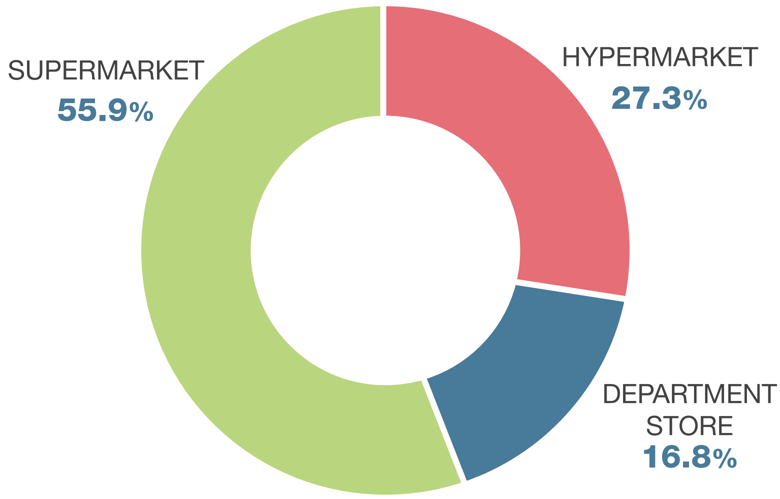
Manuel C. Alberto
President and Chief Operating Officer

FINANCIAL AND OPERATIONAL HIGHLIGHTS

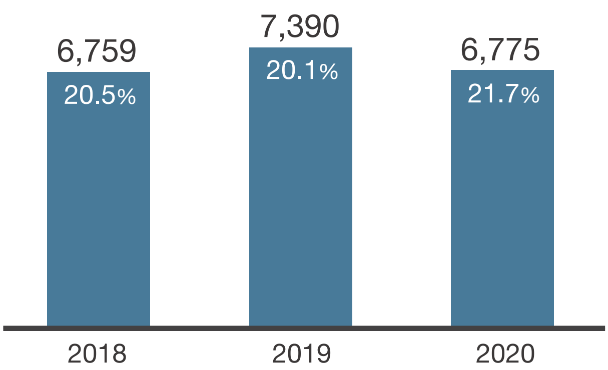
Net Sales



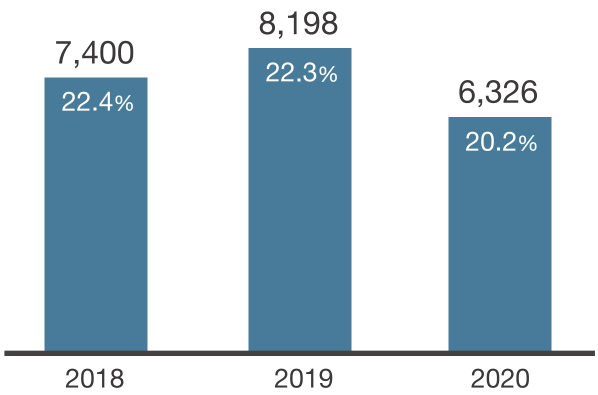
Share to Business*



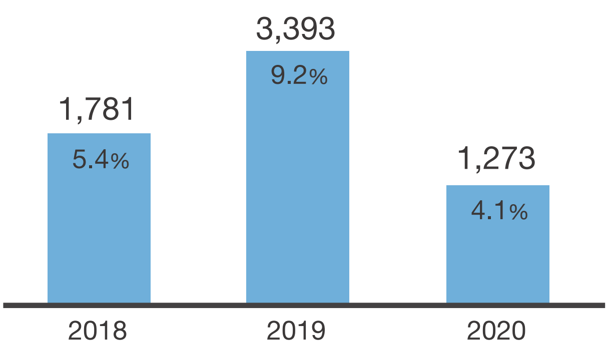
Operating Expenses



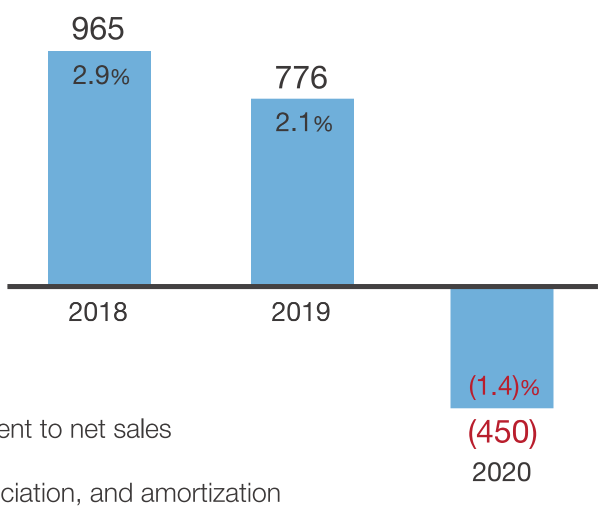
Gross Profit



EBITDA**



Net Income (Loss)



Notes: Figures are in PhP million and percent to net sales
*Figures are in percent to net sales
** Earnings before interest, tax, depreciation, and amortization

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(In million pesos, unless indicated)

Income Statement	**2020**	**2019**	**2018**
Revenue	31,286	36,790	33,050
Gross Margin	6,326	8,198	7,400
EBITDA	1,273	3,393	1,781
Net Income (Loss)	(450)	776	965

Balance Sheet	**2020**	**2019**	**2018**
Total Assets	21,374	23,365	13,868
Total Liabilities	12,838	14,129	5,165
Stockholder's Equity	8,536	9,236	8,703

Financial Ratios	**2020**	**2019**	**2018**
Current Ratio	1.45	1.47	2.01
Debt to Equity Ratio	0.18	-	-
Net Debt to Equity Ratio	(0.09)	(0.31)	(0.41)
Asset to Equity Ratio	2.50	2.53	1.59
Return on Total Asset	(2.01)%	4.17%	7.24%
Return on Equity	(5.06)%	8.65%	11.60%

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 2020:

- 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 D.C. 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 2020, 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 2020, no such requests or proposals were formally received by the Company.

Annual Stockholders’ Meeting

Committed to transparency and fairness in the conduct of Annual and Special Stockholders’ Meetings, the MRSGI Board through its Management, was encouraged to attend to such affairs. Due to COVID-19-related quarantine restrictions, the Company held its first virtual Annual Stockholders’ Meeting on September 25, 2020 via Zoom Video Conferencing. Notice of the Annual Stockholders’ Meeting was disclosed in the Company’s website and was published in the business sections of two newspapers in general circulation (both print and online formats).

Related-party Transaction

The Audit and Risk Committee (ARC), which is composed of a majority of independent directors, reviewed all related party transactions in 2020 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 2020 and no violations of the policy were recorded or observed, thereby indicating that the mechanisms set in place to ensure that the interests of non-controlling shareholders are protected and are working.

Investor Relations

The Company remains committed to engage with its shareholders primarily through the CSGO, CFO, and the Investor Relations Department. As a team, they ensured that relations with investors and the investing public are maintained and nurtured. MRSGI’s strategies and quarterly performance were conveyed through a combination of 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 2020, 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 discussions, 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

The welfare and development of all MRSGI employees remained paramount throughout 2020. Several initiatives were launched during the year to support the overall business strategies and goals of the Company in spite of the COVID-19 global pandemic, among these are:

People Development

The Capability Development Section of HR fortified its commitment to provide capability building programs by transforming its traditional face-to-face learning sessions into digital through the use of G-suite applications. A total of thirty-four (34) courses (both internal and external) equivalent to 11,786 training hours were spent for people development, with an average of four (4) hours of learning session per employee in 2020.

Leading Your Team Through Change Virtual Training

The pilot learning tracks delivered online were streamlined to the Company's Competency Model in three (3) clusters: Core/Foundational Competencies, Management/Leadership Competencies, and Technical/Functional Competencies centered on Customer Focus, Project Management, People Management, Safety Management, and Strategic Thinking.

Jointly working with the Business Transformation Group, a series of technical learning sessions were also provided to the Merchandising business units to support their functional and technical development and better equip the team in using the new system.

- The Assortment Planning/Item Planning learning tracks were launched in April 2020 and were cascaded to 52 system end-users by our seven (7) internal subject-matter experts.
- The continuing learning sessions of the MRSGI Way 2.0 commenced a rationalized partnership between Category Managers and Category Planning Managers in December 2020.

The conduct of COVID-19 Case Management Training (COVID-19 CMT) supported the business continuity plans of the Company by retooling the Emergency Rescue Team and identified core team (per store, warehouse, and corporate office) with the policies and guidelines on safety protocols as well as creating an internal capability building of contact tracers to reduce, arrest, and mitigate the spread of COVID-19 in the workplace.

The Management Training Program concluded on November 12, 2020 with eleven (11) graduates and with 100% deployment by December, fulfilling their career aspirations and supporting MRSGI's business strategic objectives. The revised approach for the Management Training Program enabled the trainees to imbibe the MRSGI value chain concept of Plan, Buy, Move, and Sell. The program also allowed the trainees to immerse in the Planning, Merchandising, Store Operations, Supply Chain, Marketing, and Human Resources Departments.

Engagement

MRSGI continued to provide its employees with inspiring and memorable activities where they could feel a culture of family and a sense of belonging. While these programs were traditionally conducted face to face, MRSGI shifted to online during the pandemic. With the transition to online, engagement programs were simultaneously done nationwide which allowed participants to interact with colleagues in other locations. In 2020, the programs completed via virtual platforms were: (i) Founder's Day which was a month-long celebration invigorated with Kwentong Metro on values of gratitude, honesty, and integrity; (ii) Christmas Thanksgiving with a team-based contest (Emoji Quiz) to conclude the season with fun and games; and (iii) Annual Loyalty Awarding Ceremony that recognizes employees who stayed in MRSGI for at least five (5) years and have remained significant contributors to the Company's growth.

Health, Wellness, and Employee Welfare

- ***Development and Implementation of MRSGI's COVID-19 Safety Policy***
  MRSGI continuously implements health and safety protocols for any possible risks. It has been very active on Earthquake and Fire Drills and has complied with the regulations. During the pandemic, MRSGI developed its own COVID-19 Safety Policy which was cascaded to every employee in each location and ensured there is continuous compliance. The Safety Team and Human Resources Department monitored updates on government regulations and implementing policies and reflect relevant changes in its COVID-19 Safety Policy.

- ***Calamity Aid***
  Aside from the COVID-19 pandemic, natural calamities struck the Philippines which affected our stores and employees. MRSGI, together with the VICSAL Foundation, extended help to its people in order to ease their situation.

  - Mt. Taal eruption – MRSGI provided calamity assistance (both in cash and in-kind) for its employees in Super Metro Tagaytay and distributed donations to nearby barangays.

  - Super Typhoon Rolly and Ulysses – as part of its regular benefit, MRSGI gave cash calamity assistance to approximately 337 employees for Super Typhoon Rolly and approximately 1,300 employees for Typhoon Ulysses. Management also granted in-kind support to affected employees.

  - COVID-19-related community quarantines – with the government's proclamation of State of Calamity, employees received their Calamity Aid Benefit, both cash and in-kind.

  - Solidarity Fund – MRSGI created a solidarity fund through voluntary donation of the Board of Directors, executives, and corporate employees to assist our frontliners. This initiative was able to raise PhP5.30 million that was released through the payroll accounts of our frontliners.

- ***Employee Support during Community Quarantine***
  During the strict community quarantines, MRSGI - especially our retail frontliners - played an important role in providing essential products to its customers and the communities. As "Metro Cares" not only for its customers but also for its employees, MRSGI provided necessary support to its frontline associates.

  - IATF IDs – MRSGI worked closely with the Department of Trade and Industry (DTI) and enrolled all of its Luzon employees (in stores and warehouse) for their Inter-Agency Task Force (IATF) ID as a government requirement to pass through checkpoints.

  - Shuttle services – MRSGI employees were provided with shuttle services from specified pick-up points to stores and corporate offices and vice versa.

  - Temporary billeting – Management was able to secure temporary shelters for MRSGI frontliners in locations under strict community quarantine status.

  - Meal allowance and distribution of vitamins – MRSGI ensured that each of our frontliners was given daily meal allowances and vitamins to protect their health and boost their immune system.

  - In-house credit card – Employees with existing Metro Privilege Card (MPC) and current balances were able to purchase goods beyond their credit limit. Payment for the said card was also put on hold to assist the employees with their finances.

- ***Flexible Work Arrangement***

    - Corporate offices
      MRSGI exercised its prerogative to suspend onsite work for employees in its Luzon and Cebu Corporate Offices. It allowed employees to work from home (WFH) and provided necessary tools to perform their respective roles.

    - Stores and warehouses
      Our department stores were greatly affected by the regulations, being part of non-essential businesses identified by the government. With its continued support to employees, Management decided to carry out work rotation among them within the week and paid them during these days.

- ***Mental Health Talk***
  The COVID-19 pandemic necessitated the workplace to adapt to stringent safety measures for the welfare of employees. However, it also caused workplace stress as employees adjust to new work-life situation and experience anxiety and fear of being infected with the disease. Committed to prioritizing the safety and well-being of our employees, MRSGI facilitated a virtual Mental Health Awareness talk, in partnership with our life insurance provider, on June 9, 2020 with over 200 participants. The discussion focused on how to manage stressors in the new normal, the value of mindfulness, and positivity.

