2022 annual report

MRSGI at 40:
STRENGTHENING OUR LEGACY OF SERVICE

METRO
RETAIL STORES GROUP, INC.

MRSGI AT 40: STRENGTHENING OUR LEGACY OF SERVICE

2022 ANNUAL REPORT

METRO RETAIL STORES GROUP, INC.

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METRO
CLEAN & ORGANIZED


SAVE YOUR CASH
BOYS TEENS WEAR
METRO
DEPARTMENT STORE
SUPERMARKET

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

> *A clear vision for growth enables every enterprise to achieve success. Amidst the changing times, an enterprise must be able to transform and innovate, while remaining true to its roots and heritage.*
>
> *– Mr. Victor Gaisano*

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, 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 with 62 stores as of end-2022.

It has been an eventful 40 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 ahead. And that is exactly what Victor and Sally Gaisano had for Metro.

MRSGI'S 40TH ANNIVERSARY CELEBRATION

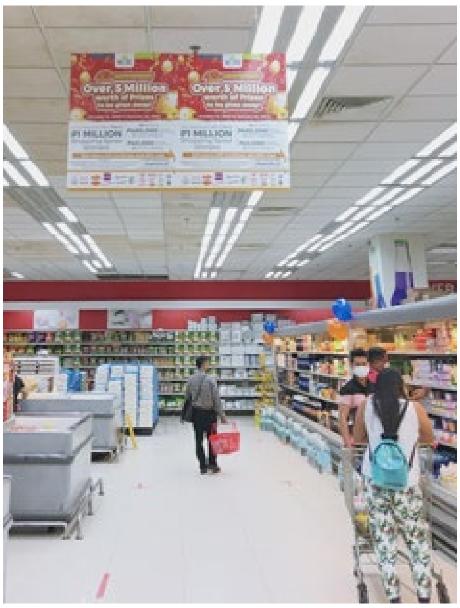
MRSGI celebrates its 40-year legacy in the retail industry

Metro Retail Stores Group, Inc. (MRSGI) reached another milestone with its 40th year anniversary in 2022. To mark this celebration, the Company launched month-long activities and various deals, promotions, and giveaways in its stores nationwide.

Commemorating its home-grown values and service commitment, MRSGI has always placed its customers at the center of its operations. Its festive anniversary offerings were a way of expressing its gratitude to its loyal customers for their continuous support. Through these special offers, the Company aimed to give back and make their shopping experience even more enjoyable.

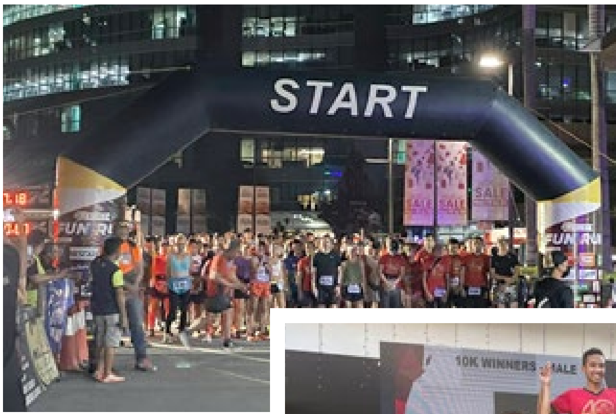
Metro Supermarket's Welcome Feast and Treats kicked off the merriment with up to 70% discount on pantry essentials. Metro Rewards Card (MRC) members were also given an added perk of winning gift certificates (GCs) every Friday to Sunday for the whole month of October.

The Super 40! Big 3-Day *Happyversary* Sale, MRSGI's biggest sale event yet, was the highlight of the Ruby celebration and became an early Christmas shopping experience for its customers. The sale event offered bundle deals and big markdowns on appliances, furniture, gadgets, kitchenware, storage items, apparel, and more from the Metro Department Store. MRC holders were extended Early Shopping Access for first dibs on the items on sale. Metro Supermarket also hosted the Luck by the Clock game where customers randomly won different grocery items.



The anniversary treat continued with The Party Never Ends: 40th *Happyversary* Blowout offering discounted items, bundle deals, and gifts with purchase. Furthermore, the Company held the Metro@40 Ruby Fun Run for 5K, 10K, and 21K events in Cebu. MRSGI also presented its 40th *Happyversary* E-Raffle Promo with more than PhP5 million worth of prizes for customers that purchased at least PhP1,000 worth of items from Metro Supermarkets and Metro Department Stores.

By providing such enticing deals and innovations, MRSGI carried on its commitment to not only ensure customer satisfaction but also strengthen its position in the highly competitive retail market.



Home-grown values and success

While owing its success significantly to its customers, MRSGI's growth is also a testament to the dedication and hard work of its employees and management. Together, they have built a Company that has not only stood the test of time but has also evolved with the changing needs and demands of the market. It is this unwavering commitment to excellence that has propelled Metro to become a leading player in the retail industry.

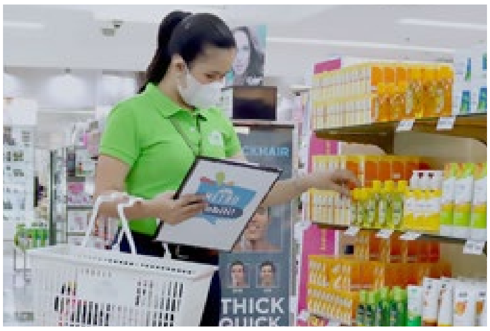
MRSGI has truly evolved from the first Gaisano Metro Department Store and Supermarket in Cebu in 1982, to entering key cities and municipalities in Luzon, then going public through an IPO in 2015, and becoming one of today's top retailers in the Philippines with a network of more than 60 stores encompassing three store formats – Metro Supermarket, Metro Department Store, and Super Metro Hypermarket.

The Company also houses its ancillary businesses Metro Pharmacy, Suisse Cottage, and Food Avenue that enhance the overall shopping experience. Complementing the in-store experience is MRSGI's digital presence in multiple channels including its online store ShopMetro (shopmetro.ph), Call-Text-Viber ordering service Metro Pabili, and its partnerships with third-party platforms such as Grabmart, Pushkart, and Pickaroo.

As it moves forward, MRSGI remains steadfast in its mission to serve its customers with utmost dedication and integrity. The trust and support of the community has allowed them to thrive for four decades, and the Company will continue to build on this foundation in the years to come.

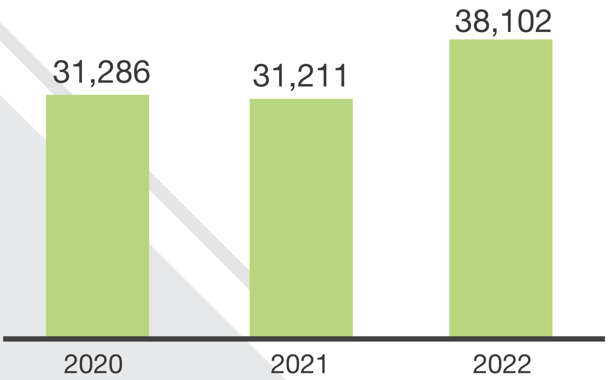




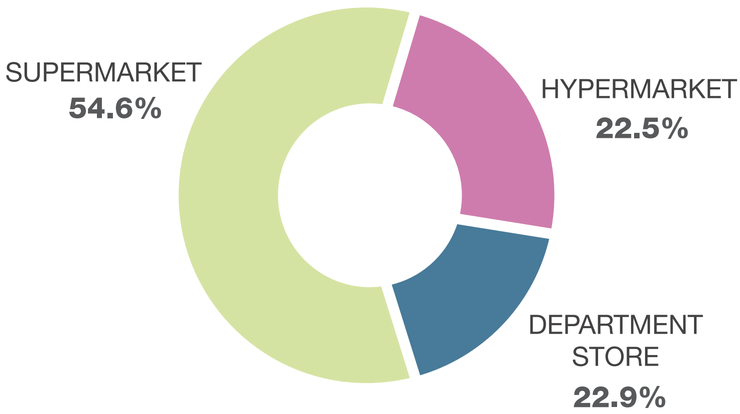


FINANCIAL AND OPERATIONAL HIGHLIGHTS

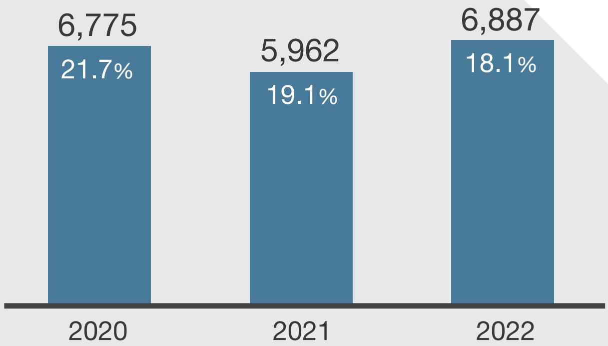
Net Sales



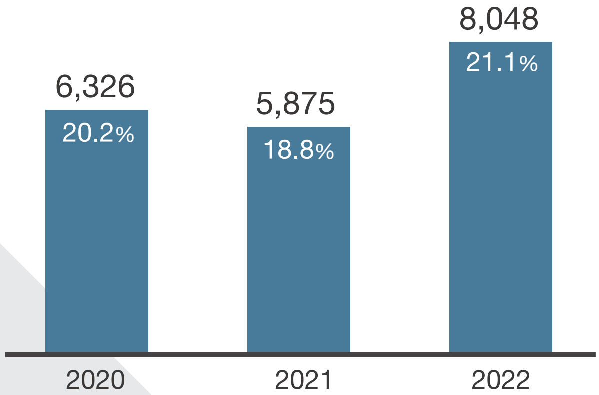
Share to Business*



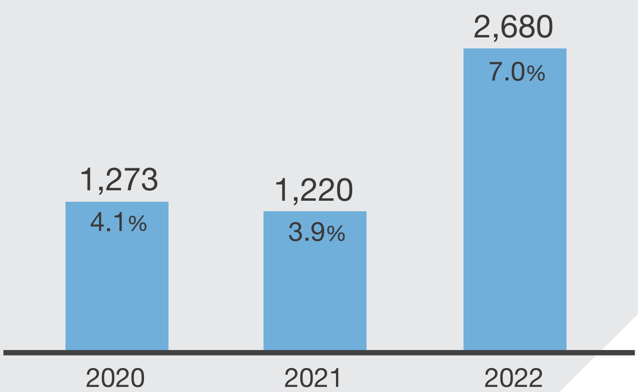
Operating Expenses



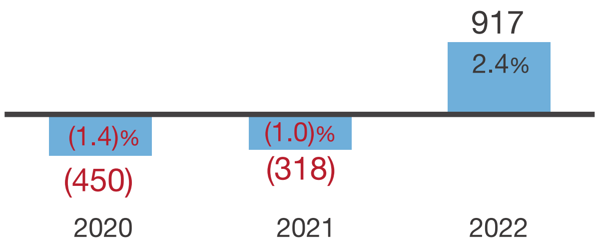
Gross Profit



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	2022	2021	2020
Net Sales	**38,102**	31,211	31,286
Gross Profit	**8,048**	5,875	6,326
EBITDA	**2,680**	1,220	1,273
Net Income (Loss)	**917**	(318)	(450)

Balance Sheet	2022	2021	2020
Total Assets	**22,739**	19,436	21,374
Total Liabilities	**13,678**	11,262	12,838
Stockholders' Equity	**9,061**	8,173	8,536

Financial Ratios	2022	2021	2020
Current Ratio	**2.34**	1.71	1.45
Debt to Equity Ratio	**0.33**	0.18	0.18
Net Debt to Equity Ratio	**(0.24)**	(0.02)	(0.09)
Asset to Equity Ratio	**2.51**	2.38	2.50
Return on Assets	**4.35%**	(1.56)%	(2.01)%
Return on Equity	**10.64%**	(3.81)%	(5.06)%

MESSAGE FROM THE CHAIRMAN

Dear Shareholders,

2022 was a banner year for Metro Retail Stores Group, Inc. (MRSGI) as we celebrated our 40th founding anniversary. Four decades ago, our parents Victor and Sally Gaisano opened the first Gaisano Metro Department Store and Supermarket in Cebu. Rooted in the core values set forth by our founders, MRSGI has come a long way from its humble beginnings in a single homegrown retail store to one of the top retail operators in the country.