  Through its employee engagement medium, different online motivational activities were initiated such as Virtual Hugs for Everyone, Start your Week with Gratitude, Lenten Bingo, 5 Ways to Make your Ma'am Extra Special, Happy Mother's Day to all Supermoms!, Start Your Week with a Smile, Father's Day Greeting, and Invigorate Yourself with Face Massage. Articles on mental health tips to better care for oneself and others were also circulated to employees via email and postings on bulletin boards. These activities helped them be continually engaged in work and be connected with themselves and their loved ones.

Labor Compliance

- MRSGI remained compliant 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 a common rest area.

- MRSGI implemented Telecommuting and Flexible Work Arrangement for its corporate employees.

- It also implemented Reduced Work Week for its corporate and store employees, kept abreast with DOLE's issuances and implementing rules and regulations during the pandemic.

- Employee Assistance Program for Retrenched Employees
  MRSGI crafted an Employee Assistance Program for the employees affected by its Workforce Rightsizing and Rationalization Program. Aside from the legally mandated retrenchment pay, each displaced employee received the following assistance:

    - Family Assistance – a gift check worth PhP9,000 which they can use for any purchases at the Metro Stores

    - Health Insurance Coverage - up until March 27, 2021 and is within the Maximum Benefit Limit (MBL). Any excess from the MBL is of the employee's account and he/she shall pay the hospital/clinic upon discharge.

    - Health Insurance Coverage of Employee's Dependents – if the employee was able to avail this extended benefit program before the retrenchment, the dependent/s will be covered from January 1 to December 31, 2020. If the employee opted not to continue to avail the insurance coverage for dependents, the premium will be computed pro-rata and the outstanding balance will be deducted from the last payment.

    - Skills and Livelihood Training - each displaced general staff to supervisory level employee will be given a PhP1,000 budget to enroll into any TESDA course of their choice and other skills training provider. This assistance can be availed by the employee or his/her family and relatives within the first two (2) months after the end of their employment but will be forfeited after two (2) months of non-availment. A copy of the enrolment form, schedule of classes, and school or training center contact details are pre-requisites for the assistance.

Technology

- The Human Resource Information System (HRIS) is in-place for efficient payroll processing, time and labor management, and employee database management. Upgrades on the current system are ongoing to further improve user interface, data processing, and analytics. The HR Department plans to further develop or replace the HRIS in order to capture full cycle HR processes such as Talent Acquisition, Talent Management, and Talent Optimization, as well as to take advantage of current technologies for dynamic reporting and analytics.

- G-Suite – In 2019, MRSGI partnered with Globe Business for the use of the G-Suite Office Collaboration Tool to boost team productivity and further digital transformation. It became the main communication channel for all employees maximizing relevant applications during the pandemic.

- Virtual Private Network (VPN) – During the Work from Home (WFH) set-up, qualified employees in the Luzon and the Visayas Corporate Offices were given their VPN Accesses to access software that is restricted to local connections.

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 2020 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 Fees and Services***

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

	2020	2019	2018
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	1,890,000.00	2,079,000.00	2,079,000.00
Professional Fees related to the Initial Public Offering	nil	nil	nil
Fees for tax-related services	964,430.00	150,000.00	nil
All Other Fees	123,200.00	nil	145,000.00
Total	**PhP2,977,630.00**	**PhP2,229,000.00**	**PhP2,224,000.00**

Note: All Other Fees pertain to fees paid by the Company for the certification of the Company's Disbursement of IPO Proceeds and Progress Report.

- ***Ownership Structure***

Indicated below is the ownership structure of MRSGI as of December 31, 2020.

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 2020, 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 Audit and Risk Committee (ARC), the Company focused on risk management, safety management, internal audit, control, and compliance. The objective was to manage or 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 2020 for proper management and monitoring at store level.

Safety Management

As directed by ARC, 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.

At the onset of 2020, Safety Management Team has been actively coordinating and collaborating with our major stakeholders in the Store and Facility Operations to address the outstanding safety and risk findings particularly on Fire Safety which are closely monitored by our insurance Company.

The Safety Management Team is particular on the reliability of the fire protection system such as our fire pumps, fire extinguishers, Fire Detection and Alarm system and other fire protection system as these are being checked on a daily and monthly basis to ensure that these are readily operational in case of emergency situation.

When the COVID-19 pandemic crisis hit our country around March 2020, some big projects for fire safety improvement were stalled because of quarantine restrictions mandated by the national government. However, the pandemic also acted as an eye-opener to all employees of MRSGI including our business partners to place high regard on the Health and Safety program in the workplace. Every employee working in MRSGI establishments in different locations actively cooperated and collaborated with regard to COVID-19 Safety Protocol as well as the Fire & Life Safety Protocol. Enterprise-wide records of near-fire and/or minor fire incidents were significantly reduced as compared to the previous year since our department stores and most of our food tenants momentarily halted. The high safety awareness of every employee contributed to low records of incidents and/or accidents in stores, warehouse, and offices as they actively reported any abnormalities in the workplace. The Safety Culture in MRSGI showed resilience in the middle of COVID-19 pandemic crisis.

While MRSGI stores, warehouses, and offices are not entirely fool-proof from the threat of COVID-19 infection, there were records of COVID-19 cases in various locations which were immediately acted upon by our COVID Management Response team led by Safety Management and HR teams and closely monitored by our Top Management team.

A Business Continuity Plan (BCP) was developed around March 2020 that helped our business operations to be more flexible and reliable during the pandemic. The dedicated employees of MRSGI faced the challenges of daily operation, with the guidance of the Safety Officers and Emergency Response Team (ERT) leaders in each location.

As part of the BCP, COVID-19 Prevention and Control Program includes daily disinfection on highly touched areas or surfaces using DOH-approved disinfectant to maintain a safe shopping place and protect our employees and customers. MRSGI provided PPEs to its employees and implemented mandatory wearing of face mask and face shield. Physical distancing signs and marshals were also put in place. Plastic barriers in offices, workstations, cashier counters, and service counters were also installed as an additional protection against COVID-19. Alcohol dispensers were also provided in strategic locations.

While the local Bureau of Fire Department halted the conduct of Fire and Earthquake Drill last March 2020, our ERT remained trained from previous years of fire and earthquake drills and workshops conducted. The Safety Officers of each store, warehouse, and office still proactively performed the daily fire and life safety inspection to prevent and correct any fire and safety hazards identified.

Overall, 2020 highlighted the importance of Health & Safety and encouraged all employees and customers to support the Health & Safety Program of the Company which covers COVID-19 Prevention & Control as well as Fire & Life Safety.

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 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 Chief Executive Officer.

Internal Audit Group performs regular audit engagements on the following areas:
- Store Operations
- Supply Chain Management
- Network Expansion
- 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. 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 mandates 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 its Corporate Governance-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 20, 2020 at the Shangri-La at the Fort Manila, 30th Street, Bonifacio Global City, Taguig, 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 2020 retreat, the MRSGI Board focused its discussions on the following topics:

- Setting the Strategic Context
- MRSGI Strategic Plan for 2020-2025
- Best in Class Branded Customer Experience
- Aggressive Business Growth
- Operational Excellence
- Building a High Performance Organization

To further improve its overall function and effectiveness, the MRSGI Board and select executives, attended the Advanced Corporate Governance Training conducted by the Institute of Corporate Directors on January 22, 2021 for the year 2020. The MRSGI Board and select executives will conduct another Corporate Governance Training for the year 2021.

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

- Risk Management in the Age of COVID-19
- Leading in Crisis: From Survival to Strategic Pivot

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, President and Chief Operating Officer
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		Vicsal Dev't Corp. (VDC)	Aug. 28, 2003	Sept.25, 2020	Annual	17
Edward S. Gaisano	NED		VDC	Aug. 28, 2003	Sept.25, 2020	Annual	17
Margaret Gaisano Ang	NED		VDC	Aug. 28, 2003	Sept.25, 2020	Annual	17
Jack S. Gaisano	NED		VDC	Aug. 28, 2003	Sept.25, 2020	Annual	17
Manuel C. Alberto	ED	VDC	VDC	Dec.17, 2018	Sept.25, 2020	Annual	2
Guillermo L. Parayno, Jr.	ID	No relation	N/A	Jul.16, 2015	Sept.25, 2020	Annual	5
Ricardo Nicanor N. Jacinto	ID	No relation	N/A	Jul.27, 2015	Sept.25, 2020	Annual	5

* 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 2020, the discussion and resolutions in the ARC meetings included topics on risk management amidst the COVID-19 pandemic, strengthening MRSGI's internal control structure and system, and related-party transactions. 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 2020, the discussions and resolutions in the NRC meetings included topics on top team development, the MRSGI retirement plan and stock option plan, compensation and benefits program design implementation, and strategic HR programs.

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 2020, the GC discussions covered, among others, topics on board functioning and effectiveness through corporate trainings, 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 2020, 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 2020, MRSGI conducted meetings as illustrated below:

Position	Name	No. of Meetings Held During the Year	No. of Meeting Attended	Attendance Rate
Chairman	Frank S. Gaisano	9	9	100%
Member	Edward S. Gaisano	9	9	100%
Member	Jack S. Gaisano	9	8	88.89%
Member	Margaret Gaisano Ang	9	9	100%
Member	Manuel C. Alberto	9	9	100%
Independent	Guillermo L. Parayno, Jr.	9	9	100%
Independent	Ricardo Nicanor N. Jacinto	9	9	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 Directors	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 MRSGI's presence among its direct communities through programs that uplift the living standards of its beneficiaries
- To establish goodwill and develop good relations with 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

MRSGI SUPPORTS THE SCHOLARSHIP PROGRAM OF THE VICSAL FOUNDATION, INC.

- 284 scholarship grants awarded
- 11 graduates for S.Y. 2019-2020
- 12 new scholars

MRSGI AND METRO SEGUNDA MANA PARTNERSHIP IN SUPPORT OF THE YSLEP SCHOLARSHIP PROGRAM

- 87 scholars supported
- 3 graduates for S.Y. 2019-2020
- 6 scholars for S.Y. 2020-2021

MRSGI GREENEARTH HERITAGE FOUNDATION, INC. SCHOLARSHIP PROGRAM

- Retail of moringa tea in Metro Supermarkets helped provide for the educational needs of 31 scholars of the foundation

LIVELIHOOD

METRO CARITAS MARGINS

- Retail of Caritas Margins products in Metro Market! Market! and Metro Alabang Town Center Supermarkets support the livelihood of SMEs and the YSLEP Scholarship Program

MRSGI GREENEARTH HERITAGE FOUNDATION, INC. LIVELIHOOD PROGRAM

- Retail of moringa tea and powder in 14 Metro Supermarkets support the scholars and farmers' families

METRO KIBOA RIDGE FARMS

- Retail of adlai grains in Metro Market! Market!, Metro Alabang Town Center, Metro Ayala Pasig, and Metro Ayala Center Cebu Supermarkets benefit farming communities in Bukidnon

COMMUNITY SERVICE

DAGHANG SALAMAT STORIES

- A people-focused and localized communications effort that honors Metro frontliners across the Philippines
- Weekly features focused on the themes *Malasakit, Making Our Customers Happy, and Engaging with our Communities*

COMMUNITY SERVICE

DIGITAL METRO COMMUNITY TALKS

- Learning sessions hosted on MRSGI's corporate website and linked to The One Metro Community YouTube channel and Facebook page

Stay at Home Meals

Keeping your home and environment safe and clean

CSR MONTH: VIRTUAL METRO COMMUNITY BAZAAR

- The first virtual Metro Community Bazaar was launched in July 2020 as a venue for shoppers to buy products from CSR partners. Shoppers were also given a platform to be able to donate directly to the advocacies of participating CSR partners

METRO ANNIVERSARY AND HOLIDAY VIRTUAL COMMUNITY BAZAAR

- Following the success of the First Virtual Metro Community Bazaar, and in celebration of MRSGI's 38th Anniversary, the Virtual Metro Community Anniversary and Holiday Bazaar was launched last October 2020

COMMUNITY SERVICE

MRSGI-DOH PARTNERSHIP: BIDA SOLUSYON CAMPAIGN

- MSRGI joined hands with the Department of Health in the campaign to fight the spread of COVID-19

MRSGI-DTI PARTNERSHIP: BUY LOCAL, GO LOKAL CAMPAIGN

- MRSGI partnered with the Department of Trade and Industry in encouraging Filipino consumers to support locally-produced products through the Buy Local, Go Lokal Campaign

COMMUNITY OUTREACH

TOGETHER FOR TAAL RELIEF OPERATIONS

- MRSGI's employees and Vicsal Foundation, Inc. distributed care packs to evacuees stationed at Maghinao Proper Elementary School
- Super Metro Tagaytay employees donated relief packs to evacuees at Luksuhin Ibaba, Alfonso, Cavite

DONATION OF IN-KIND ITEMS TO CARITAS MANILA'S CONTRA COVID-19 DRIVE

- MRSGI donated food packs to families and communities affected by the pandemic

FACE MASK DONATIONS TO LUZON BENEFICIARIES

- Face masks were distributed to hospitals and non-government organizations in Luzon

COMMUNITY OUTREACH

DONATIONS OF BOUNTY DRESSED CHICKENS

- Through the assistance of Vicsal Foundation, Inc., MRSGI turned over Bounty dressed chicken donations to the Rotary Club of Cebu
- Recipients included residents of various barangays in Mandaue City

TYPHOON ROLLY RELIEF OPERATIONS IN PARTNERSHIP WITH VICSAL FOUNDATION, INC.

- Super Metro Camarines Sur distributed relief packs to families affected by typhoon Rolly in Barangay Lerma, Naga City
- Metro Legazpi distributed relief packs to families affected in Barangay Binanuahan East

TYPHOON ULYSSES RELIEF OPERATIONS

- Relief packs were distributed by Metro Ayala Pasig and Manila Corporate Office employees to families in Barangay Tumana, Marikina City

MRSGI AND VSF FACEMASK DONATION

- A community service program conducted in partnership with Vicsal Foundation, Inc. (VSF) and in cooperation with MRSGI internal departments – Marketing, Store Operations, Metro Pharmacy, and Corporate Affairs
- MRSGI turned over to various hospitals face masks which were generated from the following in-store promos: Stay Healthy, Look Beautiful, Back to School Swakto Deals, Anniversary Blow-out, and Tidy Living

2020 HIGHLIGHTS

STORE OPENING

MRSGI launched the opening of Metro Tacloban Supermarket in Tacloban City

On November 19, 2020, MRSGI officially opened Metro Tacloban Supermarket as part of its store network expansion in Eastern Visayas. The new store is expected to create more job opportunities and livelihood as well as to support commercial activities in Tacloban City.

FORGING PARTNERSHIPS

MRSGI kicked off its online presence through a partnership with Pushkart

In May 2020, MRSGI launched its partnership with Pushkart for online grocery and delivery in order to cater the needs of its customers during pandemic-related quarantine restrictions and as part of its initiatives in the e-commerce space.

MRSGI partnered with Dibz shop for grocery delivery

MRSGI and Dibz entered into a partnership in September 2020 that allows customers to order their groceries through the Dibz app with delivery service. This initiative also enables MRSGI to grow its presence online and serve more communities.

AWARDS

Metro Retail bagged DTI's Gold Bagwis Award

MRSGI received the Gold Bagwis Award from the Department of Trade and Industry (DTI) for its stores in the Visayas: Metro Mandaue, Super Metro Lapu-Lapu, Super Metro Bogo, Metro Fresh 'N Easy Mactan, Metro Carmen, Metro Fresh 'N Easy Banilad, and Super Metro Carcar for the Supermarket section; and Metro Mandaue, Super Metro Lapu-Lapu, Super Metro Bogo, and Super Metro Carcar for the Department Store section. The Gold Seal Award is given to establishments that comply with fair trade laws, establish a consumer relations office in their facilities, demonstrate excellence in social responsibility, and adhere to a given set of elements aligned with ISO 9001.

Three additional supermarkets of Metro Retail achieved GMP, HACCP certifications

As a reflection of the Company's commitment to health and safety (especially during the pandemic), three supermarkets (in addition to Metro Ayala Cebu) of MRSGI – Metro Market! Market!, Metro Alabang Town Center, and Metro Mandaue – received their certifications for Good Manufacturing Practices (GMP) and Hazard Analysis and Critical Control Points (HACCP) from the Societe Generale de Surveillance (SGS) Philippines and British Standards Institution Group Philippines, Inc. The renewed accreditation means that the store continues to comply with the highest quality standards, pre-requisite programs, and HACCP systems.

EXECUTIVE PROFILE

FRANK S. GAISANO
Chairman and Chief Executive Officer

Frank S. Gaisano, Chairman and Chief Executive Officer of the Metro Retail Stores Group, Inc. (MRSGI), has nearly four decades of retailing experience and is widely recognized as one of the Philippine retail industry's innovative and forward-looking leaders. Prior to his current appointment, Gaisano served as MRSGI's Director from 2003 to 2011. Working closely with his siblings Margaret, Jack, and Edward, Gaisano has been instrumental in professionalizing the leadership and navigating the aggressive growth of MRSGI. Gaisano has been actively involved in the financial development of the Company. Under his direction, MRSGI transformed to become one of the country's top retail chains. His approach to retailing, wherein all customers and suppliers – large and small – are valued, is that which he describes as "fundamental". Concurrently, he sits as Chairman of the Boards of AB Capital and Investment, Pacific Mall Corporation, and Vicsal Investment, Inc. He also holds Director posts for Vicsal Development Corporation, Taft Property, Filipino Fund, Inc., Taft Punta Engaño Property, Inc., and Direct Model Holdings, Inc. He received his Bachelor of Science degree in Civil Engineering from the Cebu Institute of Technology and completed the Strategic Retail Management Course at Harvard Business School, as well as several 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 Metro Retail Stores Group, Inc. 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 Inc., Rustan's Supercenter 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, Corporate Secretary, and Treasurer of MRSGI since 2003. Additionally, she is a Director of Vicsal Development Corporation, Taft Property Venture Development Corporation, Vicsal Securities and Stock Brokerage, Inc., Filipino Fund, Inc., Grand Holidays, Inc., Manila Water Consortium, Inc., and Maric Ventures, Inc. She graduated cum laude with a Bachelor of Science degree in Commerce, major in Accounting from the University of San Carlos and finished courses at the Institute of Corporate Directors.

JACK S. GAISANO

Director

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

EDWARD S. GAISANO

Director

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

RICARDO NICANOR N. JACINTO
Independent Director

Ricardo Nicanor N. Jacinto is an Independent Director of MRSGI. He 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 is also a faculty member of the MBA program of the University of the Philippines Virata School of Business in Bonifacio Global City.

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. Prior to MRSGI, Emmanuel served as Consultant for Merchandising and Store Operations at Vicsal Development Corporation from 2010 to 2012. His other previous affiliations include chairmanship and directorship posts at Leadership in Education for Pacific Islanders (LEAP), American Heart Association Fundraiser, and United Way Fundraiser. He earned his Transition to Management MBA from Columbia University in 2006.

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

Joel G. Orense
CHIEF FINANCE OFFICER

Anna Marie K. Periquet
VICE PRESIDENT FOR CORPORATE AFFAIRS

Vincent A. Tomaneng
CORPORATE SECRETARY & CHIEF LEGAL COUNSEL

■ MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The year ended December 31, 2020 compared with the year ended December 31, 2019.

Revenue

Net Sales

For the year ended December 31, 2020, our net sales were P31,286.3 million, a decrease of 15.0% compared to P36,790.2 million for the year ended December 31, 2019.

Total food retail business increased by 1.1%, while total general merchandise business declined by 45.7% over the same period last year. In the middle of March 2020, department stores were temporarily closed brought about by the COVID-19 outbreak. These were gradually opened but were faced with customer traffic constraint since community quarantine is still in effect and as consumers prioritized the purchase of essential goods in general.

Blended same store sales declined by 19.3% over the same period last year brought about by the decline in sales of our general merchandise business.

Rental income

For the year ended December 31, 2020, our rental income was P146.8 million, a decrease of 42.6% compared to P255.8 million for the year ended December 31, 2019. Decrease in rental income is primarily due to the temporary closure of non-essential tenants as a result of the community quarantine brought about by the COVID-19 outbreak, as well as, rental concessions extended to tenants who continued to operate.

Costs and expenses

Cost of sales

For the year ended December 31, 2020, our cost of sales was P24,960.2 million, a decrease of 12.7% compared to P28,592.5 million for the year ended December 31, 2019. Cost of sales declined slower than net sales since the food business which typically has a higher cost of sales compared to our general merchandise business continued to thrive despite the COVID-19 outbreak, while our general merchandise business declined.

Operating expenses

For the year ended December 31, 2020, our operating expenses were P6,775.5 million, a decrease of 8.3% compared to P7,390.2 million for the year ended December 31, 2019.

The decrease in operating expenses was primarily driven by the disrupted operations of department stores due to COVID-19 pandemic, offset by the recognition of non-recurring expenses in connection with the streamlining of operations and rationalization of stores and workforce of the Company in response to the impact of COVID-19 pandemic amounting to P270.2 million.

Interest and other income

For the year ended December 31, 2020, our interest and other income was P269.2 million, a decrease of 62.0% compared to P709.3 million for the year ended December 31, 2019.

The decrease is caused by the timing of recognition of 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 P104.4 million and P538.7 million for the year ended December 31, 2020 and 2019, respectively.

In addition, there is a decrease in interest income due to lower placements coupled with lower interest rates which ranges from 0.1% to 4.5% this year. This amounted to P50.8 million and P101.9 million in 2020 and 2019, respectively.

Finance costs

For the year ended December 31, 2020, our finance costs were P512.2 million, a decrease of 15.7% compared to P607.5 million for the year ended December 31, 2019. The decrease is primarily driven by the decrease in finance cost related to lease liabilities, offset with the increase on finance costs related to the Company's outstanding loans payable.

Provision for (benefit from) income tax

For the year ended December 31, 2020, our benefit from income tax was P95.9 million, a decrease of 124.6% compared to the provision for income tax of P389.4 million for the year ended December 31, 2019. The decrease in provision for income tax was primarily due to the decrease in income before tax.

Net income (loss)

As a result of the foregoing, for the year ended December 31, 2020, net loss was P449.6 million, a decrease of 158.0% compared to the net income of P775.6 million for the year ended December 31, 2019.

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 9.4% 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 3097.4% 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.

Financial Position

The year ended December 31, 2020 compared with the year ended December 31, 2019.

As of December 31, 2020 and 2019, our net current assets, or the difference between total current assets and total current liabilities, were P2,996.5 million and P3,123.8 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, 2020 and 2019 were P9,722.5 million and P9,816.0 million, respectively. The decrease of 1.0% in current assets is due to the decrease in receivables and cash and cash equivalents, offset by the increase in short-term investment, inventories and other current assets.

As of December 31, 2020, short-term investment totaled P1,270.6 million, receivables totaled P672.1 million, merchandise inventories totaled P4,981.6 million and other current assets totaled P540.9 million. As of December 31, 2019, short-term investment totaled P629.6 million, receivables totaled P1,146.3 million, merchandise inventories totaled P4,636.6 million and other current assets totaled P494.4 million.

As of December 31, 2020, cash and cash equivalents amounted to P2,257.3 million, a decrease of 22.4% from P2,909.1 million as of December 31, 2019. The decrease were mainly attributable to the additions to property and equipment amounting to P737.2 million, increase in short-term investments of P641.1 million, dividend payment amounting to P205.8 million and payment for lease liabilities of P1,002.0 million, offset by the loan proceeds of P1,500.0 million and P472.4 million cash provided by operating activities.

Non-current Assets

Our non-current assets consist of property and equipment, right-of-use assets, deferred tax assets–net and other non-current assets. Total non-current assets as of December 31, 2020 and 2019 were P11,651.4 million and P13,548.6 million, respectively. The decrease of 14.0% in non-current assets is significantly due to the movement in right-of-use assets as a result of lease modifications, recognition of allowance for impairment losses, as well as, the depreciation and amortization.

Current Liabilities

Total current liabilities as of December 31, 2020 and 2019 were P6,726.0 million and P6,692.2 million, respectively. As of December 31, 2020 and 2019, trade and other payables totaled P4,642.3 million and P5,409.5 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to P1,500.0 million and nil as of December 31, 2020 and 2019, respectively.

Non-current Liabilities

Total non-current liabilities as of December 31, 2020 and 2019 were P6,111.6 million and P7,436.4 million, respectively. The decrease of 17.8% in non-current liabilities is significantly due to the movement in lease liabilities as a result of lease modifications.

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 P4,730.3 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories, and other current assets. Total current assets as of December 31, 2019 and 2018 were 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 P1,146.3 million, merchandise inventories totaled P4,636.6 million, and other current assets totaled P494.4 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 1,465.9% 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 P4,730.3 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.

Cash Flows

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

	For the years ended December 31,		
	2020	2019	2018
		(P million)	
Net cash flows generated from operating activities	P472.4	P3.297.7	P1,450.2
Net cash flows used in investing activities	(1,410,3)	(2,480.2)	(1,352.2)
Net cash flows provided (used in) financing activities	292.2	(1,506.1)	(219.6)
Net decrease in cash	**(P645.7)**	**(P688.6)**	**(P121.6)**

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, 2019		
	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 decrease 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, 2020 was P472.4 million, which is comprised of operating income before working capital changes of P1,603.6 million, adjusted for changes in working capital, proceeds from insurance claims on merchandise inventory and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the decrease in trade and other payables of P834.5 million, increase in merchandise inventory of P390.5 million and increase in other current assets of P22.3 million, offset by the decrease in receivables of P339.3 million.

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 million offset by the increase in merchandise inventories of P1,047.0 million and receivables of P124.6 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 and P103.2 million, respectively.

Net cash flows used in investing activities

For the year ended December 31, 2020, net cash flows used in investing activities was P1,410.3 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to P737.2 million, increase in short-term investments by P641.1 million and increase in other noncurrent assets by P32.1 million.

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 noncurrent 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 noncurrent 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.

Net cash flows used in financing activities

Net cash flows generated from financing activities was P292.2 million for the year ended December 31, 2020, as a result of proceeds from loan of P1,500.0 million offset by payments of lease liabilities amounting to P1,002.0 million and payment of cash dividends amounting to P205.8 million declared on May 14, 2020.

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.