As we mark our Ruby anniversary, we commemorate not only the wins but also the challenges we have overcome and the times when our Company was able to turn setbacks into opportunities to bounce back and soar. Living up to the MRSGI legacy of trust and service, we remain resilient amid adversities so we can sustain our mission of providing Filipinos with products and services that give the best value for money.

Emerging stronger

Through the years, Metro Retail went through various turmoil. In 2018, a major fire swept through our flagship store Metro Ayala Center Cebu. Three years later, we rose from the ashes and fully reopened the mall, providing an improved shopping experience to its customers.

Just two years ago, in the grip of the pandemic, we temporarily closed our department stores due to the nationwide quarantine. We experienced operational disruptions and low customer traffic that led to lower net sales compared to previous years. Then came the Russia-Ukraine war that disrupted the global supply chain and intensified inflation pressures, so we had to manage economic uncertainties as efficiently as possible.

Bearing the brunt of two global crises, MRSGI took the risks and the losses as opportunities to reevaluate our processes and take on new long-term directions responsive to the changing habits and demands of our customers. Our resilience and adaptability paid off as our annual sales and net income in 2022 went above pre-pandemic levels and our Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) doubled from the prior period.

Just in time for our 40th anniversary, Metro Retail's store traffic continued to recover as the country's economic activity picked up and consumer spending improved. This led to record sales of PhP38.1 billion in 2022, a 22.1% upswing from 2021 and 3.5% above pre-pandemic level in 2019.

We likewise benefitted from marked efficiency gains from our continued cost optimization strategies, which include the digital transformation of our key internal processes as well as energy management initiatives such as solar panel installation and the use of energy-efficient equipment in our stores.

The increase in sales and improvement in operating efficiency propelled our Company to arrive at a net income of PhP917.3 million in 2022. This significant reversal from the pandemic-driven loss a year ago even exceeded the pre-pandemic earnings in 2019 by 18.3%.

Expanding the legacy of service

Over 40 years, Metro Retail has expanded outside Visayas, establishing stores in key cities in Metro Manila and other Luzon provinces. Driven by our commitment to serving more and more Filipinos, we now have 62 stores in the Visayas and Luzon regions. Aiming to always provide our customers throughout the country with outstanding service and experience, we will continuously enhance our services by achieving the five pillars of our strategic priorities: Sustainable Growth, Margin Enhancement, Operational Excellence, Channel Expansion, and Organizational Development.

Prioritizing People

Behind the longevity of MRSGI are the people who stayed with us throughout our 40 years in the retail industry. Our founder, the late Victor Gaisano, once said, "It is only through partnership and respect for our employees, suppliers, communities, and especially our customers, wherein we can be absolutely successful."

These people have kept MRSGI relevant all these years. They are the reason our business has aged gracefully despite hurdles along the way. In turn, MRSGI commits to protecting the interests of all our stakeholders. We continue to enhance customer experience, ensure the well-being of our employees, provide great value to our shareholders, and uplift the quality of life of communities.

Banking on the resilience of Metro Retail's business and the fortitude of our people, I am confident that we will be marking more milestones in the years to come. Looking forward to more anniversary celebrations, we will work together to seize the sustainable growth opportunities of today. By then, we can soon realize our vision of being an agile retail-based company providing best-in-class customer experience through operational excellence.

Daghang salamat ka ninyong tanan.

Frank S. Gaisano
Chairman and Chief Executive Officer

PRESIDENT'S REPORT

Our Valued Shareholders,

Metro Retail Stores Group, Inc. (MRSGI) had a lot of reasons to celebrate in 2022. In the year that our Company marked its 40th year, we recorded earnings that surpassed pre-pandemic levels, opened new supermarkets, and reinforced our brand's digital presence. We achieved all these in the process of creating great value for all our stakeholders.

As we looked back on the last 40 years, we ramped up our efforts to bounce back from the effects of the pandemic. Guided by the core values on which our founders Victor and Sally Gaisano built the Company, we reinvented our strategies to adapt to an ever-changing business landscape.

Going beyond the normal

Aside from coping with the pandemic's impact, MRSGI's resilience was put to the test by macro-economic concerns such as steep inflation, tight interest rates, and high fuel prices. To cope with the uncertainties brought by these challenges, we made a reboot and transformed our organization to compete effectively under the new normal. We managed to make decisions that respond to our customers' evolving needs while improving the Company's financial health.

Our efforts for the past two years allowed us not only to acclimatize to the post-pandemic world, but also to surpass our expected recovery levels. In 2022, we posted PhP917.3 million net income – a rebound from the Company's pandemic-driven losses. This also surpassed our pre-pandemic net income earnings in 2019.

As the economy has fully reopened, our food retail and general merchandise businesses both recorded an increase in sales. With Filipinos hopping on the revenge spending bandwagon, MRSGI's general merchandise business jumped by 54.3%, and food retail business increased by 13.1%. Consequently, our Company recorded a 19.2% blended same-store sales growth in 2022.

We benefited from a sustained momentum in the first months of 2022, and ended the year with an accelerated growth trajectory, as the holiday season contributed to high household purchases during the fourth quarter.

Going hybrid as a customer-centric store

In the post-pandemic era, our customers enjoy the best of both worlds—the physical shop and the digital store. Henceforth, we pursued our expansion as a hybrid retail store. In 2022, we opened new brick-and-mortar stores in Cebu and Leyte, closing the year with 62 stores. Meanwhile, to support our current network and set the stage for future expansion, MRSGI successfully broke ground and started the construction of a new warehouse on a 10-hectare property in Sta. Rosa, Laguna.

In addition, we invested in store enhancements and renovations for several of our physical stores, aiming to provide shoppers with a more customer-centric shopping environment.

On the other hand, omnichannel remains an integral part of our overall strategy to keep up with the growing demand online. The Company also increased the number of servicing stores in its e-commerce platform, shopmetro.ph. Facing tough competition in the online retail marketplace, we plan to intensify our digital marketing efforts, which will enable us to reach more markets and increase loyalty among our existing customers through our Metro Rewards Card program.

Maintaining operational excellence

To strengthen our core capabilities, we took various initiatives such as simplifying and automating some of our key internal processes in supply chain, merchandising, planning, and marketing to improve efficiencies and productivity.

This year, we also launched key merchandising initiatives that will help drive topline and margin growth such as price optimization, customer data analytics, and expansion of our private label business.

Uplifting lives

While focusing on the recovery of our business, we remained true to our commitment to our community stakeholders such as local craftspeople, entrepreneurs, and partner organizations. We continue enhancing our programs that provide livelihood opportunities and uplift the quality of life of our communities. An example of this is our partnership with the Department of Trade and Industry (DTI) for the Bayanihan Metro Caravan, a program that gives a platform for micro, small, and medium enterprises (MSMEs) to introduce their products to the public. Through this program, MSMEs are given the opportunity for retailing inside Metro Supermarkets or Department Stores. This is just one of many ways we have committed ourselves to empowering local entrepreneurs, especially in communities where we do business.

Our achievements in 2022 have once again proven the resilience of MRSGI. Our Company's strength to bounce back was rooted in our people's commitment to our mission of delighting our customers with products and services that give the best value for money. So allow me to express my deepest gratitude to the people and organizations who have helped MRSGI during our incredible ride these past few years. We could not have made it this far without your great assistance.

As we continue to seek new opportunities to serve our customers better and to create financial value for our stakeholders, there will surely be new challenges ahead. With the unwavering support of the people, we will surely conquer and surpass.

Happy 40th anniversary to all of us!

Manuel C. Alberto
President and Chief Operating Officer

COMPANY HIGHLIGHTS

62
STORES

2022
MRSGI celebrates its **40th anniversary** in the retail industry

2021
Full re-opening of flagship store METRO Ayala Center Cebu

2020
Launch of MRSGI's **e-commerce and m-commerce platforms** (shopmetro.ph and Metro Pabili)

2019
Launch of the **first Compact Department Store** concept in METRO Baybay, Leyte

2018
Jan 2018: Major fire hit flagship store in METRO Ayala Center Cebu

Dec 2018: **Reopening of the supermarket** in METRO Ayala Center Cebu

2015
Initial Public Offering (IPO) of Metro Retail Stores Group, Inc. (PSE:MRSGI)

2013
Implementation of **Oracle ERP** to improve operations and financial management

2012
Opening of **METRO Store** in Alabang

2011/13
Launch of the **SUPER METRO Hypermarket format**

Acquisition of the **Tita Gwapa neighbourhood stores chain**

46
STORES

16
STORES

2009
Entry into Central Luzon with the opening of METRO Angeles in Ayala Marquee Mall

2006
Launch of the **METRO Rewards Loyalty Program**

2004
Entry into Metro Manila with the opening of METRO Market! Market!

2001/03
Entry into Luzon with the openings of METRO Legazpi and METRO Lucena

1994
Opening of the **2nd METRO Store** in Mandaue, Cebu

Opening of the **3rd METRO Store** in Ayala Center, Cebu

6
STORES

2
STORES

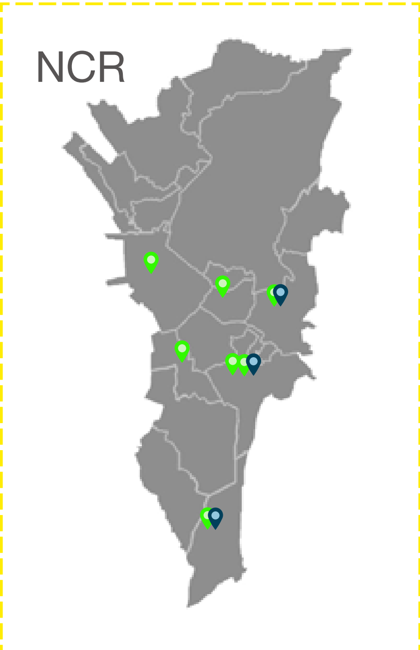
1982
Opening of the first **METRO Department Store and Supermarket**, in Colon Street, Cebu