Indebtedness

Outstanding loans payable amounted to P1,500.00 million as of December 31, 2020 and nil as of December 31, 2019 and 2018.

Key Performance Indicators

	For the years ended December 31,		
	2020	2019	2018
Net sales(1) (PhP millions)	31,286.3	36,790.2	33,050.1
Average basket size(2) (PhP)	929.5	622.5	590.2
Same store sales growth(3) (%)	-19.3%	2.2%	5.1%*
Number of stores	56*	57*	53*
Net selling area(4) (sqm)	224,282	234,893	194,536

*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 cash equivalent, short-term investment 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 27 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, 2020 and 2019, 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 24, 2021

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
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SUBSCRIBED AND SWORN to before me this 25 MAR 2021 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. 253
Page No. 52
Book No. LXXXV
Series of 2021

ATTY. EDILBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig
Until June 30, 2021
IBP OR No. 127842 / Rizal 08-27-2020
PTR No. A-5064305 / 01-04-2021 Taguig City
IBP Roll No. ...
FTI Old Admin. Bldg. FTI Complex, Taguig City

MANILA CORPORATE OFFICE
6F Metro Market! Market!, Mckinley Parkway,
Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634
Tel No. v+632 843.0099 | +632 843.0032 Telefax +632 836.8172

CEBU PRINCIPAL OFFICE
Vicsal Building corner of C.D. Seno and W.O Seno Streets Guizo
North Reclamation Area, Mandaue City, Philippines
Tel. No. (+63 32) 236-8390 | Fax No. (+63 32) 236-9516

METRO
RETAIL STORES GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of METRO RETAIL STORES GROUP, INC. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. 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, 2020 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 24, 2021

SUBSCRIBED AND SWORN to before me this ____ day of 25 MAR 2021 at Taguig City with Affiant exhibiting to me his/her valid ID stated above

DOC NO. 255
PAGE NO. 52
BOOK NO. LXXVI
SERIES OF 2021

DOC NO.____
PAGE NO.____
BOOK NO.____
SERIES OF 2021

ATTY. EDILBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig
Until June 30, 2021
IBP OR No. 127842 / Rizal 08-27-2020
PTR No. A-5064305 / 01-04-2021 Taguig City
IBP Roll No. 29548
FTI Old Admin. Bldg. FTI Complex, Taguig City

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

Tel: (632) 8891 0307
Fax: (632) 8819 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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its financial performance and its cash flows for each of the three years in the period ended December 31, 20120 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.

Impairment Testing of Nonfinancial Assets

The Company's operation is affected by the coronavirus pandemic and the Company incurred loss in 2020. The Company permanently closed two stores in 2020 and decided to reduce leased spaces in certain stores effective early 2021. Accordingly, management identified that property and equipment and right-of-use assets have indicators of impairment and performed impairment test to determine recoverable amount. The assessment of the recoverable amount requires significant judgment and involves estimation and assumptions about future sales and costs, as well as external inputs such as discount rate and growth rate. In addition, because of the coronavirus pandemic, there is heightened level of uncertainty on the future economic outlook and market forecast. Hence, such assessment is a key audit matter in our audit.

The disclosures in relation to property and equipment and right-of-use assets are included in Note 9 and Note 24 to the financial statements, respectively.

Audit response
We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include future sales and costs as well as external inputs such as the discount rate and growth rate. We compared the key assumptions used such as future sales and costs against historical sales and costs data, taking into consideration the impact associated with coronavirus pandemic and the expected recovery. We compared the growth rate used against actual historical performance and industry outlook. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of 'property and equipment' and 'right-of-use assets'.

Existence and completeness of merchandise inventories

The Company's inventories comprise 23% of its total assets as at December 31, 2020. The Company operates 57 stores (consisting of department stores, supermarkets and hypermarkets) and 11 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 also traced the last documents used for shipping, receiving, transfers which were obtained during the inventory count observation to the accounting records of sales and purchases. 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, 2020, 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, 2020 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.

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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 Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 and 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 BSP Circular No. 1075 in Note 31 and Revenue Regulations 15-2010 in Note 32 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and are not required parts of the basic financial statements. Such information are the responsibility of the management of Metro Retail Stores Group, Inc. The information have been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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. 8534336, January 4, 2021, Makati City

March 24, 2021

BUREAU OF INTERNAL REVENUE
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METRO RETAIL STORES GROUP, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 27)	**₱2,257,268,691**	₱2,909,123,300
Short-term investments (Notes 5 and 27)	**1,270,644,434**	629,574,974
Receivables (Notes 6 and 27)	**672,127,679**	1,146,347,172
Merchandise inventories (Note 7)	**4,981,620,260**	4,636,576,270
Other current assets (Notes 8 and 27)	**540,865,116**	494,406,602
Total Current Assets	**9,722,526,180**	9,816,028,318
Noncurrent Assets		
Property and equipment (Note 9)	**4,954,668,833**	4,700,483,138
Right-of-use ("ROU") assets (Note 24)	**5,408,172,114**	7,512,796,866
Deferred tax assets - net (Note 23)	**568,063,929**	309,275,514
Other noncurrent assets (Notes 10 and 27)	**720,530,258**	1,026,033,995
Total Noncurrent Assets	**11,651,435,134**	13,548,589,513
TOTAL ASSETS	**₱21,373,961,314**	₱23,364,617,831
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 27)	**₱4,642,332,394**	₱5,409,499,852
Contract liabilities (Note 12)	**82,133,740**	103,525,837
Loans payable (Note 13)	**1,500,000,000**	–
Income tax payable	**21,977,105**	230,178,863
Lease liabilities - current portion (Notes 24 and 27)	**479,564,316**	949,045,108
Total Current Liabilities	**6,726,007,555**	6,692,249,660
Noncurrent Liabilities		
Lease liabilities - net of current portion (Notes 24 and 27)	**5,542,385,955**	6,870,042,722
Retirement benefit obligation (Note 21)	**563,608,003**	500,623,022
Other noncurrent liabilities (Notes 14 and 27)	**5,624,863**	65,737,958
Total Noncurrent Liabilities	**6,111,618,821**	7,436,403,702
Total Liabilities	**12,837,626,376**	14,128,653,362
Equity		
Capital stock (Note 15)	**3,429,375,000**	3,429,375,000
Additional paid-in capital (Note 15)	**2,455,542,149**	2,455,542,149
Retained earnings (Note 15)	**2,690,003,170**	3,345,357,261
Remeasurement (losses) gains on defined benefit obligation (Note 21)	**(38,585,381)**	5,690,059
Total Equity	**8,536,334,938**	9,235,964,469
TOTAL LIABILITIES AND EQUITY	**₱21,373,961,314**	₱23,364,617,831

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
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METRO RETAIL STORES GROUP, INC.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2020	2019	2018
REVENUE			
Net sales (Note 16)	**₱31,286,312,987**	₱36,790,177,798	₱33,050,084,154
Rentals (Notes 22 and 24)	**146,843,483**	255,810,221	233,751,621
	31,433,156,470	37,045,988,019	33,283,835,775
COSTS AND EXPENSES			
Cost of sales (Note 18)	**24,960,173,867**	28,592,544,037	25,650,018,422
Operating expenses (Note 19)	**6,775,499,850**	7,390,186,363	6,758,799,769
	31,735,673,717	35,982,730,400	32,408,818,191
OPERATING INCOME (LOSS)	**(302,517,247)**	1,063,257,619	875,017,584
OTHER INCOME (CHARGES) (Note 17)			
Interest and other income	**269,182,058**	709,303,783	490,605,042
Finance costs	**(512,183,440)**	(607,483,396)	(19,041,131)
	(243,001,382)	101,820,387	471,563,911
INCOME (LOSS) BEFORE INCOME TAX	**(545,518,629)**	1,165,078,006	1,346,581,495
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**143,886,188**	529,883,374	384,326,979
Deferred	**(239,813,226)**	(140,450,099)	(3,123,004)
	(95,927,038)	389,433,275	381,203,975
NET INCOME (LOSS)	**(449,591,591)**	775,644,731	965,377,520
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement (losses) gains on defined benefit obligation (Note 21)	**(63,250,628)**	(52,767,286)	199,860
Income tax effect (Note 23)	**18,975,188**	15,830,186	(59,958)
	(44,275,440)	(36,937,100)	139,902
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱493,867,031)**	₱738,707,631	₱965,517,422
Basic/Diluted Earnings (Loss) Per Share (Note 25)	**(₱0.13)**	₱0.23	₱0.28

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2020, 2019 and 2018

	Capital Stock (Note 15)	Additional Paid-in Capital (Note 15)	Retained Earnings (Note 15)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 21)	Total
Balances at January 1, 2020	**₱3,429,375,000**	**₱2,455,542,149**	**₱3,345,357,261**	**₱5,690,059**	**₱9,235,964,469**
Net loss for the year	**–**	**–**	**(449,591,591)**	**–**	**(449,591,591)**
Other comprehensive loss	**–**	**–**	**–**	**(44,275,440)**	**(44,275,440)**
Total comprehensive loss	**–**	**–**	**(449,591,591)**	**(44,275,440)**	**(493,867,031)**
Declaration of dividends (Note 15)	**–**	**–**	**(205,762,500)**	**–**	**(205,762,500)**
Balances at December 31, 2020	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,690,003,170**	**(₱38,585,381)**	**₱8,536,334,938**
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 15)	–	–	(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 15)	–	–	(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

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) income before income tax	**(₱545,518,629)**	₱1,165,078,006	₱1,346,581,495
Adjustments for:			
Depreciation and amortization of ROU assets - net (Note 24)	**859,437,309**	1,241,452,884	–
Finance costs (Note 17)	**512,183,440**	607,483,396	19,041,131
Depreciation and amortization of PPE (Note 9)	**497,444,254**	480,904,170	490,362,102
Loss on stores closure - net (Note 19)	**217,449,025**	–	–
Provision for impairment of nonfinancial assets (Note 19)	**133,358,471**	6,226,119	26,859,905
Retirement benefits costs (Note 21)	**88,378,081**	58,373,098	47,134,866
Provision for decline in inventories value (Note 7)	**45,465,268**	–	–
Provision for impairment and write off of receivables (Note 6)	**24,292,248**	4,662,102	11,344,445
Foreign currency exchange losses (gains) (Note 17)	**6,164,814**	8,451,855	(20,721,700)
Loss on retirement of property and equipment (Note 9)	**4,532,824**	2,999,513	25,804
Interest income (Note 17)	**(50,751,483)**	(101,905,155)	(75,072,483)
Gain on lease modification (Note 24)	**(84,463,838)**	–	–
Gain on insurance claims - net (Note 17)	**(104,364,149)**	(538,743,310)	(350,681,819)
Reversal of impairment loss	**–**	–	(155,972)
Operating income before working capital changes	**1,603,607,635**	2,934,982,678	1,494,717,774
Decrease (increase) in:			
Receivables	**339,300,631**	(124,632,504)	(44,069,074)
Merchandise inventories	**(390,509,258)**	(1,046,971,099)	112,403,617
Other current assets	**(22,274,650)**	(3,660,565)	(184,399,088)
Increase (decrease) in:			
Trade and other payables	**(834,521,785)**	1,016,713,991	221,712,387
Contract liabilities	**(21,392,097)**	330,177	103,195,660
Other noncurrent liabilities	**290,785**	12,521,555	(413,808)
Cash flows generated from operations	**674,501,261**	2,789,284,233	1,703,147,468
Proceeds from insurance claims on merchandise inventory and business interruption	**208,728,297**	890,004,510	111,323,800
Income tax paid	**(352,087,946)**	(458,044,440)	(416,041,698)
Interest received	**57,013,949**	96,819,732	75,739,031
Interest paid	**(27,123,619)**	(16,835,233)	(16,348,371)
Retirement benefits paid, including retrenchment pay	**(88,643,728)**	(3,524,263)	(7,635,456)
Net cash provided by operating activities	**472,388,214**	3,297,704,539	1,450,184,774
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 9)	**(737,201,461)**	(1,942,356,492)	(1,447,741,077)
(Increase) decrease in short-term investments	**(641,069,460)**	(271,136,570)	396,765,867
Proceeds from insurance claims on property, plant and equipment (Note 9)	**–**	–	133,408,200
Decrease (increase) in other noncurrent assets	**(32,054,926)**	(266,733,530)	(434,681,564)
Net cash used in investing activities	**(1,410,325,847)**	(2,480,226,592)	(1,352,248,574)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availment (Note 13)	**1,500,000,000**	–	–
Payments of:			
Cash dividends (Note 15)	**(205,762,268)**	(205,762,392)	(205,754,341)
Principal portion of lease liabilities (Note 24)	**(491,033,774)**	(710,169,984)	–
Interest portion of lease liabilities (Note 24)	**(510,956,120)**	(590,149,820)	–
Finance lease liability (Note 24)	**–**	–	(13,876,863)
Net cash provided by (used in) financing activities	**292,247,838**	(1,506,082,196)	(219,631,204)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(645,689,795)**	(688,604,249)	(121,695,004)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 17)	**(6,164,814)**	(8,451,855)	20,721,700
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,909,123,300**	3,606,179,404	3,707,152,708
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,257,268,691**	₱2,909,123,300	₱3,606,179,404

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. 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 15).

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

Approval of the Financial Statements
The financial statements of the Company as of December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were approved and authorized for issue by the BOD on March 24, 2021.

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, 2020. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated:

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;

- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Company adopted the amendments to PFRS 16 beginning January 1, 2020 and recognized the COVID-19 related rent concessions received by the Company as a lessee amounting to ₱228.16 million as variable lease payments, particularly as a deduction from "Depreciation of right-of-use assets" in the "Operating Expenses" section of the statements of comprehensive income. Please refer to Notes 19 and 24.

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

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments*, *Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

<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, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:
  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after 1 January 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2023

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

- 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, 2023, 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.

<u>Summary of Significant Accounting Policies</u>
The following accounting policies were applied in the preparation of the Company’s financial statements:

<u>Current and Noncurrent Classification</u>
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.

<u>Derecognition</u>
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

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, rentals and security deposits, 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.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Financial liabilities at amortized cost

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

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

Derecognition

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

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 27.

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
Deposits
Deposits include payments to lessors for rental, payments to utility companies for meter deposits which will be offset against the Company's outstanding balance at the end of the contract term. This also include deposits for future land acquisition for the acquisition of certain land. The Deed of Absolute Sale (DOAS) for the property will be executed upon fulfillment by both parties of certain undertakings and conditions. This is expected to be transferred to "Property and equipment" within one year upon fulfillment of the conditions. These are recognized at the actual payments at transaction date.

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.

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, including borrowing cost. 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. The cost of an item of property and equipment include costs incurred relating to leases of assets that are used to construct an item of property and equipment, such as depreciation of right-of-use assets. 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 (including borrowing 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.

Borrowing Costs

Borrowing costs are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in "property and equipment" account in the statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest expense from lease liabilities.

Leases effective January 1, 2019

<u>*Company as Lessee*</u>

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. 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

Carrying amount of right-of-use assets are adjusted for any remeasurement of lease liabilities. It is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. For all other lease modifications, the Company makes a corresponding adjustment to the right-of-use asset.

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 (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset. PFRS 16 requires certain adjustments to be expensed, while others are added to the cost of the related right-of-use 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.

Rent concession
The Company recognizes rent concessions arising as a direct consequence of the COVID-19 pandemic as variable lease payments, particularly as a deduction from depreciation of right-of-use assets having met all the following criteria of amendments to PFRS 16, *COVID-19 related Rent Concessions*:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

<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 (CGU) 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 comprises 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.

<u>Equity</u>

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.

<u>Revenue recognition</u>

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

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

Sale of goods

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Segment Reporting
The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker (CODM) in allocating resources. Information on reporting segment is represented in Note 26 to the financial statements.

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

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

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

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

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

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

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

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

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

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

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

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. It is probable that the Company will exercise 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.

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 the Company assessed that 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.

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 2020 and 2019.

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

Assessing NRV 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. Due to COVID-19 pandemic, the Company experienced limited selling activities and lower demand that resulted in decrease in sales in 2020. In evaluating NRV, recent market conditions and current market prices have been considered including COVID19 impact. In the event that NRV is lower than cost, the decline is recognized as an expense.

In 2020, the Company recognized provision for decline in inventory values amounting to ₱45.47 million (nil in 2019). Merchandise inventories amounted to ₱4,981.62 million and ₱4,636.58 million as of December 31, 2020 and 2019, respectively (see Note 7).

Provision for expected credit losses of trade receivables, rentals and security deposits
The Company uses a provision matrix to calculate ECLs for trade receivables, rentals and security deposits. 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 including COVID19 impact. 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.

The Company has considered impact of COVID-19 pandemic and revised its assumptions in determining variables and loss rates in the computation of ECL. The changes in the gross carrying amount of receivables from the Company's sales during the year and impact of COVID-19 pandemic did not materially affect the allowance for ECLs.

In 2020, the Company recognized provision for expected credit losses of receivables amounting to ₱19.98 million (nil in 2019). Allowance for expected credit losses of receivables amounted to ₱31.60 million and ₱11.61 million as of December 31, 2020 and 2019, respectively. The carrying amount of receivables, net of valuation allowance, amounted to ₱672.13 million and ₱1,146.35 million as of December 31, 2020 and 2019, respectively (see Note 6).

In 2018, the Company has an allowance for impairment losses amounting to ₱28.17 million pertaining to security deposits which may not be recoverable as a result of closure of its non-performing store on the same year. In 2020, the Company agreed with the lessor on the forfeiture of the security deposits, and as a result, the amount was written-off.

Allowance for impairment losses on security deposit amounted to nil and ₱28.17 million as of December 31, 2020 and 2019. The carrying amount of security deposit, net of impairment losses, amounted to ₱225.49 million and ₱215.76 million as of December 31, 2020 and 2019, respectively (see Notes 8 and 10).

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 impairment evaluation for nonfinancial assets includes considering certain indications of impairment such as significant changes in asset usage, significant decline in asset's market value, obsolescence, or physical damage of an asset, significant underperformance relative to expected historical or projected operating results and significant negative industry or economic trends.

The Company permanently closed two of its stores during the year and decided to reduce lease spaces in certain stores effective in early 2021. These events and conditions are impairment indicators requiring the assessment of the recoverable amount of the 'property and equipment' and 'right-of-use assets'.

The Company estimates the recoverable amount as the higher of the fair value less cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that may affect the above-mentioned nonfinancial assets. For property and equipment and right-of-use assets, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value-in-use of the CGU to which the property and equipment and right-of-use assets pertains to. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows.

The significant assumptions used in the valuation are discount rates of 10% to 12% with an average growth rate of 3%. The Company also considered in its assumptions the impact of COVID 19 on sales which are not expected to normalize until 2022 and the updated costs structure based on changes implemented during the year.

As of December 31, 2020 and 2019, the carrying value of the Company's nonfinancial assets are, as follows:

	2020	2019
Other current assets* (Note 8)	**₱447,845,515**	₱483,216,612
Property and equipment (Note 9)	**4,954,668,833**	4,700,483,138
Right-of-use assets (Note 24)	**5,408,172,114**	7,512,796,866
Other noncurrent assets** (Note 10)	**588,063,174**	821,467,448
	₱11,398,749,636	₱13,517,964,064

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

In 2020, the Company recognized provision for impairment loss amounting to ₱33.50 million in relation to the closure of two stores during the year (see Notes 9 and 19). In addition, the Company recognized provision for impairment loss on right-of-use asset amounting to ₱99.86 million in relation to the Company's planned reduction of leased premises in 2021 (see Note 24).

In 2019 and 2018, the Company recognized provision for impairment loss amounting to ₱6.23 million and ₱20.88 million, respectively, which pertains to long outstanding advances to nontrade suppliers (nil in 2020) (see Note 10).

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

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 ₱6,021.95 million and ₱7,819.09 million as of December 31, 2020 and 2019, respectively (see Note 24).

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 21 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 ₱88.38 million, ₱58.37 million and ₱47.14 million in 2020, 2019 and 2018, respectively. Retirement benefits obligation amounted to ₱563.61 million and ₱500.62 million as of December 31, 2020 and 2019, respectively (see Note 21).

4. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand	**₱161,303,512**	₱156,930,765
Cash in banks	**1,592,950,321**	2,323,026,855
Cash equivalents	**503,014,858**	429,165,680
	₱2,257,268,691	₱2,909,123,300

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 4.5% in 2020, 0.10% to 7.38% in 2019 and 2018.

Interest income earned from cash and cash equivalents amounted to ₱14.96 million, ₱80.00 million and ₱57.16 million in 2020, 2019 and 2018, respectively (see Note 17).

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 2.0% to 5.25%, 4.0% to 6.6% and 3.9% to 6.3% in 2020, 2019 and 2018, respectively.

Short term investments as of December 31, 2020 and 2019 amounted to ₱1,270.64 million and ₱629.57 million, respectively.

Interest income earned from short-term investments amounted to ₱28.34 million, ₱14.77 million and ₱14.84 million in 2020, 2019 and 2018, respectively (see Note 17).

6. **Receivables**

This account consists of:

	2020	2019
Trade		
Third parties	**₱591,889,200**	₱952,711,790
Related parties (Note 22)	**362,203**	1,409,351
Nontrade		
Related parties (Note 22)	**₱42,418,814**	₱18,154,188
Rentals	**30,863,966**	37,449,489
Accrued interest receivable (Note 17)	**8,256,342**	14,518,808
Receivable from insurance	**–**	104,364,149
Advances to employees and officers	**–**	4,176,287
Others	**29,932,486**	25,175,522
	703,723,011	1,157,959,584
Less allowance for expected credit losses	**31,595,332**	11,612,412
	₱672,127,679	₱1,146,347,172

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

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

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

Receivable from insurance consists of insurance claims for inventory loss due to fire in 2018.

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 and rentals from third parties follow:

Trade receivables

	2020	2019	2018
Beginning of year	**₱11,612,412**	₱11,612,412	₱11,612,412
Add provisions (Note 19)			
Trade	**9,982,920**	–	–
End of year	**₱21,595,332**	₱11,612,412	₱11,612,412

Rentals

	2020	2019	2018
Provisions and balance at end of year	**₱10,000,000**	₱–	₱–

The Company has directly written off receivables which are deemed uncollectible amounting to ₱4.31 million, ₱3.70 million and ₱5.89 million in 2020, 2019 and 2018 respectively (Note 19).

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2020	2019	2018
Beginning inventory	**₱4,636,576,270**	₱3,589,605,171	₱4,002,495,549
Add purchases – net	**25,276,452,552**	29,601,659,711	25,497,242,262
Cost of goods available for sale	**29,913,028,822**	33,191,264,882	29,499,737,811
Less cost of merchandise sold (Note 18)	**(24,885,943,294)**	(28,554,688,612)	(25,609,645,879)
Less inventory loss due to fire (Note 17)	–	–	(300,486,761)
	5,027,085,528	4,636,576,270	3,589,605,171
Less allowance for decline in inventory values (Note 3)	**(45,465,268)**	–	–
Ending inventory	**₱4,981,620,260**	₱4,636,576,270	₱3,589,605,171

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 ₱208.73 million, ₱61.61 million and ₱111.32 million in 2020, 2019 and 2018, respectively (see Note 17).

The inventories carried at NRV, which is the lower of cost or NRV, amounted to ₱15.76 million and nil as of December 31, 2020 and 2019, respectively. In 2020, the Company recognized provision for decline in inventory values amounting to ₱45.47 million which is lodged under “Others” in the Cost of Sales section in the statements of comprehensive income.

No inventories have been used or pledged as security for the Company’s obligations in 2020 and 2019.

The Company does not have any purchase commitments as of December 31, 2020 and 2019.

8. **Other Current Assets**

This account consists of:

	2020	2019
Prepayments		
Third parties	**₱104,081,314**	₱99,953,762
Related parties (Note 22)	**1,077,567**	2,780,424
Input VAT - net	**₱96,163,794**	₱–
Deferred input VAT - current	**68,617,282**	70,964,241
Supplies	**60,061,392**	61,266,986
Advances to trade suppliers		
Related parties (Note 22)	**117,822,501**	234,245,539
Third parties	**63,451**	14,047,446
Security deposits - current	**93,019,601**	11,189,990
	540,906,902	494,448,388
Less allowance for impairment losses	**41,786**	41,786
	₱540,865,116	₱494,406,602

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

Input VAT pertains to taxes imposed on purchase of goods and services. These are expected to be fully amortized within one year.

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 loss for other current assets follow:

	2020	2019	2018
Beginning of year	**₱41,786**	₱5,984,803	₱–
Provision for impairment losses (Note 19)	**–**	–	5,984,803
Write-off	**–**	(5,943,017)	–
End of year	**₱41,786**	₱41,786	₱5,984,803

The Company has directly written off advances to suppliers amounting to nil, ₱0.96 million and ₱5.45 million in 2020, 2019 and 2018, respectively (Note 19).

9. Property and Equipment

The rollforward analysis of this account follows:

2020

	Land	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:								
At beginning 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
Additions	45,000,000	50,246,911	172,089,426	65,094,099	6,692,603	49,997,113	722,825,297	1,111,945,449
Retirements	–	(459,500)	(18,407,867)	(4,015,664)	(176,788)	(391,825,155)	–	(414,884,974)
Reclassifications	–	609,174,256	(326,474,693)	135,320,781	(17,144,312)	95,749,783	(496,625,815)	–
At end of year	45,000,000	989,153,965	1,978,811,171	1,345,720,931	386,280,889	2,171,123,080	1,722,787,774	8,638,877,810
Less Accumulated Depreciation and Amortization:								
At beginning of year	–	91,190,110	1,409,108,412	946,307,112	226,664,113	568,064,450	–	3,241,334,197
Depreciation and amortization (Notes 18 and 19)	–	64,171,430	143,956,412	93,164,315	62,769,982	133,382,115	–	497,444,254
Retirements	–	(392,453)	(15,560,192)	(2,686,446)	(177,951)	(69,248,589)	–	(88,065,631)
Reclassifications	–	13,374,453	(7,962,409)	469	(342,592)	(5,069,921)	–	–
At end of year	–	168,343,540	1,529,542,223	1,036,785,450	288,913,552	627,128,055	–	3,650,712,820
Less: Allowance for impairment loss (Note 19)	–	18,119,395	13,807,376	1,569,386	–	–	–	33,496,157
Net Book Value	₱45,000,000	₱802,691,030	₱435,461,572	₱307,366,095	₱97,367,337	₱1,543,995,025	₱1,722,787,774	₱4,954,668,833

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	₱1,086,274,155	₱350,058,247	₱1,381,009,794	₱1,328,418,313	₱5,983,875,889
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	853,211,577	164,700,626	437,390,495	–	2,765,574,070
Depreciation and amortization (Notes 18 and 19)	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

In September 2020, the Company closed two stores and derecognized the related leasehold improvements with a carrying value of ₱322.29 million. This was included under “Loss on stores closure - net” in the Operating Expenses section of the statements of comprehensive income (see Note 19). Additionally, the Company recognized provision for impairment loss for the remaining immovable property and equipment of the closed stores with a carrying amount of ₱33.50 million under “Provision for impairment of nonfinancial assets” in the Operating Expenses section of the statement of comprehensive income (see Note 19).