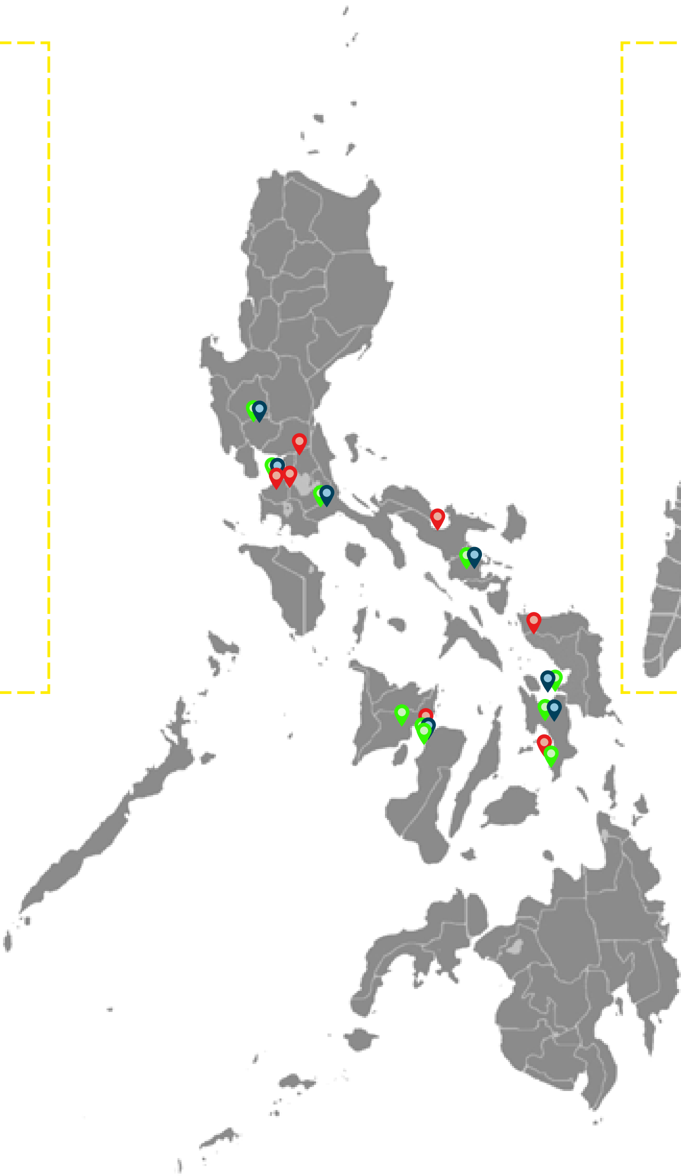
STORE FORMATS AND CHANNELS

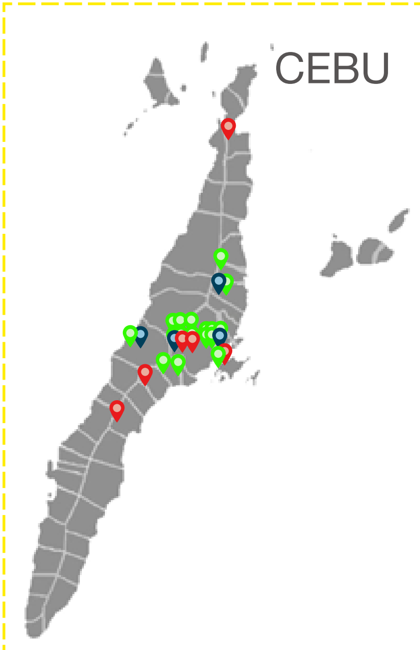
Responsive to the needs and changing lifestyles of Filipinos, Metro Retail Stores Group, Inc. is a trusted provider of quality merchandise and a wide assortment of products featuring both local and international brands at competitive prices.

AS OF 31 DECEMBER 2022

Supermarket		Department Store		Hypermarket	
NCR	7	NCR	3	NCR	-
Luzon	4	Luzon	4	Luzon	4
Visayas	23	Visayas	8	Visayas	9
Total	**34**	**Total**	**15**	**Total**	**13**







METRO SUPERMARKET

Customers regularly come to Metro Supermarket for its wide range of products - from the freshest-of-the-fresh produce, meat, poultry, and seafood to basic household supplies complemented by its complete selection of international products. A world-class shopping experience is always guaranteed in its thirty-four (34) locations across the country that all adhere to global safety standards.

Metro Alabang Town Center
Metro Ayala Pasig
Metro Binondo Lucky Chinatown
Metro Legazpi
Metro Lucena
Metro Mandaluyong
Metro Market! Market!
Metro Marquee Mall Angeles
Metro Plaza 66 Newport City
Metro The District Imus

Metro Atria
Metro Ayala Center Cebu
Metro Bacolod
Metro Baybay
Metro Canduman
Metro Carmen
Metro Colon
Metro Cebu IT Park
Metro Danao
Metro Hilongos
Metro Mandaue
Metro Paseo
Metro Sum-ag
Metro Tacloban
Metro Toledo

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

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

Metro Supermarket Paseo opens in Banawa, Cebu City

Serving as the anchor tenant in Paseo Arcenas Commercial Center in Banawa, Metro Supermarket Paseo offers world-class shopping experience and premium products – from fresh produce and meat products to home essentials and its wide selection of international products. The store also provides one-stop services and facilities such as an in-store bakery, food kiosks, ATM, customer restrooms, and ample parking space.

MRSGI expands in Leyte with Metro Supermarket Hilongos

MRSGI further established its presence in Leyte as it launched its third store in the province with Metro Supermarket in Hilongos. The new store has a floor area of 3,800 square meters with a vast assortment of fresh items and pantry goods, household needs, and international products. It also features the Metro Pharmacy, food stalls, and its anchor tenant, home improvement retailer MR.DIY.

2022 HIGHLIGHTS

MRSGI upholds global certifications for food safety

As Metro Retail Stores Group, Inc. (MRSGI) upholds its commitment to consumer safety, the Company continuously implements stringent food safety and sanitation practices in its stores, earning the Hazard Analysis and Critical Control Points (HACCP) and Good Manufacturing Practices (GMP) certifications that recognize the Company's compliance with globally recognized food safety and sanitation practices.

MRSGI is the first retailer in the country to obtain both the HACCP and GMP certifications for the Fresh sections of four of its flagship supermarket chains. Metro Alabang Town Center, the first supermarket that obtained certification in 2013, is scheduled for recertification. Metro Ayala Center Cebu recently maintained its certification, while Metro Market! Market! and Metro Mandaue are working on their recertifications in succeeding years.

HACCP is a structured system for evaluating and controlling the various stages of the food production process. Whereas, GMP is a complementary process to ensure that products meet food safety, quality, and regulatory requirements.

METRO DEPARTMENT STORE

From the basic to the more stylish buys, Metro shoppers will find their every need under one curated store. Metro Department Store is also known for its efficient customer service and dedication to deliver a great shopping experience for everyone. Currently, there are fifteen (15) Metro Department Stores across the country.

Metro Alabang Town Center
Metro Ayala Pasig
Metro Legazpi
Metro Lucena
Metro Market! Market!
Metro Marquee Mall Angeles
Metro The District Imus

Metro Ayala Center Cebu
Metro Bacolod
Metro Baybay
Metro Colon
Metro Danao
Metro Mandaue
Metro Tacloban
Metro Toledo

2022 HIGHLIGHTS

MRSGI introduces the 'new generation' look of its stores with Metro Ayala Center Cebu

Through its 'Meet You At Metro' campaign, Metro Retail Stores Group, Inc. (MRSGI) launched fresh concepts, new store layouts, and improved in-store and online shopping services to welcome customers back to its stores with ease, convenience, and joy of retail experience.

Flagship store Metro Ayala Center displays the 'new generation' look and feel of MRSGI stores, which presents a more modern and practical store structure. The newly-renovated store features exciting retail concepts that will be selectively rolled out nationwide including the Pet Zone for a one-stop shop for all pet needs and the GASA for local snacks, delicacies, and home items as gift or pasalubong ideas. In addition, the Metro Supermarket offers a new wine and charcuterie section, coffee area, and an imported section for dry groceries, fresh, and frozen items.

The Metro Ayala Center Cebu also houses a new destination concept on its top floor where families and barkadas can enjoy a space to simply enjoy each other's company with a good meal, amusement nooks, and even scheduled programs.

SUPER METRO HYPERMARKET

Super Metro Hypermarket offers ease and convenience - aligned with the bustling lifestyle of today's shoppers. Meticulously designed to serve as a one-stop shop that offers an expansive selection of general merchandise, groceries, and other 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 Calamba
Super Metro Camarines Sur
Super Metro North Point Tagaytay
Super Metro Calbayog

Super Metro Bogo
Super Metro Carcar
Super Metro Colon
Super Metro Lapu-Lapu
Super Metro Maasin
Super Metro Mambaling
Super Metro Naga
Super Metro Talisay

ANCILLARY BUSINESSES

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

METRO PHARMACY

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

SUISSE COTTAGE

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

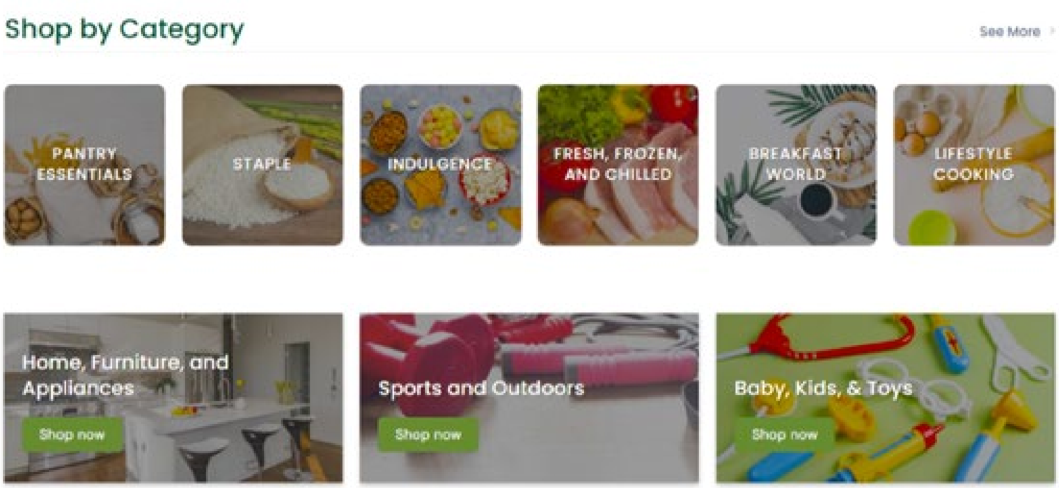
FOOD AVENUE

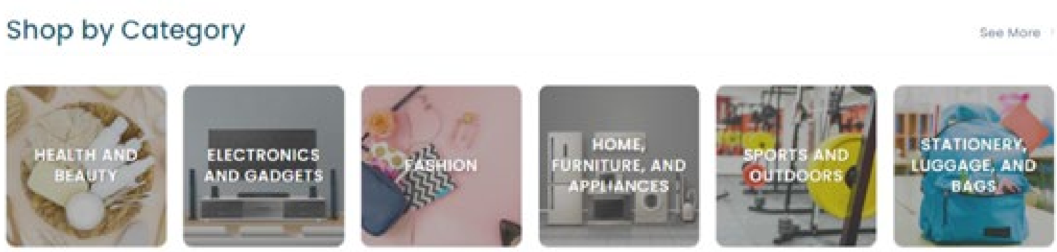
showcases a wide selection of delicious and affordable meals that can be enjoyed in a comfortable, vibrant, and modern food court ambiance.

E-COMMERCE AND MOBILE COMMERCE

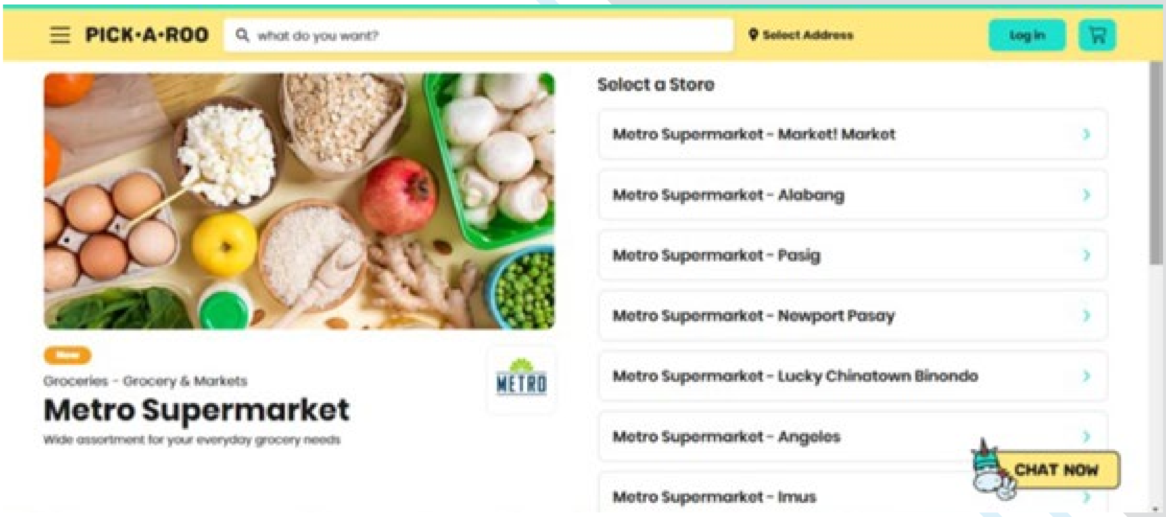
MRSGI's own online shopping platform ***ShopMetro*** (shopmetro.ph) maintained its growth and success since its launch in 2020 in providing customers the convenience and ease of adding to cart online and delivering to their doorstep. To further the capability of shoppers to enjoy shopping on their preferred mobile devices, MRSGI started to develop a native Mobile App, still under the same namesake ***ShopMetro***, with the aim to launch and be available for download at Google Play and Apple Store by 1st quarter of 2023.

ShopMetro currently offers a wide assortment of over **23,000** products from supermarket and department store categories through sixteen (16) participating Metro Stores across Luzon and Visayas. These products are conveniently laid out in ***ShopMetro*** with dedicated pages for supermarket and department store, made more exciting with eye-catching banners and product highlights that feature running campaigns, promos, and new products.

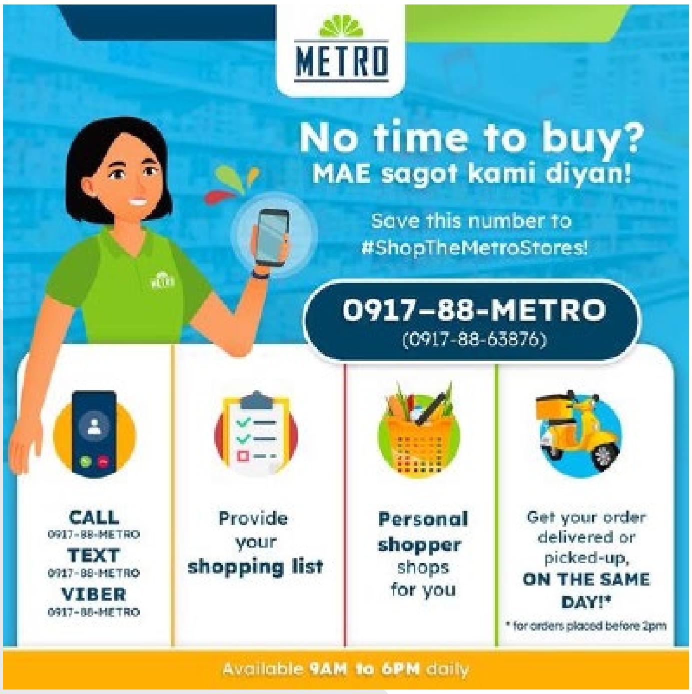




With the success of the partnership with 3rd Party Marketplaces GrabMart and Pushkart, MRSGI launched a new marketplace partnership with Pick-a-roo, one of the premier all-in-one and on-demand delivery services platform operating in Luzon, by putting the Metro brand and products in its Grocery & Markets via seven (7) Luzon Metro Stores.



Furthermore, the Company's personalized shopper service, ***Metro Pabili***, the channel that first served the online demand during the onset of the COVID-19 pandemic, launched its one number 0917-88METRO to serve as the main Contact Us/Customer Care hotline for MRSGI's new and loyal customers. A team of call center agents was deployed, ready to accept calls and messages for order requests, queries, concerns, and complaints including those for ***ShopMetro***.



The advancements of the MRSGI E-Commerce channels for 2022 show the commitment of the Company to be relevant in the Digital Retail space and plans to further optimize and grow to serve more customers in the years ahead.

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 and livelihood, 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 CSR PILLAR — TALINONG METRO

MRSGI helps transform lives and communities by providing educational assistance to underprivileged but deserving youth.

METRO - SEGUNDA MANA YSLEP SCHOLARSHIP PROGRAM

- Proceeds of Metro-Segunda Mana help sustain the Youth Servant Leadership and Education Program (YSLEP) of Caritas Manila, which focuses on education for underprivileged youth nationwide
- 20 SEGI donation boxes located in corporate offices and stores across Luzon and Visayas
- Produced graduates from Manila, Cavite, Antipolo, and Catanduanes in 2022

LIVELIHOOD CSR PILLAR — METRO HANEPBUHAY

MRSGI supports MSMEs by providing retail spaces within Metro Supermarkets and Department Stores for its CSR partners.

Metro Community Bazaar

- An online venue for shoppers to purchase products or donate directly to the advocacies of participating CSR partners
- Made available at shopmetro.ph/bazaar from July 4-31, 2022 with 19 participating CSR partners

Metro – Greenearth Moringa

- Retail of moringa tea and powder in 14 Metro Supermarkets that provides support to scholars and families of farmers in Sierra Madre, San Miguel, Bulacan

Metro Caritas Margins

- Retail of Caritas Margins products in select Metro Supermarkets supports the livelihood of MSMEs and the Metro-YSLEP Scholarship Program
- Communities served: Albay, Batangas, Bulacan, Cagayan, Camarines Norte, Dipolog, Iloilo, Quezon City, and Sorsogon

Metro – Kiboa Ridge Farms

- Retail of Adlai Rice in eight (8) Metro Supermarkets in Luzon and six (6) Metro Supermarkets in Visayas to benefit farming communities in Bukidnon

Bayanihang Metro x Go Lokal (BMGL)

- Retail of Go Lokal suppliers' products in Metro Market! Market! and Metro Ayala Center Cebu

Metro – Tsaa Laya

- Retail of herbal tea blends in Metro Market! Market!, Metro Alabang Town Center, Metro Ayala Pasig, and Metro Ayala Center Cebu to support tea farming communities in Kiangan, Ifugao, and Calauan and to sustain herbal livelihood programs

COMMUNITY SERVICE — PAGHIUSA METRO

Beyond operating just a chain of stores, Metro Retail Stores demonstrates through its relief operations, outreach projects, feeding programs, and medical missions that it puts people, communities, safety, and health first. These underscore its view that the company leaders, employees, business partners, and communities are all part of the One Metro Family.

Oplan Malasakit

CSR programs focused on caring for the most vulnerable communities to continuously serve the needs of customers and employees.

- Paghiusa Visayas Relief Operations – Provided cash donations and relief packs to communities affected by Typhoon Odette in Maasin, Danao, Toledo, Mambaling, and Carcar; Turned over in-kind donations to Cebu Caritas Manila.
- PPRCV Donation – Distributed alcohol bottles in partnership with Vicsal Foundation and Kohl Industries Corporation and cases of bottled water from Philippine Aquapak Industries, Inc.

Change For Change

World Vision Scholarship: 77 coin boxes located in 11 Metro Supermarkets

- Amount collected from April 2021 to March 2022 was donated to World Vision's Abutin Na10 Campaign, a fundraising campaign for the procurement of gadgets to support distance learning and home-schooling modalities
- Amount collected from April to December 2022 was donated to World Vision's Noche Buena Campaign, a gift-giving tradition to share hope and bring joy to vulnerable communities that are still struggling with the secondary impacts of the COVID-19 pandemic

MRSGI X DOH Partnership

- Partnership with the Department of Health for the Resbakuna Campaign, installing materials in 20 stores

ENVIRONMENTAL RESPONSIBILITY — METRO EARTHCARE

Metro Retail Stores is committed to promote and enhance its sustainability practices and be an inspiration for environmental stewardship to our localities, partners, and patrons.

Accessible Energy For All

- Ensuring accessible energy for future generations by practicing conservation of power and improving insulations in Metro stores and offices to reduce energy usage and promote energy efficiency
- Ten (10) store locations with LED lighting installed

Generating Clean Energy For The Future

- Installing several solar panels across Metro stores in efforts to reduce greenhouse gas emissions and generate clean and usable energy from natural resources
- Stores with solar panels installed: Super Metro Talisay, Super Metro Lapu-Lapu, and Super Metro Calbayog

Preserving Freshwater Resources

- Installing systems to reduce consumption and ensure proper usage of water resources
- Stores with rainwater collection system: Metro Paseo, Metro Colon, and Metro Sum-ag

CORPORATE GOVERNANCE

The MRSGI Board of Directors and Management remains 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 aligning 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 2022:

- 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.

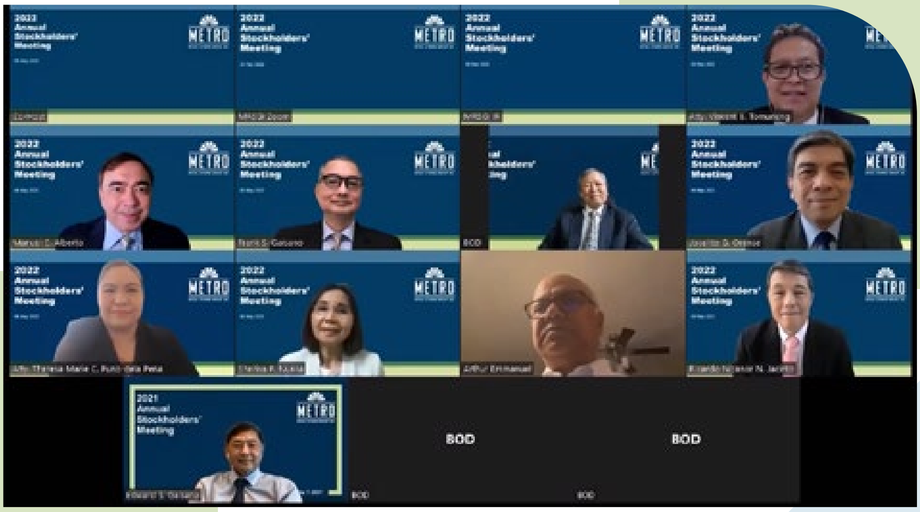
Rights and Equitable Treatment of Shareholders

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 2022, 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 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 2022, 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. The Company held its Annual Shareholders' Meeting virtually on May 06, 2022 via Zoom Video Conferencing. Notice of the Annual Stockholders' Meeting was disclosed on the Company's website and was published in the business sections of two newspapers in general circulation (both print and online formats).