The Company retired other property and equipment from various stores with carrying values of ₱4.53 million and ₱3.00 million in 2020 and 2019, respectively. This was included under “Others” in the Other (Charges) Income section of the statements of comprehensive income (see Note 17)

Construction-in-progress pertains to ongoing construction of building and 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 2020, the Company capitalized depreciation expense of right-of-use assets and finance cost on lease liabilities to property and equipment under construction amounting to ₱13.91 million and ₱32.85 million, respectively.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2020 and 2019.

The Company has contractual purchase commitments related to construction-in-progress amounted to ₱178.59 million and ₱186.05 million as of December 31, 2020 and 2019, respectively.

10. **Other Noncurrent Assets**

This account consists of:

	2020	2019
Deposits	**₱454,385,733**	₱464,311,328
Advances to nontrade suppliers		
Third parties	**121,457,118**	242,260,895
Related parties (Note 22)	**34,835,265**	213,594,590
Deferred input VAT	**118,624,390**	142,808,254
	729,302,506	1,062,975,067
Less allowance for impairment loss (Note 19)	**8,772,248**	36,941,072
	₱720,530,258	₱1,026,033,995

Deposits consist of the following:

	2020	2019
Deposit for future land acquisition	**₱172,310,600**	₱86,155,300
Security deposits	**132,467,084**	232,735,371
Deposit to utility companies	**102,693,700**	100,471,171
Advance rentals	**46,914,349**	44,949,486
	₱454,385,733	₱464,311,328

Accretions of the security deposits amounted to ₱7.45 million, ₱7.14 million and ₱3.07 million in 2020, 2019 and 2018, respectively and are presented under "Interest and other income" in the statements of comprehensive income (see Note 17).

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.

Allowance for impairment losses pertains to long outstanding advances to nontrade suppliers and security deposits. In 2020, allowance for impairment loss as a result of the closure of a non-performing store in 2018 was written-off.

Movements in the allowance for impairment loss for security deposit and advances to supplier follow:

<u>Security deposits</u>

	2020	2019	2018
Beginning of year	**₱28,168,824**	₱28,168,824	₱28,168,824
Write-off	**(28,168,824)**	–	–
End of year	**₱–**	₱28,168,824	₱28,168,824

Advances to supplier

	2020	2019	2018
Beginning of year	**₱8,772,248**	₱20,875,102	₱–
Provision for impairment loss (Note 19)	–	6,226,120	20,875,102
Write-off	–	(18,328,974)	–
End of year	**₱8,772,248**	₱8,772,248	₱20,875,102

11. **Trade and Other Payables**

This account consists of:

	2020	2019
Trade		
Third parties	**₱2,803,894,480**	₱3,559,741,196
Related parties (Note 22)	**17,379,792**	66,477,560
Nontrade		
Third parties	**933,812,743**	818,801,631
Related parties (Note 22)	**6,528,437**	6,582,946
Accrued expenses	**433,171,456**	384,938,764
Credit cash bonds	**289,691,212**	328,537,168
Output VAT – net	–	115,835,443
Others	**157,854,274**	128,585,144
	₱4,642,332,394	₱5,409,499,852

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:

	2020	2019
Suppliers and contractors	**₱142,096,805**	₱107,416,515
Rentals	**69,640,659**	61,595,227
Utilities	**68,486,286**	67,493,995
Marketing-related cost	**23,106,163**	37,418,704
Professional fees	**11,441,838**	13,370,954
Other accruals	**118,399,705**	97,643,369
	₱433,171,456	₱384,938,764

Other accruals pertain to sick leave and vacation leave credits, government remittances, and other operating related expenses.

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 refunded 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 ₱12.13 million, ₱15.43 million and ₱16.57 million in 2020, 2019 and 2018, respectively. Interest incurred from cash bonds are settled through deduction from the credit account holders' receivable balance (see Note 17).

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, current portion of tenant's deposits which pertains to security deposits from tenants for the lease of space in the Company's stores with remaining lease period of one year or less from reporting period (see Note 14) and other sundry payables.

12. **Contract Liabilities**

This account consists of:

	2020	2019
Gift check outstanding	**₱38,111,342**	₱51,457,929
Accrued customer loyalty reward	**25,340,315**	25,348,205
Stored value cards	**18,682,083**	26,719,703
	₱82,133,740	₱103,525,837

These items can only be redeemed from the Company's own stores. These are expected to be redeemed within twelve months.

The rollforward analysis of this account follows:

	2020	2019
Beginning of year	**₱103,525,837**	₱103,195,660
Deferred during the year	**1,417,032,154**	3,150,688,470
Recognized as revenue during the year	**(1,438,424,251)**	(3,150,358,293)
End of year	**₱82,133,740**	₱103,525,837

13. **Loans Payable**

On various dates in 2020 and 2019, the Company availed short-term notes payable from local banks in an aggregate amount of ₱1,500.00 million and ₱200 million, respectively, with floating interest rates ranging from 3.0% to 5.25% per annum.

The loan is payable within twelve months after the reporting date and were availed for additional working capital requirements. The Company has no collateral, no negative covenants and no prepayment options for its loans payable outstanding as of December 31, 2020.

Interest expense from short-term bank loans amounted to ₱21.95 million and ₱1.91 million in 2020 and 2019, respectively (see Note 17).

As of December 31, 2020 and 2019, outstanding loans payable amounted to ₱1,500.00 million and nil, respectively.

14. **Other Noncurrent Liabilities**

Other noncurrent liabilities pertain to security deposits from tenants for the lease of space in the Company's stores, with remaining lease period of more than one year from the reporting period. These security deposits are refundable to the tenants upon termination of contract.

Other noncurrent liabilities as of December 31, 2020 and 2019 amounted to ₱5.62 million and ₱65.74 million, respectively (see Note 24 and 27).

15. **Equity**

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2020 and 2019 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, 2020 and 2019, the Company has 23 existing shareholders.

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, 2020 and 2019.

Retained Earnings

On May 14, 2020, 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, 2019 to stockholders of record as of May 29, 2020 which was paid on June 15, 2020.

On March 18, 2019, 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, 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.

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, 2020 amounted to ₱2,138.42 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, 2020 and 2019. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2020	2019
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**2,690,003,170**	3,345,357,261
	₱8,574,920,319	₱9,230,274,410

16. Revenue from Contracts with Customers

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

The Company's revenue from contracts with customers which are accounted for under PFRS 15 are presented in the statements of comprehensive as follows:

	2020	2019	2018
Net sales	**₱31,286,312,987**	₱36,790,177,798	₱33,050,084,154
Other income (Note 17)			
Scrap sales	**4,932,774**	7,938,388	11,167,237
Others	**30,834,628**	69,168,785	32,961,803
	₱31,322,080,389	₱36,867,284,971	₱33,094,213,194

The following table disaggregates the Company's net sales by geographical markets and major goods or service lines for the year ended December 31, 2020 and 2019:

	2020	2019	2018
Geographical markets			
Luzon	**₱11,456,946,134**	₱14,635,972,380	₱13,846,959,038
Visayas	**19,829,366,853**	22,154,205,418	19,203,125,116
Total revenue from contracts with customers from net sales	**₱31,286,312,987**	₱36,790,177,798	₱33,050,084,154
Major goods/service lines			
Food retail	**₱24,434,738,268**	₱24,160,819,141	₱21,058,429,818
General merchandise	**6,851,574,719**	12,629,358,657	11,991,654,336
Total revenue from contracts with customers from net sales	**₱31,286,312,987**	₱36,790,177,798	₱33,050,084,154

17. **Other (Charges) Income**

Interest and other income

	2020	2019	2018
Gain on insurance claims - net (Notes 6 and 7)	**₱104,364,149**	₱538,743,310	₱350,681,819
Gain on lease modification (Note 24)	**84,463,838**	–	–
Interest income (Notes 4, 5 and 10)	**50,751,483**	101,905,155	75,072,483
Scrap sales (Note 16)	**4,932,774**	7,938,388	11,167,237
Foreign currency exchange (loss) gain	**(6,164,814)**	(8,451,855)	20,721,700
Others (Note 16)	**30,834,628**	69,168,785	32,961,803
	₱269,182,058	₱709,303,783	₱490,605,042

Gain on insurance claims pertains to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims in relation to the 2018 fire incident. The gain recognized in 2018 is net of the total costs of damaged properties amounting to ₱349.68 million (Note 7). 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 19).

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

	2020	2019	2018
Finance cost on lease liabilities (Note 24)	**₱478,109,609**	₱590,149,819	₱–
Interest expense from short-term bank loans (Note 13)	**21,945,833**	1,906,565	–
Interest expense on cash bond (Note 11)	**12,127,998**	15,427,012	16,571,184
Finance cost on finance lease liability (Note 24)	**–**	–	2,469,947
	₱512,183,440	₱607,483,396	₱19,041,131

18. **Cost of Sales**

	2020	2019	2018
Cost of merchandise sold (Note 7)	**₱24,885,943,294**	₱28,554,688,612	₱25,609,645,879
Others (Notes 9, 19 and 20)	**74,230,573**	37,855,425	40,372,543
	₱24,960,173,867	₱28,592,544,037	₱25,650,018,422

Others pertain to, direct labor, other overhead costs and provisions for decline in inventories value.

Depreciation and amortization charged to cost of sales amounted to ₱0.15 million, ₱0.64 million and ₱1.85 million in 2020, 2019 and 2018, respectively.

19. **Operating Expenses**

	2020	2019	2018
Personnel cost (Note 20)	**₱1,983,235,812**	₱2,283,189,777	₱2,148,349,706
Depreciation and amortization of right-of-use assets – net (Note 24)	**859,437,309**	1,241,452,884	–
Light, water and communication	**690,812,973**	836,149,002	771,554,452
Rental (Notes 22 and 24)	**584,216,674**	492,153,089	1,655,368,522
Depreciation and amortization of property and equipment (Note 9)	**497,297,401**	480,256,688	488,510,195
Taxes and licenses	**450,029,872**	420,162,088	335,216,318
Contracted services	**340,482,025**	359,636,298	323,312,764
Repairs and maintenance	**227,485,633**	282,022,862	228,491,256
Loss on stores closure – net	**217,449,025**	–	–
Supplies	**158,615,888**	213,340,903	182,115,321
Provision for:			
Impairment of nonfinancial assets (Notes 8, 9, 10 and 24)	**133,358,471**	6,226,120	26,859,905
Impairment of receivables (Note 6)	**19,982,920**	–	–

(Forward)

	2020	2019	2018
Advertising	**₱108,373,223**	₱191,018,105	₱172,889,025
Insurance	**105,559,758**	95,196,363	62,853,099
Commission	**86,484,112**	101,935,047	84,837,363
Professional fees	**85,032,406**	141,486,717	91,367,699
Transportation and travel	**84,235,819**	102,071,703	102,573,301
Subscriptions	**76,725,647**	66,698,919	40,791,458
Write-off of assets (Notes 6 and 8)	**4,309,328**	4,662,102	11,344,445
Others	**62,375,554**	72,527,696	32,364,940
	₱6,775,499,850	₱7,390,186,363	₱6,758,799,769

Depreciation and amortization of right-of-use assets recorded in the statements of comprehensive income is net of the recognized effect of waived rentals for COVID-19 related rent concessions amounting to ₱228.16 million (see Note 24).

Loss on stores closure pertains to loss on retirement of property and equipment as a result of permanent stores closure amounting to ₱322.29 million (see Note 9), net of gain on pre-termination of lease contract amounting to ₱104.84 million (see Note 24).

Provision for impairment of nonfinancial assets pertains to provisions for impairment of property and equipment as a result of permanent store closures, right-of-use assets arising from the Company's planned reduction of lease premises in 2021, and long outstanding advances to supplier and nonrefundable deposits relating to lease agreements that were already terminated.

Write-off of assets pertain to receivables and advances to suppliers where there is no reasonable expectation of recovery and long outstanding advances to supplier.

Others pertain to representation, entertainment, donations and contributions.

20. **Personnel Cost**

	2020	2019	2018
Salaries and wages	**₱1,603,655,194**	₱1,925,955,546	₱1,793,136,308
Retirement benefits costs (Note 21)	**88,378,081**	58,373,098	47,134,866
Other employee benefits	**347,405,228**	362,643,778	353,384,477
	₱2,039,438,503	₱2,346,972,422	₱2,193,655,651

Personnel cost that were recognized as cost of sales amounted to ₱20.92 million, ₱27.04 million and ₱26.90 million in 2020, 2019 and 2018, respectively.