MRSGI Directors and Officers during the virtual Annual Stockholders' Meeting (May 2022)

Related-party Transaction

The Audit and Risk Committee (ARC), which is primarily composed of independent directors, reviewed all related party transactions in 2022 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 2022 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 Investor Relations Department. The Department ensured that relations with investors, and the investing public are maintained and nurtured. The Investor Relations Department ensures that relevant developments and information are conveyed clearly and promptly to the Company's stakeholders and the general public. MRSGI regularly engages with the investing community through individual meetings, conference calls, and store visits, as well as other channels such as Regulatory Disclosures, Quarterly Analyst Briefings, Company Website, Media Releases, and Electronic Communications, among others.

Stakeholder Relations

The Board of Directors and Management remained steadfast in their belief that responsible business practices require that the Company's stakeholders be productively engaged and treated in a fair and just manner. In 2022, 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. MRSGI 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

Learning and Development

A succession planning program is one of the initiatives in 2022 to establish talents ready to take on leadership roles and critical positions in the event of inevitable movements and minimize the impact on business operations. The program filled the gap quickly through ready replacements and promoted a learning culture where growth and mobility thrive.

The leadership team of Metro Retail went to a leadership summit with the theme "Winning Teams." It was a 4-day seminar-workshop held in April 2022. The summit was aimed at aligning the leadership team for the organization's transformation, creating awareness, and building a sense of commitment and momentum. The first two days focused on a learning session and group dynamics on teambuilding, and the remaining two days were focused on experiential activity to target competencies such as customer focus, business acumen, strategic thinking, and innovation.

MRSGI Leaders' Summit (April 2022)

In the same year, the continuing leadership programs in support of succession efforts and the redefined role of selling supervisors were completed. A total of 300 selling supervisors nationwide completed and passed the Developing Frontline Management Skills Training under the Supervisory Development Program. For corporate employees, the newly promoted staff going to supervisory and management levels were enrolled in transition to management courses.

Transition to Management of Newly-Promoted Corporate Employees

Developing Frontline Management Skills Training of Selling Supervisors (March 2022)

Developing Frontline Management Skills Training of Logistics Team (October 2022)

All other general development programs were conducted as planned annually, such as customer service, safety orientation, technical and functional (tools or process)-related skills training, and retooling, to help equip the employees with knowledge and skills and enable them to be effective in the delivery of their respective roles.

Employee Engagement

MRSGI continued to provide its employees with inspiring and memorable activities where they could feel a culture of family and a sense of belongingness.

In 2022, coming from a 100% virtual set-up, the employee programs slowly reverted to face-to-face set-up and combined virtual for far-flung areas, welcoming the hybrid arrangement. The programs were: (i) Annual Loyalty Awarding Ceremony recognizing employees who stayed in MRSGI for at least five (5) years and have remained significant contributors to the Company's growth. There were 563 total awardees for the year (ii) Founder's Day Celebration, (iii) MRSGI 40th Anniversary with Kwentong Metro contest and ruby gem hunt activity celebrated last October 7, 2022, and (iv) Christmas Celebration through Thanksgiving Mass and Caroling Contest with the same theme of Hope, Prosperity, and Family. The First Friday mass was also a regular celebration each month to give thanksgiving and provide for employees' spiritual needs.

Recognition of dedicated MRSGI Employees during the 2022 Loyalty Awarding Ceremony

Winners of the Ruby Gem Hunt game as part of the 40th anniversary celebration (October 2022)

Winners and Consolation prizes of Caroling Contest as part of 2022 Christmas Celebration

Health, Wellness, and Employee Welfare

In partnership with Mind You Mental Health Systems Inc., MRSGI provided Wellness Webinars to continue to comply with RA 11036 or the Mental Health Law and related Department of Labor and Employment (DOLE) guidelines on the effective implementation of employee wellness programs within the workplace.

The three (3) topics of the wellness webinar talk series conducted were 1) "Hakuna Matata" Mental Health Effects of Stress, November 10, 2022; 2) "Be Gentle with Your Mind" Overview of Stress and Type of Stress, November 9, 2022; and 3) "Your Self-Care Agenda" Stress Reduction Techniques, November 11, 2022. These topics supported the overall employee well-being thereby helping them cope with any stressful situations, empowering them to take control of their mental health and live more fulfilled lives.

Attendees of Beyond Leadership: Well-being Matters

While these three wellness talks were given to all employees, training on mental health dedicated to leaders was provided in December of the same year. The program was a two half-day learning session entitled Beyond Leadership, Wellbeing Matters. By the end of the leadership training, participants were able to gain a better awareness of mental health and how this can impact leadership, equipped with tools and techniques to address their own mental and emotional needs and those of others and discover how to provide a psychologically safe environment, lead teams empathetically and effectively, and take the first step to develop a culture that encourages mental and emotional well-being.

MRSGI continues to work on these and instituted programs that aim to raise awareness of mental health issues, remove stigmas and discrimination related to mental health conditions, and provide support that would foster a positive working environment.

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, arranging more break periods, and providing a common rest area.

MRSGI complied with DOLE Department Orders in 2022 with the following Department Orders:

a. DO # 235-22 on the Certification of First Aiders – Fifty-Seven (57) pax from Corporate Office and One Hundred Eighty (180pax) from Stores attended the training and are now MRSGI's Certified First Aiders across Visayas and Luzon.
b. DO # 208-22 on the Mental Health Program in the Workplaces – Drafted the Mental Health Policy in the Workplace in compliance with the DO directive.

Total Rewards

MRSGI implemented the approved new minimum wage for Regions 3, 4A, 5, 6, 7, 8 & NCR in compliance with the Department of Labor and Employment's wage orders that were issued last 2022. Further to this, a wage distortion review was conducted to ensure that internal equity is observed.

MRSGI remains to be competitive in terms of attracting and retaining talent by updating its Compensation program. One of the highlights was the approval and implementation of the proposed new job classification and the regional salary structures. A salary review was conducted and structural alignment was implemented to make sure that our target market pay position is attained.

Technology

The Human Resource Information System (HRIS) is in-place for efficient payroll processing, time and labor management, and employee database management. The HR Department plans to further upgrade or replace the HRIS to capture the 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.

Community

Through the Company's Corporate Affairs Department led by Anna Marie Periquet, MRSGI established new partnerships with the government and various social enterprises to provide assistance to communities through various livelihood programs such as the Virtual Metro Community Bazaar, the Bayanihang Metro + Go Lokal, and other retailing programs. These and other CSR projects uplift the lives of communities by providing income to support the education of children and sustain the needs of the families. Details on the community-related activities of 2022 are 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, financial results, external audit fees, and ownership structure, to the appropriate regulatory agencies as well as to the investing public. Through its Compliance Officer, Atty. Theresa Marie C. Puno-dela Peña, MRSGI diligently complied with all required information through the mechanisms established for listed companies by the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

- **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.

Audit and Audit-Related Fees*	2022	2021	2020
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	2,079,000.00	1,890,000.00	1,890,000.00
Fees for tax-related services	508,138.00	320,000.00	861,098.00
All Other Fees	327,900.00	321,000.00	299,000.00
Total	**PhP2,915,038.00**	**PhP2,531,000.00**	**PhP3,050,098.00**

**exclusive of VAT*
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. Fees for tax-related services pertains to the assistance provided by SGV in handling BIR tax assessments.

- **Ownership Structure**

Indicated below is the ownership structure of MRSGI as of December 31, 2022.

Stockholder	Nationality	No. of Shares Subscribed and Paid-Up	% to Total Outstanding Shares
Vicsal Development Corporation	Filipino	2,628,149,382	80.07
Valueshop Stores, Inc.	Filipino	24,801,489	0.76
Frank S. Gaisano	Filipino	2	0.00
Edward S. Gaisano	Filipino	75,002	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	500,001	0.01
Others	Various	628,777,118	19.16
Treasury Shares	Filipino	147,072,000	
Total		**3,429,375,000**	**100.00**

Control Environment and Processes

In 2022, 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 Enterprise Risk Management (ERM) group under the General Loss Prevention (GLP) Department (GLP-ERM) continues to closely coordinate with all the business units of the Company regarding their respective risk registers. All identified risks are properly assessed during the risk validation process where the ERM team will check the actions taken by the respective management. The major risks that continue to be a threat to the Company are the following: typhoons, earthquakes, and fires. Although almost all companies are caught off guard by the COVID-19 pandemic crisis, MRSGI was able to withstand the impact of the pandemic through the inherent resiliency of the management and employees especially during the execution of the business continuity program of the Company.

The devastation brought about by Super Typhoon Odette is one of the spill-over disasters of December 2021 to the first quarter of 2022 where different stores of the company strived during the post-typhoon recovery to shorten the operational disruption.

While the pandemic crisis brought about by COVID-19 which crippled the business enterprise of MRSGI for 2 years, the vaccination of all MRSGI employees including that of the business partners promoted more health confidence among customers. This was a major turnaround in 2022 when the government authorities relaxed the movement restrictions with the people. This created an opportunity to accommodate more customers inside the stores of MRSGI, thereby, strengthening the recovery growth of the Company.

In the second half of 2022, there was a merging of the ERM team and that of the Safety Management team under the General Loss Prevention Department. This streamlined the risk management process in identifying, monitoring, and closely coordinating with various stakeholders in mitigating different risks which pose threats and preventing the possible disruption to business operations.

Safety Management

As the COVID-19 pandemic continued to decline in 2022, Safety Management was able to finally launch a Safety Excellence Program termed Project 0-1-2-3 which is aimed to achieve zero major customer and employee accidents as well as zero fire incidents in all retail stores of MRSGI. This is a reward and award program of the Company developed by the Safety Management Team which recognizes the concerted effort of the store management and its employees in preventing major accidents and/or incidents that can disrupt the store operation or expose the Company to reputational risk if an accident involves our customers.

In 2022, the Bureau of Fire Protection (BFP) resumed the actual in-person Earthquake and Fire Drill exercises as well as Fire Safety Seminar conducted by local BFP personnel in different Metro stores. This serves as a refresher to all employees and tenants of Metro stores to have high awareness about fire safety.

Among the important safety programs of the Company that have been sustained is the implementation of the weekly Fire drill exercise of mini-ERT (Emergency Response Team). The mini-ERT Fire drill is a regular exercise of the firefighting team of every Metro store to instill discipline and high familiarity on how they can effectively extinguish any incipient fire in a swift manner. This exercise also aimed to continually strengthen and sustain the skills of ERT leaders and their members.

Safety Management Team also resumed the in-person training with Red Cross and BFP to refresh and enhance the emergency response skills of ERT leaders and members, especially with first aid training, search and rescue training as well as basic firefighting training as well as Incident Command System training.

Overall, 2022 has been a very productive year for the Safety Management Team especially the successful implementation of Project 0-1-2-3 where a majority of the store management were able to achieve the award and reward with their consistent effort in complying and implementing all safety programs of the company. Safety Management Team, in merging with the ERM team, has also further advanced the safety programs for disaster and emergency preparedness, fire prevention, and accident prevention among employees and customers. Also, several CAPEX projects in upgrading the Fire Protection system of different flagship stores of MRSGI have been implemented by the Engineering Department as part of the compliance to internal safety audit as well as addressing the recommendations of the external audit by insurance risk auditors.

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 was created to assist Management in the oversight of store operation, internal control system, and compliance with laws and regulations. IAG helps MRSGI accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and compliance processes.

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

Internal Audit Group performs regular audit engagements in 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 into MRSGI's existing policies and operating manual through the leadership of the Systems and Procedures Group. These operating standards have, likewise, become the basis of the Internal Audit Group in reviewing compliance with 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. Theresa Marie C. Puno-dela Peña, 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. Puno-dela Peña 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 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 November 8, 2022.

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

- ESG Strategy: A Boardroom Topic For Directors
- Since the Consumer is King, Ace your Sales Governance

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 Officer
Kareen A. Tablizo	Vice President – Corporate Planning
Atty. Theresa Marie C. Puno-dela Peña	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	May 6, 2022	Annual	18
Edward S. Gaisano	NED		VDC	Aug. 28, 2003	May 6, 2022	Annual	18
Margaret Gaisano Ang	NED		VDC	Aug. 28, 2003	May 6, 2022	Annual	18
Jack S. Gaisano	NED		VDC	Aug. 28, 2003	May 6, 2022	Annual	18
Manuel C. Alberto	ED	VDC	VDC	Dec. 17, 2018	May 6, 2022	Annual	3
Guillermo L. Parayno, Jr.	ID	No relation	N/A	Jul. 16, 2015	May 6, 2022	Annual	6
Ricardo Nicanor N. Jacinto	ID	No relation	N/A	Jul. 27, 2015	May 6, 2022	Annual	6

* Executive Director (ED), Non-Executive Director (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

The Audit and Risk Committee (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 2022, the discussion and resolutions in the ARC meetings included topics on strengthening MRSGI's internal control structure and systems. Specifically, the ARC covered findings on audit engagements on review of store and warehouse operations internal controls and IT systems and infrastructure.

The ARC is composed of the following directors:
- Guillermo L. Parayno, Jr. – Chairman
- Margaret Gaisano Ang – Member
- Ricardo Nicanor N. Jacinto – Member

Nomination and Compensation Committee

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

In 2022, the discussions and resolutions in the NCC 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 NCC is composed of the following directors:
- Frank S. Gaisano – Chairman
- Margaret Gaisano Ang – Member
- Ricardo Nicanor N. Jacinto – Member

Corporate Governance Committee

The Corporate Governance Committee (CGC) 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 2022, the CGC discussions covered, among others, topics on board functioning and effectiveness through corporate trainings, and board-management engagement.

The CGC 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 (IC) 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 2022, 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 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 2022, MRSGI conducted meetings as illustrated below:

Position	Name	No. of Meetings Held During the Year	No. of Meetings Attended	Attendance Rate
Chairman	Frank S. Gaisano	9	9	100%
Member	Edward S. Gaisano	9	8	88.88%
Member	Jack S. Gaisano	9	8	88.88%
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.

EXECUTIVE PROFILES

FRANK S. GAISANO
Chairman and Chief Executive Officer

Frank S. Gaisano, Chairman and Chief Executive Officer of the Metro Retail Stores Group, Inc. (MRSGI), has nearly four decades of retailing experience and is widely recognized as one of the Philippine retail industry's innovative and forward-looking leaders. Working closely with his siblings Margaret, Jack, and Edward, Gaisano was instrumental in professionalizing the leadership and piloting the aggressive growth of MRSGI. Under his direction, MRSGI transformed to become one of the country's top retail chains. Before his current appointment, Gaisano served as MRSGI's Director from August 28, 2003 to 2011.

He also sits as Chairman of the Boards of Pacific Mall Corporation and Vicsal Investment, Inc., as well as Director of Vicsal Development Corporation, Taft Property Venture Development Corporation, AB Capital & Investment Corporation, Filipino Fund, Inc., Taft Punta Engaño Property, Inc., HTLand, 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. since December 17, 2018. 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 completed his Master's degree from the Asian Institute of Management.

EDWARD S. GAISANO

Director

Edward S. Gaisano was appointed Director of MRSGI in August 28, 2003. Prior to this appointment, he served as Chairman and President of Prime Asia Pawn & Jewelry Shop Inc. and Platinum Holdings, Inc. as well as Director for Metro Value Ventures, Inc.

He is currently the Chairman and President of Vicsal Development Corporation. Concurrently, he sits as Chairman of the Board of Wealth Development Bank Corporation, Hyundai Alabang, Inc., and Hyundai Southern Mindanao, Inc.; and as President of Pacific Mall Corporation. He also holds directorship posts at Taft Property Venture Development Corporation and Trilogy Holdings Corporation.

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.

MARGARET GAISANO ANG

Director

Margaret Gaisano Ang has been a Director, and Corporate Secretary, of MRSGI since August 28, 2003.

Concurrently, she holds directorship posts at 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.

Gaisano Ang earned her Bachelor of Science degree in Commerce, major in Accounting (Cum Laude), from the University of San Carlos and has completed several courses at the Institute of Corporate Directors.

JACK S. GAISANO

Director

Jack S. Gaisano is a Director of MRSGI since August 28, 2003. He previously held the position of Chairman and President from 2003 to 2011. He also served as Director for Vicsal Securities and Stock Brokerage, Inc. from 1989 to 2009.

He is currently the Chairman and President of Taft Property Venture Development Corporation, and Midland Development Corporation. He sits as President and Vice Chairman of HTLand, Inc. and holds directorship posts at Vicsal Development Corporation, Vicsal Investment, Inc., Pacific Mall Corporation, and JV.Com. Holdings Inc.

Gaisano earned his Bachelor of Science degree in Chemical Engineering from the University of San Carlos and has completed several courses at the Institute of Corporate Directors.

RICARDO NICANOR N. JACINTO

Independent Director

Ricardo Nicanor N. Jacinto is an independent director of Metro Retail Stores Group, Inc. (MRSGI) since July 27, 2015. He also serves as the Chairman of SBS Philippines Corporation (a publicly-listed corporation) and Chairman and Independent Director of Maybank ATR Kim Eng Capital Partners, Inc. and Maybank ATR Kim Eng Securities, Inc. He is also a director of the Torre Lorenzo Development Corporation, and Independent Director of Maybank Securities (Thailand) Public Company Limited, and Etiqa Life and General Assurance Philippines, Inc. 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 was 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 and overseeing the land acquisition and development of various high-end subdivisions such as Nuvali, Westgrove Heights, Paseo de Magallanes, Ayala Southvale, and Ayala Heights. During the last two years of his tenure at Ayala Corporation, he was seconded to Habitat for Humanity as its Chief Executive Officer. 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 since July 16, 2015. 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 Director and Vice Chairman of the Philippine Veterans Bank; Chairman and Chief Executive Officer 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 also previously served as Co-Chairman and President of the Lina Group of Companies and a member of the Toyota Motor Corporation's Board of Directors.

Parayno previously served as a Commissioner in the Bureaus of Internal Revenue and Customs and as Regional Director for the Economic Intelligence and Investigation Bureau of the Department of Finance. He has also served as Assistant Chief of Staff for Plans and Programs of the Philippine Coast Guard, as well as taught at the Philippine Military Academy and the University of the Philippines. He has further worked on 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.

Emmanuel 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, 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 Stores, 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.

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 at Blackhorse Emerging Enterprises Fund (Singapore), the state-owned Philippine Reclamation Authority, and Psi Technologies.

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

KEY EXECUTIVES AND SENIOR MANAGEMENT

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 Logistics

Antonio P. Jacomina III
Vice President for Human Resources

Floradema B. Jayme
Vice President for Procurement

Arnold M. Leoncio
Vice President for Business Development & Investor Relations

Lucille S. Malazarte
Vice President for Finance & Comptroller

Fili P. Mercado
Chief Merchandising Officer

Benedict Clark T. Miranda
Vice President for Store Network Development

Joselito G. Orense
Treasurer & Chief Finance Officer

Kareen A. Tablizo
Vice President for Corporate Planning

Vincent A. Tomaneng
Corporate Secretary & Chief Legal Counsel

Ann Marjorie Tomas
Vice President for Marketing Services

Results of Operations

The year ended December 31, 2022 compared with the year ended December 31, 2021

Revenue

Net Sales

For the year ended December 31, 2022, our net sales were PhP38,101.7 million, an increase of 22.1% compared to PhP31,211.3 million for the year ended December 31, 2021.

Total food retail and general merchandise business grew by 13.1% and 54.3%, respectively, over the same period last year. The growth is brought about by the full reopening of the economy, pent up domestic demand and recovery in discretionary spending.

Blended same store sales grew by 19.2% over the same period last year.

Rental Income

For the year ended December 31, 2022, our rental income was PhP243.7 million, an increase of 41.3% compared to PhP172.5 million for the year ended December 31, 2021. The increase in rental income is primarily due to the re-opening of the economy and non-essential tenants have become operational. Rental concessions that were extended to tenants who continued to operate during the pandemic times were totally discontinued in the last quarter of 2022.

Costs and Expenses

Cost of Sales

For the year ended December 31, 2022, our cost of sales was PhP30,053.2 million, an increase of 18.6% compared to PhP25,336.4 million for the year ended December 31, 2021. The increase in cost of sales is lower than the increase in net sales as the general merchandise sales grew faster than the supermarket sales. General merchandise has higher margins than supermarket.

Operating Expenses

For the year ended December 31, 2022, our operating expenses were PhP6,886.7 million, an increase of 15.5% compared to PhP5,962.5million for the year ended December 31, 2021. While the Company continued to implement cost reduction and saving measures, there were significant increases in rent which were based on percentage of sales and minus the rental concessions given during the pandemic, and utilities expenses as fuel and electricity rates spiked during the year.

Interest and Other Income

For the year ended December 31, 2022, our interest and other income was PhP350.9 million, an increase of 788.4% compared to PhP39.5 million for the year ended December 31, 2021.

Factors that contributed to the increase include the recognition of gain on lease modification amounting to PhP106.3 million coming from revision of existing contracts with lessors. In addition, gain on insurance claims pertaining to recoveries and reimbursement of losses for property damages and business interruption due to Typhoon Odette in 2021 was also recognized during the year amounting to PhP53.7 million. Higher interest income and forex gains also contributed to the increase this year.

Finance Costs

For the year ended December 31, 2022, our finance costs were PhP523.5 million, an increase of 11.5% compared to PhP469.5 million for the year ended December 31, 2021. The increase is primarily driven by the increase in interest expense related to the Company's outstanding loans payable.

Provision for Income Tax

For the year ended December 31, 2022, our provision for income tax was PhP315.4 million, an increase of 1272.5% compared to the benefit from income tax of PhP26.9 million for the year ended December 31, 2021. The increase in provision for income tax was primarily due to the increase in income before tax.