Personnel cost that were capitalized as part of construction-in-progress amounted to ₱35.29 million, ₱36.74 million and ₱18.40 million in 2020, 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.

21. **Retirement Benefit Obligation**

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

The following tables summarize the components of the retirement benefit costs and the retirement benefit obligation 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:

	2020	2019	2018
Current service cost	**₱39,054,536**	₱28,111,567	₱25,558,718
Interest cost	**27,033,643**	30,261,531	21,576,148
Past service cost: curtailment	**22,289,902**	–	–
	₱88,378,081	₱58,373,098	₱47,134,866

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:

	2020	2019	2018
Actuarial (loss) gain due to:			
Changes in financial assumptions	**(₱79,088,409)**	(₱62,890,118)	(₱13,480,268)
Experience adjustments	**15,837,781**	10,122,832	13,680,128
	(₱63,250,628)	(₱52,767,286)	₱199,860

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

	2020	2019
Balance at beginning of year	**₱500,623,022**	₱393,006,901
Current service cost	**39,054,536**	28,111,567
Interest cost	**27,033,643**	30,261,531
Past service cost:- curtailment	**22,289,902**	–
Benefits paid (retirement)	**(14,685,784)**	(3,524,263)
Benefits paid (retrenchment)	**(73,957,944)**	–
Actuarial (gain) loss due to:		
Changes in financial assumptions	**79,088,409**	62,890,118
Experience adjustments	**(15,837,781)**	(10,122,832)
Balance at end of year	**₱563,608,003**	₱500,623,022

The benefits paid (retrenchment) is in connection with the Company's workforce rationalization and rightsizing program in response to the impact of COVID-19 pandemic.

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

	2020	2019	2018
Salary increase rate	**4.00%**	4.00%	5.00%
Discount rate	**4.00%**	5.40%	7.70%

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.

	2020		2019	
	Increase (decrease)	**Net Retirement benefit liability**	Increase (decrease)	Net Retirement benefit liability
Discount Rates	**+1.0%**	**(₱58,480,640)**	+0.5%	(₱25,349,212)
	-1.0%	**70,441,758**	-0.5%	27,652,247
Salary increase rate	**+1.0%**	**₱66,468,868**	+0.5%	₱26,529,004
	-1.0%	**(56,363,300)**	-0.5%	(24,547,058)

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:

	2020	2019
1 year and less	**₱–**	₱–
More than one year to 5 years	**196,488,026**	172,413,195
More than 5 years to 10 years	**181,637,772**	197,773,022
More than 10 years to 15 years	**349,244,236**	402,914,539
More than 15 years to 20 years	**2,538,882,647**	3,026,805,120
	₱3,266,252,681	₱3,799,905,876

The weighted average duration of the defined benefit obligation is 14 years in 2020 and 2019.

22. **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, 2020 and 2019 are as follows:

December 31, 2020

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Advances (Note 6), (a)	**₱16,219,314**	**₱2,115,219**	**Noninterest-bearing and due in 30 days, not impaired**
Prepayments on rentals (Note 8), (b)	**985,159,210**	**1,077,567**	**Noninterest-bearing and for application within 30 days, not impaired**
Entities Under Common Control			
Advances and rental income (Note 6), (c)	**75,850,972**	**40,303,595**	**Noninterest-bearing and due in 30 days, not impaired**
Sale of goods (Note 6), (d)	**447,063**	**362,203**	**Noninterest-bearing and due in 30 days, not impaired**
Advances to suppliers (Notes 8 and 10), (d)	**867,391,440**	**152,657,766**	**Noninterest-bearing and for application within 30 days, not impaired**
Due from related parties		**₱196,516,350**	

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Lease liabilities (Note 24), (b)	**₱43,147,196**	**(₱189,605,821)**	**Noninterest-bearing and payable in 30 days, unsecured**
Management fee (Note 11), (e)	**44,226,804**	**–**	**Noninterest-bearing and payable in 30 days, unsecured**
Entities Under Common Control			
Purchase of goods (Note 11), (d)	**133,602,494**	**(17,379,792)**	**Noninterest-bearing and payable in 30 days, unsecured**
Purchases of services and rent expense (Note 11), (c)	**75,228,252**	**(6,528,437)**	**Noninterest-bearing and payable in 30 days, unsecured**
Due to related parties		**(₱213,514,050)**	

December 31, 2019

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Advances (Note 6), (a)	₱28,634,943	₱2,850,946	Noninterest-bearing and due in 30 days, not impaired
Prepayments on rentals (Note 8), (b)	1,178,946,184	2,780,424	Noninterest-bearing and for application within 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), (c)	91,660,047	15,303,242	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 24), (b)	₱1,701,740,198*	(₱1,077,186,151)	Noninterest-bearing and payable in 30 days, unsecured
Management fee (Note 11), (e)	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), (c)	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*

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. Rentals from leases for the Company's store spaces and warehouses. The Company recognized "Lease liabilities" for fixed rent and "Prepayments" under Other Current Assets representing

advance payments to the lessor to be applied to the subsequent billing and "Trade and other payables" for variable rent as of December 31, 2020 and 2019, respectively.

c. The Company has receivables and payables pertaining to rental transactions in the Company's stores. These are noninterest-bearing and are collectible within 30 days.
d. The Company has short-term noninterest-bearing receivables and payables in the normal course of business pertaining to the recovery of expenses, sales and purchases of goods and services.
e. 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.

The Company has an approval requirement and limits on the amount and extent on any related party transactions which is 10% or higher of the Company's total assets based on its latest audited financial statements.

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱906.03 million and ₱1,249.04 million in 2020 and 2019, respectively, which earn interest based on prevailing market interest rates amounting to ₱25.97 million and ₱46.07 million and in 2020 and 2019, respectively.

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

	2020	2019	2018
Short-term employee benefits	**₱128,968,021**	₱122,494,445	₱132,824,561
Post-employment benefits	**8,565,056**	2,611,029	4,483,218

There are no amounts due to or due from members of key management as of December 31, 2020 and 2019.

The Company has not recognized any impairment losses on amounts due from related parties in 2020 and 2019. 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.

23. Income Taxes

Provision for income tax consists of:

	2020	2019	2018
Current			
MCIT/RCIT	**₱134,045,862**	₱513,211,025	₱370,560,574
Final	**9,840,326**	16,672,349	13,766,405
	143,886,188	529,883,374	384,326,979
Deferred	**(239,813,226)**	(140,450,099)	(3,123,004)
	(₱95,927,038)	₱389,433,275	₱381,203,975

The Company's provision for current income tax in 2020 represents MCIT. Provision for current income tax in 2019 and 2018 both represents RCIT.

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

	2020	2019
Lease liabilities (Note 24)	**₱1,806,585,082**	2,405,399,523
Retirement benefit obligation (Note 21)	**169,082,401**	₱150,186,906
Excess MCIT	**134,045,863**	–
NOLCO	**44,562,107**	–
Provision for decline in value of inventories (Note 7)	**13,639,580**	–
Allowance for impairment of property and equipment (Note 9)	**10,048,847**	–
Allowance for impairment of receivables (Note 6)	**9,478,600**	3,483,724
Contract liability from customer loyalty program (Note 12)	**7,602,094**	7,604,461
Allowance for impairment of advances to suppliers (Note 10)	**2,644,210**	2,644,210
Provisions (Note 19)	**964,997**	19,061,580
Nontaxable excess of insurance proceeds on damaged fixed assets	**(25,265,830)**	(25,265,830)
Right-of-use assets, including provision for impairment losses (Note 24)	**(1,605,324,022)**	(2,253,839,060)
	₱568,063,929	₱309,275,514

The Company recognized net deferred tax asset amounting to ₱18.98 million in 2020 and net deferred tax asset amounting to ₱15.83 million in 2019 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

Details of the Company's excess MCIT over RCIT as of December 31, 2020 follow:

Year Incurred	Amount	Used	Balance	Expiry
2020	₱134,045,863	₱–	₱134,045,863	2023

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Company has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Availment Period	Amount	NOLCO Applied Previous Year/s	NOLCO Expired	NOLCO Applied Current Year	NOLCO Unapplied
2020	2021-2025	₱148,540,357	₱–	₱–	₱–	₱148,540,357

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

	2020	2019	2018
Tax at 30% on income before tax	**(₱163,655,589)**	₱349,523,401	₱403,974,448
Tax effects of:			
Nondeductible expenses	**70,792,980**	25,648,551	9,760,279
Income subjected to final tax	**(3,064,429)**	(11,004,507)	(7,264,922)
Nontaxable excess of insurance proceeds on damaged fixed assets	–	25,265,830	(25,265,830)
	(95,927,038)	₱389,433,275	₱381,203,975

24. **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 default 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:

December 31, 2020

	Land	**Building**	**IT Equipment**	**Others**	**Total**
Cost					
At January 1, 2020	**₱1,671,903,900**	**₱7,023,538,757**	**₱102,522,596**	**₱1,213,834**	**₱8,799,179,087**
Additions	**–**	**104,654,288**	**–**	**–**	**104,654,288**
Lease modification	**104,184,693**	**(1,089,643,091)**	**(11,536,631)**	**–**	**(996,995,029)**
Asset retirement	**–**	**(905,201,740)**	**–**	**(1,213,834)**	**(906,415,574)**
At December 31, 2020	**1,776,088,593**	**5,133,348,214**	**90,985,965**	**–**	**7,000,422,772**
Accumulated Depreciation and Amortization					
At January 1, 2020	**265,700,613**	**958,408,226**	**61,545,082**	**728,300**	**1,286,382,221**
Depreciation	**273,549,876**	**803,127,725**	**24,343,790**	**485,534**	**1,101,506,925**
Lease modification	**–**	**(820,594,360)**		**–**	**(820,594,360)**
Asset retirement	**–**	**(73,692,608)**	**–**	**(1,213,834)**	**(74,906,442)**
At December 31, 2020	**539,250,489**	**867,248,983**	**85,888,872**	**–**	**1,492,388,344**
	1,236,838,104	**4,266,099,231**	**5,097,093**	**–**	**5,508,034,428**
Less allowance for impairment losses	**–**	**99,862,314**	**–**	**–**	**99,862,314**
Net Book Value	**₱1,236,838,104**	**₱4,166,236,917**	**₱5,097,093**	**₱–**	**₱5,408,172,114**

December 31, 2019

	Land	Building	IT Equipment	Others	Total
Cost					
At January 1, 2019	₱1,633,043,394	₱6,557,002,893	₱112,675,698	₱1,213,834	₱8,303,935,819
Additions	38,860,506	466,535,864	–	–	505,396,370
Lease modification	–	–	(10,153,102)	–	(10,153,102)
At December 31, 2019	1,671,903,900	7,023,538,757	102,522,596	1,213,834	8,799,179,087
Accumulated Depreciation and Amortization					
At January 1, 2019	–	–	₱44,929,336	–	44,929,336
Depreciation	265,700,613	958,408,226	16,615,746	728,300	1,241,452,885
At December 31, 2019	265,700,613	958,408,226	61,545,082	728,300	1,286,382,221
Net Book Value	₱1,406,203,287	₱6,065,130,531	₱40,977,514	₱485,534	₱7,512,796,866

In 2020, the Company derecognized right-of-use assets and lease liabilities amounting to ₱806.23 million and ₱911.07 million, respectively, due to the pre-termination of leases on stores closed, resulting to a recognition of gain amounting to ₱104.84 million, which is presented net of the loss on retirement of assets from stores closure (see Notes 9 and 19).

In 2020, depreciation expense of right-of-use assets recorded in the statements of comprehensive income is net of the recognized effect of waived rentals for COVID-19 related rent concessions amounting to ₱228.16 million (see Note 2).

In 2020, the Company capitalized depreciation expense of right-of-use assets to property and equipment under construction amounting to ₱13.91 million (see Note 9).

In 2020, the Company had plans of reducing leased premises in some of its stores in early 2021 and noted that this is an indicator of impairment on the right-of-use assets. As a result, the Company assessed the recoverable amount and recognized provision for impairment loss on right-of-use assets amounting to ₱99.86 million.

In 2020, the Company entered into various agreements to revise existing lease agreements with its lessors which were accounted for by the Company as lease modifications resulting to a gain amounting to ₱84.46 million.

The following are the amounts recognized in statements of income:

	2020	2019
Depreciation expense of right-of-use assets - net (Note 19)	**₱859,437,309**	₱1,241,452,884
Variable lease payments (Note 19)*	**515,271,952**	427,261,654
Finance cost on lease liabilities (Note 17)	**478,109,609**	590,149,820
Expenses relating to short-term leases (Note 19)*	**68,944,722**	64,891,435
Gain on lease modification (Note 17)	**(84,463,838)**	–
Total amount recognized in statement of income	**₱1,837,299,754**	₱2,323,755,793

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

In 2018, the Company recognized rentals from operating leases amounting to ₱1,655.37 million which is included in "Rental" under "Operating Expenses" in the statement of comprehensive income (see Note 19).

The rollforward analysis of lease liabilities follows:

	2020	2019
At beginning of year	**₱7,819,087,830**	₱8,044,061,918
Finance cost (Note 17)	**510,956,120**	590,149,820
Additions	**90,602,317**	495,348,998
Waived rentals	**(228,161,556)**	–
Payments	**(1,001,989,894)**	(1,300,319,804)
Lease modification	**(1,168,544,546)**	(10,153,102)
At end of year	**₱6,021,950,271**	₱7,819,087,830

In 2020, the Company capitalized finance cost on lease liabilities to property and equipment under construction amounting to ₱32.85 million (see Note 9).

Classification of lease liabilities is as follows:

	2020	2019
Current portion	**₱479,564,316**	₱949,045,108
Noncurrent portion	**5,542,385,955**	6,870,042,722
	₱6,021,950,271	₱7,819,087,830

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

	2020	2019
Within one year	**₱847,590,780**	₱1,422,083,013
More than one year but not more than five years	**2,477,403,559**	3,218,667,253
More than five years	**₱8,808,780,064**	₱10,860,085,882

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 four 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 ₱63.32 million and ₱65.74 million as of December 31, 2020 and 2019, respectively (Notes 11 and 14). Rental income amounted to ₱146.84 million, ₱255.81 million and ₱233.75 million in 2020, 2019 and 2018, respectively.

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

	2020	2019
Within one year	**₱32,449,614**	₱118,751,387
More than one year but not more than five years	**56,046,864**	38,745,780
More than five years	–	–

25. **Earnings (Loss) Per Share**

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

	2020	2019	2018
Net income	**(₱449,591,591)**	₱775,644,731	₱965,377,520
Weighted-average number of common shares (Note 15)	**3,429,375,000**	3,429,375,000	3,429,375,000
Basic/Diluted Earnings (Loss) Per Share	**(₱0.13)**	₱0.23	₱0.28

There are no potentially dilutive common shares as of December 31, 2020, 2019 and 2018.

26. **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.

27. **Financial Instruments**

Fair Value of Financial Instruments
As of December 31, 2020 and 2019, 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:

	2020		2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Security deposits, net of allowance for impairment losses (Note 10)	**₱230,706,976**	**₱200,634,061**	₱305,037,717	₱253,493,540

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 1.35% to 4.19% for 2020 and 3.46% to 5.23% in 2019.

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

The fair value of tenant's deposits under "Other noncurrent liabilities" is disclosed below and is classified as Level 3 in the fair value hierarchy:

	2020		2019	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Other noncurrent liabilities (Note 14)	**₱5,624,863**	**₱5,319,164**	₱65,737,958	₱63,567,140

The fair value of security deposits were determined by discounting future cash flows using the applicable rate of 1.98% to 2.78% for 2020 and 3.80% to 4.31% for 2019.

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 has a total available credit line of up to ₱10,800 million and ₱11,000 million with various local banks as of December 31, 2020 and 2019, respectively.

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, 2020 and 2019 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, 2020

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱–	₱2,803,894,480	₱–	₱2,803,894,480
Related parties	–	17,379,792	–	17,379,792
Nontrade				
Third parties	–	933,812,743	–	933,812,743
Related parties	–	6,528,437	–	6,528,437
Accrued expenses	–	433,171,456	–	433,171,456
Credit cash bonds	–	289,691,212	–	289,691,212
Others*	–	87,743,535	–	87,743,535
Lease liabilities	–	847,590,780	11,286,183,623	12,133,774,403
Other noncurrent liabilities		–	5,624,863	5,624,863
	₱–	₱5,419,812,435	₱11,291,808,486	₱16,711,620,921

**excluding statutory payables*

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*

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:

	2020			
	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	**₱591,889,200**	**₱176,207,811**	**₱405,681,389**	**₱176,207,811**
Related parties	**362,203**	**–**	**662,203**	**–**
Nontrade				
Related parties	**42,418,814**	–	**42,118,814**	–
Rentals	**30,863,966**	**9,517,056**	**21,346,910**	**9,517,056**
Accrued interest receivable	**8,256,342**	–	**8,256,342**	–
Others*	**12,359,418**	–	**12,359,418**	–
	₱686,149,943	**₱185,724,867**	**₱490,425,076**	**₱185,724,867**

**excluding receivable from SSS amounting to ₱17,573,068*

	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	₱285,334,581	₱667,377,209	₱285,334,581
Related parties	1,409,351	–	1,409,351	–
Nontrade				
Receivable from insurance	104,364,149	–	104,364,149	–
Rentals	37,449,489	5,992,626	31,456,863	5,992,626
Related parties	18,154,188	–	18,154,188	–
Accrued interest receivable	14,518,808	–	14,518,808	–
Others*	15,500,741	–	15,500,741	–
	₱1,144,108,516	₱291,327,207	₱852,781,309	₱291,327,207

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

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 from third party and related parties for sales of inventory;
- rent receivables from third party and related parties for rental of spaces;
- 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 and rent receivables
The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and rent receivables. To measure the expected credit losses, trade and rent receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL on trade and rent 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 as of December 31, 2020 (nil in 2019):

Trade receivables

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	0.01%	91.42%	
Gross carrying amount	₱568,649,225	₱23,239,975	₱591,889,200
ECL	349,760	21,245,572	21,595,332

Rental

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	32.40%	0.00%	
Gross carrying amount	₱30,863,966	₱–	₱30,863,966
ECL	₱10,000,000	–	₱10,000,000

In 2020, the Company recognized provision for impairment loss on trade receivables and rentals amounting to ₱9.98 million and ₱10.00 million, respectively (see Note 6).

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. Provisions are measured using Stage 3 ECL where receivables are considered credit impaired.

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.

28. **Note to Statement of Cash Flows**

The Company's noncash activities are as follows:

a) In 2020, depreciation and amortization of right-of-use assets amounting to ₱13.91 million and interest expense on lease liabilities amounting to ₱32.85 million were capitalized to "Construction-in-progress" under "Property and equipment" account (see Note 9).
b) In September 2020, the Company closed non-performing department stores and as a result, the Company retired the related leasehold improvements with a carrying value of ₱322.29 million recognized under "Loss on stores closure - net", which is net of gain on pre-termination of lease contract arising from derecognition of right-of-use assets and lease liabilities amounting to ₱806.23 million and ₱911.07 million, respectively, amounting to ₱104.84 million (see Notes 9 and 19)
c) In 2020, the Company recognized provision for impairment losses amounting to ₱33.50 million pertaining to property and equipment which may not be recoverable due to the closure of non-performing department stores during the year (see Notes 9 and 19). In addition, the Company

recognized provision for impairment losses amounting to ₱99.86 million pertaining to right-of-use assets arising from the Company's planned reduction of leased premises in 2021.

d) In 2020, the Company entered into various agreements to revise existing lease agreements with its lessors which were accounted for by the Company as lease modifications resulting to gain amounting to ₱84.46 million (see Note 24).
e) Transfers from advances to suppliers to property and equipment amounted to ₱327.99 million, ₱23.73 million and ₱7.33 million for 2020, 2019 and 2018, respectively.
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. 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 24).
g) Advance rentals and deferred charges amounting to ₱14.61 million and ₱219.24 million were transferred from non-current assets to right-of-use assets in 2020 and 2019, respectively in accordance with the PFRS 16.
h) Long-outstanding advances to suppliers were written off in 2019 and 2018 amounting to ₱0.96 million and ₱5.45 million, respectively.

Changes in liabilities for which cash flows have been classified as financing activities in the statement of cash flows follows:

Lease liabilities
For the years ended December 31, 2020 and 2019:

	2020	2019
Beginning of year	**₱7,819,087,830**	₱8,044,061,918
Cash flows	**(1,001,989,894)**	(1,300,319,804)
Noncash flow activities	**(795,147,665)**	1,075,345,716
End of year	**₱6,021,950,271**	₱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

Loans payable
In 2020, the Company availed short-term loans payable amounting to ₱1,500.00 million, which is outstanding as of December 31, 2020 (nil in 2019 and 2018) (see Note 13).

Cash dividends
The Company has a remaining unpaid cash dividend amounting to ₱8,500 and ₱108 out of the ₱205.76 million declared in 2020 and 2019, respectively (nil in 2018).

29. **Events After the Reporting Period**

On January 22, 2021, the Board of Directors (BOD) approved the Share Buy-Back Program of the Company to enhance and establish an Executive Stock Option Plan. Amount set aside to fund the Share Buy-Back Program amounted to ₱300.0 million, will be taken from the Company's existing cash (without using the IPO proceeds). This is also supported by the unrestricted retained earnings. The Share Buy-Back Program will not involve any active and widespread solicitation from the stockholders and will be implemented in the open market through the trading facilities of the PSE. On January 25, 2021, the Company repurchased 12,000,000 shares for a total amount of ₱18.18 million.

30. **Other Matters**

a. Corporate Recovery and Tax Incentive for Enterprise (CREATE) Act

In February 2021, the Bicameral Conference Committee of both the Senate and the Congress have ratified the Bicameral Committee's version of the proposed "Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act", which seeks to reduce the corporate income tax rate and rationalize the current fiscal incentives by making them time-bound, targeted and performance-based. Once the approved bill is submitted to the Office of the President for approval, the President can either approve or veto the fully enrolled bill; or approve or veto only certain provisions of the bill. If the bill is approved or the 30-day time period for the Office of the President to veto the bill has lapsed, the bill will then be enacted as a law.

The key changes of the submitted CREATE bill for approval are as follows:

- Effective July 1, 2020, RCIT rate is decreased from 30% to 20% for corporations with total assets of 100.0 million or below and taxable income of 5.0 million and below. All other corporations not meeting the criteria will be subject to lowered RCIT rate of 25% from 30%;
- Effective July 1, 2020 and for a period of 3 years, MCIT rate will lowered from 2% to 1% of gross income; and
- Improperly accumulated earnings tax of 10% will be repealed.

The RCIT and MCIT applied in the preparation of the Company's financial statements as at and for the year December 31, 2020 are based on the substantially enacted tax rates existing as of the balance sheet date which are 30% RCIT and 2% MCIT. Should the CREATE bill be subsequently enacted as a law prior to the filing deadline of the 2020 annual income tax return on April 15, 2021 and the retrospective effectivity beginning July 1, 2020 for both RCIT and MCIT are carried in the enacted bill, the excess accrued RCIT and MCIT as of the balance sheet date will be considered as reversal of accrual in 2021.

b. The declaration of COVID-19 by the World Health Organization (WHO) as a pandemic and declaration of nationwide state of calamity and implementation of community quarantine measures throughout the country starting March 16, 2020 have caused disruptions to the Company's business activities. While there are recent signs of increased market activity with the easing of quarantine measures in key areas in the Philippines, management believes that the impact of COVID-19 situation remains fluid and evolving and the pace of recovery remains uncertain.

As of reporting date, all stores of the Company have reopened while following the safety protocols mandated by the national government. Stores are operating at adjusted operating hours but are faced with customer traffic constraint since community quarantine is still in effect.

31. Supplementary Information Required Under BSP Circular No. 1075

Presented below are the supplementary information required by the BSP under Section 4172N of the BSP Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) to be disclosed as part of the notes to financial statements based on BSP Circular 1075, Amendments to Regulations on Financial Audit of Non-Bank Financial Institutions (BSFIs).

Money Changing/Foreign Exchange Transactions

	2020			2019		
	No. of Transactions	**Amount in USD**	**Amount in PHP**	No. of Transactions	Amount in USD	Amount in PHP
Foreign currencies bought	59,843	44,854,454	1,458,270,553	59,843	94,181,368	2,446,778,995
Foreign currencies sold	1,045	372,685	18,577,779	1,045	1,043,910	53,898,806

Quantitative Indicators of Financial Performance

	2020	2019
Return on average equity	**-5.06%**	8.65%
$\frac{\text{Net income (loss)}}{\text{Average total equity}}$		
Return on average assets	**-2.01%**	4.17%
$\frac{\text{Net income (loss)}}{\text{Average total assets}}$		

32. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2020:

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 2020 are as follows:

	Net Sales/Receipts	Output VAT
Sales subject to 12% VAT	₱27,244,796,528	₱3,269,375,583
Zero-rated sales	286,935,185	–
VAT-exempt sales	4,233,612,566	–
Total Sales	₱31,765,344,279	₱3,269,375,583

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	₱213,772,495
Current year's domestic purchases of goods	3,322,707,162
Current year's capital goods purchases	50,748,594
Current year's services rendered by nonresidents	885,081
Total available input VAT	3,588,113,332
Less: deductions from input VAT	
Input tax on purchases of goods exceeding P1 million deferred for the succeeding period	187,241,673
Input tax allocable to exempt sales	37,402,528
Input tax on sales to government closed to expense	7,439,743
Total allowable input tax	3,356,029,388
Less: Input VAT applied to Output VAT	3,269,375,583
Add: VAT withheld on sales to government	9,509,989
Balance at December 31, 2020	**₱96,163,794**

Taxes and Licenses
The following are taxes, licenses, registration fees and permit fees for the year ended December 31, 2020.

Business tax	₱283,016,793
Real property tax	71,796,985
Documentary stamp tax	6,654,616
Motor vehicle tax	829,363
Others	87,732,115
Total	₱450,029,872

Withholding taxes

The amount of withholding taxes paid and accrued in 2020 consists of the following:

Expanded withholding taxes	₱412,111,309
Tax on compensation and benefits	85,260,255
Final withholding taxes	7,901,554
Total	₱505,273,118

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.

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