Net Income

As a result of the foregoing, for the year ended December 31, 2022, net income was PhP917.3 million, a huge improvement of 388.4% compared to the net loss of PhP318.1 million for the year ended December 31, 2021.

The year ended December 31, 2021 compared with the year ended December 31, 2020

Revenue

Net Sales

For the year ended December 31, 2021, our net sales were PhP31,211.3 million, a decrease of 0.2% compared to PhP31,286.3 million for the year ended December 31, 2020.

Both food retail and general merchandise declined by 0.2% over the same period last year. In the middle of March 2021, 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 5.2% over the same period last year.

Rental Income

For the year ended December 31, 2021, our rental income was PhP172.5 million, an increase of 17.5% compared to PhP146.8 million for the year ended December 31, 2020. The increase is primarily due to the gradual re-opening of non-essential tenants.

Costs and Expenses

Cost of Sales

For the year ended December 31, 2021, our cost of sales was PhP25,336.4 million, an increase of 1.5% compared to PhP24,960.2 million for the year ended December 31, 2020. Cost of sales increased slightly higher than net sales as consumers prioritized the purchase of essential goods in general, which typically has low margins.

Operating Expenses

For the year ended December 31, 2021, our operating expenses were PhP5,962.5 million, a decrease of 12.0% compared to PhP6,775.5 million for the year ended December 31, 2020. The decrease in operating expenses is mainly attributable to the increased efficiency and continuous cost reduction and saving measures implemented by the Company.

Interest and Other Income

For the year ended December 31, 2021, our interest and other income was PhP39.5 million, a decrease of 85.3% compared to PhP269.2million for the year ended December 31, 2020.

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 nil and PhP104.4 million for the year ended December 31, 2021 and 2020, 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 2.0% this year. This amounted to PhP29.1 million and PhP50.8 million in 2021 and 2020, respectively.

Finance Costs

For the year ended December 31, 2021, our finance costs were PhP469.5 million, a decrease of 8.3% compared to PhP512.2 million for the year ended December 31, 2020. 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.

Benefit from Income Tax

For the year ended December 31, 2021, our benefit from income tax was PhP26.9 million, a decrease of 71.9% compared to PhP95.9 million for the year ended December 31, 2020. The decrease in benefit from income tax was primarily due to the improvement in loss before tax.

Net Loss

As a result of the foregoing, for the year ended December 31, 2021, net loss was PhP318.1 million, an improvement of 29.2% compared to the net loss of PhP449.6 million for the year ended December 31, 2020.

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 PhP31,286.3 million, a decrease of 15.0% compared to PhP36,790.2 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 PhP146.8 million, a decrease of 42.6% compared to PhP255.8 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 PhP24,960.2 million, a decrease of 12.7% compared to PhP28,592.5 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 PhP6,775.5 million, a decrease of 8.3% compared to PhP7,390.2 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 PhP270.2 million.

Interest and Other Income

For the year ended December 31, 2020, our interest and other income was PhP269.2 million, a decrease of 62.0% compared to PhP709.3 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 PhP104.4 million and PhP538.7 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 PhP50.8 million and PhP101.9 million in 2020 and 2019, respectively.

Finance Costs

For the year ended December 31, 2020, our finance costs were PhP512.2 million, a decrease of 15.7% compared to PhP607.5 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 PhP95.9 million, a decrease of 124.6% compared to the provision for income tax of PhP389.4 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 PhP449.6 million, a decrease of 158.0% compared to the net income of PhP775.6 million for the year ended December 31, 2019.

Financial Position

The year ended December 31, 2022 compared with the year ended December 31, 2021

As of December 31, 2022 and 2021, our net current assets, or the difference between total current assets and total current liabilities, were PhP7,007.1 million and PhP3,449.7 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2022 and 2021 were PhP12,243.1 million and PhP8,298.6 million, respectively. The increase of 47.5% in current assets is due to the increase in cash and cash equivalents, receivables, and merchandise inventories. Short-term investment and other current assets, on the other hand, have decreased.

As of December 31, 2022, short-term investment amounted to nil, receivables totaled PhP954.8 million, merchandise inventories totaled PhP5,495.3 million and other current assets totaled PhP630.4 million. As of December 31, 2021, short-term investment totaled PhP1,091.6 million, receivables totaled PhP669.9 million, merchandise inventories totaled PhP4,163.0 million and other current assets totaled PhP702.3 million.

As of December 31, 2022, cash and cash equivalents amounted to PhP5,162.6 million, an increase of 208.8% from PhP1,671.8 million as of December 31, 2021. The increase is mainly attributable to the availment of long-term loans amounting to PhP2,500.0 million and PhP2,073.7 million net cash provided by operating activities, offset by payments of loans payable and lease liabilities amounting to PhP1,000.0 million and PhP532.2 million, respectively and acquisition of property equipment amounting to PhP544.7 million.

Non-current Assets

Our noncurrent assets consist of property and equipment, right-of-use assets, deferred tax assets–net and other non-current assets. Total noncurrent assets as of December 31, 2022 and 2021 were PhP10,495.9 million and PhP11,137.1 million, respectively. The decrease of 5.8% in noncurrent assets is significantly due to the decrease in right-of-use assets amounting to PhP392.4 million, and reduction in deferred tax assets – net amounting to PhP213.0 million.

Current Liabilities

Total current liabilities as of December 31, 2022 and 2021 were PhP5,236.0 million and PhP4,848.9 million, respectively. As of December 31, 2022 and 2021, trade and other payables totaled PhP4,820.5 million and PhP3,537.0 million, respectively, which consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable - current portion amounted to PhP130.2 million and PhP1,000.0 million as of December 31, 2022 and 2021, respectively.

Non-current Liabilities

Total noncurrent liabilities as of December 31, 2022 and 2021 were PhP8,442.0 million and PhP6,413.6 million, respectively. The increase of 31.6% in noncurrent liabilities is significantly due to the availment of long term loans of PhP2,500.0 million in March 2020, offset by the movement in lease liabilities as a result of lease modifications.

The year ended December 31, 2021 compared with the year ended December 31, 2020

As of December 31, 2021 and 2020, our net current assets, or the difference between total current assets and total current liabilities, were PhP3,449.7 million and PhP2,996.5 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, 2021 and 2020 were PhP8,298.6 million and PhP9,722.5 million, respectively. The decrease of 14.6% in current assets is due to the decrease in inventories and cash and cash equivalents.

As of December 31, 2021, short-term investment totaled PhP1,091.6 million, receivables totaled PhP669.9 million, merchandise inventories totaled PhP4,163.0 million and other current assets totaled PhP702.3 million. As of December 31, 2020, short-term investment totaled PhP1,270.6 million, receivables totaled PhP672.1 million, merchandise inventories totaled PhP4,981.6 million and other current assets totaled PhP540.9 million.

As of December 31, 2021, cash and cash equivalents amounted to PhP1,671.8 million, a decrease of 25.9% from PhP2,257.3 million as of December 31, 2020. The decrease were mainly attributable to the additions to property and equipment amounting to PhP790.8 million and payment for lease liabilities of PhP677.2 million, offset by the decrease in short-term investments of PhP179.0 million and the PhP763.9 million cash provided by operating activities.

Non-current Assets

Our noncurrent assets consist of property and equipment, right-of-use assets, deferred tax assets–net and other non-current assets. Total noncurrent assets as of December 31, 2021 and 2020 were PhP11,137.1 million and PhP11,651.4 million, respectively. The decrease of 4.4% in noncurrent 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, 2021 and 2020 were PhP4,848.9 million and PhP6,726.0 million, respectively. As of December 31, 2021 and 2020, trade and other payables totaled PhP3,537.0 million and PhP4,642.3 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable - current portion amounted to PhP1,000.0 million and PhP1,500.0 million as of December 31, 2021 and 2020, respectively.

Non-current Liabilities

Total noncurrent liabilities as of December 31, 2021 and 2020 were PhP6,413.6 million and PhP6,111.6 million, respectively. The increase of 4.9% in noncurrent liabilities is significantly due to the availment of a long term loan of PhP500.0 million, offset by the movement in lease liabilities as a result of lease modifications.

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 PhP2,996.5 million and PhP3,123.8 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 PhP9,722.5 million and PhP9,816.0 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 PhP1,270.6 million, receivables totaled PhP672.1 million, merchandise inventories totaled PhP4,981.6 million and other current assets totaled PhP540.9 million. As of December 31, 2019, short-term investment totaled PhP629.6 million, receivables totaled PhP1,146.3 million, merchandise inventories totaled PhP4,636.6 million and other current assets totaled PhP494.4 million.

As of December 31, 2020, cash and cash equivalents amounted to PhP2,257.3 million, a decrease of 22.4% from PhP2,909.1 million as of December 31, 2019. The decrease were mainly attributable to the additions to property and equipment amounting to PhP737.2 million, increase in short-term investments of PhP641.1 million, dividend payment amounting to PhP205.8 million and payment for lease liabilities of PhP1,002.0 million, offset by the loan proceeds of PhP1,500.0 million and PhP472.4 million cash provided by operating activities.

Non-current Assets

Our noncurrent assets consist of property and equipment, right-of-use assets, deferred tax assets–net and other non-current assets. Total noncurrent assets as of December 31, 2020 and 2019 were PhP11,651.4 million and PhP13,548.6 million, respectively. The decrease of 14.0% in noncurrent 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 PhP6,726.0 million and PhP6,692.2 million, respectively. As of December 31, 2020 and 2019, trade and other payables totaled PhP4,642.3 million and PhP5,409.5 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to PhP1,500.0 million and nil as of December 31, 2020 and 2019, respectively.

Non-current Liabilities

Total noncurrent liabilities as of December 31, 2020 and 2019 were PhP6,111.6 million and PhP7,436.4 million, respectively. The decrease of 17.8% in noncurrent liabilities is significantly due to the movement in lease liabilities as a result of lease modifications.

Cash Flows

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

	For the years ended December 31,		
	2022	2021	2020
		(PhP million)	
Net cash flows generated from operating activities	2,073.7	763.9	472.4
Net cash flows provided (used in) investing activities	523.7	(568.6)	(1,410.3)
Net cash flows provided (used in) financing activities	844.5	(783.6)	292.2
Net increase (decrease) in cash	**3,441.9**	**(588.3)**	**(645.7)**

Net Cash Flows from Operating Activities

Our net cash flows from operating activities for the year ended December 31, 2022 was PhP2,073.7 million, which is comprised of operating income before working capital changes of PhP2,537.1 million, adjusted for changes in working capital and interest received, partially offset by income tax, interest, and retirement benefits paid. The changes in working capital were attributable to the increase in merchandise inventory and receivables of PhP1,367.5 million and PhP236.2 million, respectively, and offset by the increase in trade and other payables of PhP1,285.2 million.

Our net cash flows from operating activities for the year ended December 31, 2021 was PhP763.9 million, which is comprised of operating income before working capital changes of PhP1,387.2 million, adjusted for changes in working capital and interest received, partially offset by income tax, interest and retirement benefits paid. The changes in working capital were mainly attributable to the decrease in trade and other payables of PhP1,112.6 million and increase in other current assets of PhP212.7 million, offset by the decrease in merchandise inventory of PhP764.6 million.

Our net cash flows from operating activities for the year ended December 31, 2020 was PhP472.4 million, which is comprised of operating income before working capital changes of PhP1,603.6 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 PhP834.5 million, increase in merchandise inventory of PhP390.5 million and increase in other current assets of PhP22.3 million, offset by the decrease in receivables of PhP339.3 million.

Net Cash Flows Used in Investing Activities

For the year ended December 31, 2022, net cash flows provided by investing activities was PhP523.7 million, generated from proceeds from short-term investments of PhP1,091.6 million and proceeds from sale of property and equipment of PhP49.4 million. This is partially offset by the acquisitions of property and equipment for the construction and fit outs of new stores and improvements of existing stores totaling PhP544.7 million and by the increase in other noncurrent assets by PhP72.6 million.

For the year ended December 31, 2021, net cash flows used in investing activities was PhP568.6 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to PhP790.8 million, offset by the decrease in short-term investments by PhP179.0 million and decrease in other noncurrent assets by PhP43.2 million.

For the year ended December 31, 2020, net cash flows used in investing activities was PhP1,410.3 million, which is significantly due to the acquisitions of property and equipment for the construction and fit outs of new stores amounting to PhP737.2 million, increase in short-term investments by PhP641.1 million and increase in other noncurrent assets by PhP32.1 million.

Net Cash Flows Used in Financing Activities

Net cash flows provided by financing activities was PhP844.5 million for the year ended December 31, 2022, mainly generated from the availment of long-term loans of PhP2,500.0 million, and partially offset by payments of loans payable and lease liabilities amounting to PhP1,000.0 and PhP532.2 million, respectively, as well as payments for the purchase of PhP104.6 million treasury stocks.

Net cash flows used in financing activities was PhP783.6 million for the year ended December 31, 2021, as a result of the payments of lease liabilities amounting to PhP677.2 million and purchase of treasury stock amounting to PhP102.6 million.

Net cash flows generated from financing activities was PhP292.2 million for the year ended December 31, 2020, as a result of proceeds from loan of PhP1,500.0 million offset by payments of lease liabilities amounting to PhP1,002.0 million and payment of cash dividends amounting to PhP205.8 million declared on May 14, 2020.

Indebtedness

As of December 31, 2022 and 2021, outstanding loans payable amounted to PhP2,981.1 million and PhP1,496.7 million, respectively.

Key Performance Indicators

	For the years ended December 31,		
	2022	2021	2020
Net sales[(1)] (PhP million)	38,101.7*	31,211.3*	31,286.3*
Average basket size[(2)] (PhP)	1,002.0*	1,067.7*	929.5*
Same-store sales growth[(3)] (%)	19.2%*	-5.2%*	-19.3%*
Number of stores	62*	61*	56*
Net selling area[(4)] (sqm)	249,824*	247,576*	224,282*

*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. The Company's exposure to liquidity risk relates primarily to its short-term obligations. The Company seeks to manage its liquidity profile by maintaining cash at a certain level and ensuring the availability of ample unused revolving credit facilities from banks as back-up liquidity that will enable it to finance its operating expenses. The Company maintains a level of cash deemed sufficient to finance operations. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows.

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.

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

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, 2022 and 2021, 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, or 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 31, 2023

SUBSCRIBED AND SWORN to before me this APR 05 2023 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. 287
Page No. 59
Book No. 15
Series of 2023

ATTY. JENNYLYN R. OJANO-SABADO
Notary Public/City of Taguig
Until 31 December 2024
IBP O.R. No. 251632 issued on December 19, 2022
PTR No. 9563520 / 3 January 2023/ Makati City
Appointment No. 9 (2023-2024)
MCLE Compliance No. VII-0003609
Unit 25, G/F Fiesta Market Market Ext.
BGC, Taguig City
Roll No. 71171

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) 236-9516

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, 2022. 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, 2022 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 of 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

ATTY. JENNYLYN R. OJANO-SABADO
Notary Public City of Taguig
Until 31 December 2024
IBP O.R. No. 251632 issued on December 19, 2022
PTR No. 9563520 / 3 January 2023/ Makati City
Appointment No. 9 (2023-2024)
MCLE Compliance No. VII-0003699
Unit 25, G/F Fiesta Market Market Ext.
BGC, Taguig City
Roll No. 71171

Doc. No. 288;
Page No. 59;
Book No. 15;
Series of 2023.

March 31, 2023

SUBSCRIBED AND SWORN TO BEFORE ME, this APR 05 2023 day at TAGUIG CITY affiant(s) exhibiting to me his/her their Id's:

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	3	1	5	8	7	7

COMPANY NAME

METRO RETAIL STORES GROUP, INC.

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

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

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

COMPANY INFORMATION

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

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

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

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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

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

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 11 2023
DPQA SECTION INITIAL

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, 2022 and 2021, 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, 2022, and notes to the financial statements, including a summary of significant accounting policies.

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, 2022 and 2021, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2022 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 Matters

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.

Existence and completeness of merchandise inventories

The Company's inventories comprise 24% of its total assets as at December 31, 2022. The Company operates 62 stores (consisting of department stores, supermarkets and hypermarkets) and 10 warehouses across 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 obtained the reconciliation of the valued physical inventory compilation and compared this with the general ledger account balances and tested selected reconciling items. 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, 2022, 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, 2022 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.

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

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

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

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

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

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

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

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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 29 and Revenue Regulations 15-2010 in Note 30 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 Ma. Genalin Q. Arevalo.

SYCIP GORRES VELAYO & CO.

Ma. Genalin Q. Arevalo

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
Tax Identification No. 224-024-926
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 108517-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-123-2023, January 25, 2023, valid until January 24, 2026
PTR No. 9369773, January 3, 2023, Makati City

March 31, 2023

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 27)	₱5,162,583,002	₱1,671,751,798
Short-term investments (Notes 5 and 27)	–	1,091,644,133
Receivables (Notes 6 and 27)	954,824,757	669,943,462
Merchandise inventories (Note 7)	5,495,332,780	4,163,043,783
Other current assets (Notes 8 and 27)	630,372,608	702,255,561
Total Current Assets	12,243,113,147	8,298,638,737
Noncurrent Assets		
Property and equipment (Note 9)	5,294,353,429	5,325,379,067
Right-of-use ("ROU") assets (Note 24)	4,307,663,208	4,700,055,422
Deferred tax assets - net (Note 23)	393,572,613	606,630,930
Other noncurrent assets (Notes 10 and 27)	500,309,676	505,051,360
Total Noncurrent Assets	10,495,898,926	11,137,116,779
TOTAL ASSETS	₱22,739,012,073	₱19,435,755,516
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 27)	₱4,820,527,987	₱3,536,960,607
Contract liabilities (Note 12)	104,828,812	99,893,390
Income tax payable	23,734,498	–
Loans payable – current portion (Notes 13 and 27)	130,208,334	1,000,000,000
Lease liabilities - current portion (Notes 24 and 27)	156,724,371	212,043,486
Total Current Liabilities	5,236,024,002	4,848,897,483
Noncurrent Liabilities		
Lease liabilities – net of current portion (Notes 24 and 27)	5,106,227,807	5,362,911,707
Retirement benefit obligation (Note 21)	470,417,519	536,848,593
Loans payable – net of current portion (Notes 13 and 27)	2,850,878,173	496,669,910
Other noncurrent liabilities (Notes 14 and 27)	14,473,976	17,130,032
Total Noncurrent Liabilities	8,441,997,475	6,413,560,242
Total Liabilities	13,678,021,477	11,262,457,725
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
Treasury stock (Note 15)	(207,150,258)	(102,572,930)
Retained earnings (Note 15)	3,289,176,015	2,371,901,941
Remeasurement gain on defined benefit obligation (Note 21)	94,047,690	19,051,631
Total Equity	9,060,990,596	8,173,297,791
TOTAL LIABILITIES AND EQUITY	₱22,739,012,073	₱19,435,755,516

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2022	2021	2020
REVENUE			
Net sales (Note 16)	**₱38,101,661,412**	₱31,211,348,935	₱31,286,312,987
Rentals (Notes 22 and 24)	**243,657,457**	172,466,727	146,843,483
	38,345,318,869	31,383,815,662	31,433,156,470
COSTS AND EXPENSES			
Cost of sales (Note 18)	**30,053,235,521**	25,336,357,749	24,960,173,867
Operating expenses (Note 19)	**6,886,725,835**	5,962,470,235	6,775,499,850
	36,939,961,356	31,298,827,984	31,735,673,717
OPERATING INCOME (LOSS)	**1,405,357,513**	84,987,678	(302,517,247)
OTHER INCOME (CHARGES)(Note 17)			
Interest and other income	**350,851,441**	39,456,118	269,182,058
Finance costs	**(523,494,595)**	(469,455,919)	(512,183,440)
	(172,643,154)	(429,999,801)	(243,001,382)
INCOME (LOSS) BEFORE INCOME TAX	**1,232,714,359**	(345,012,123)	(545,518,629)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**289,525,704**	34,531,735	143,886,188
Deferred	**25,914,581**	(61,442,629)	(239,813,226)
	315,440,285	(26,910,894)	(95,927,038)
NET INCOME (LOSS)	**917,274,074**	(318,101,229)	(449,591,591)
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on defined benefit obligation (Note 21)	**99,994,745**	80,512,638	(63,250,628)
Income tax effect (Note 23)	**(24,998,686)**	(22,875,626)	18,975,188
	74,996,059	57,637,012	(44,275,440)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱992,270,133**	(₱260,464,217)	(₱493,867,031)
Basic/Diluted Earnings (Loss) Per Share (Note 25)	**₱0.28**	(₱0.09)	(₱0.13)

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
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METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2022, 2021 and 2020

	Capital Stock (Note 15)	Additional Paid-in Capital (Note 15)	Treasury Stock (Note 15)	Retained Earnings (Note 15)	Remeasurement Gain (Loss) on Defined Benefit Obligation (Note 21)	Total
At January 1, 2022	**₱3,429,375,000**	**₱2,455,542,149**	**(₱102,572,930)**	**₱2,371,901,941**	**₱19,051,631**	**₱8,173,297,791**
Net income for the year	–	–	–	917,274,074	–	917,274,074
Other comprehensive income	–	–	–	–	74,996,059	74,996,059
Total comprehensive income (loss)	–	–	–	917,274,074	74,996,059	992,270,133
Acquisition of treasury stock (Note 15)	–	–	(104,577,328)	–	–	(104,577,328)
At December 31, 2022	**₱3,429,375,000**	**₱2,455,542,149**	**(₱207,150,258)**	**₱3,289,176,015**	**₱94,047,690**	**₱9,060,990,596**
At January 1, 2021	₱3,429,375,000	₱2,455,542,149	₱–	₱2,690,003,170	(₱38,585,381)	₱8,536,334,938
Net loss for the year	–	–	–	(318,101,229)	–	(318,101,229)
Other comprehensive income	–	–	–	–	57,637,012	57,637,012
Total comprehensive income (loss)	–	–	–	(318,101,229)	57,637,012	(260,464,217)
Acquisition of treasury stock (Note 15)	–	–	(102,572,930)	–	–	(102,572,930)
At December 31, 2021	₱3,429,375,000	₱2,455,542,149	(₱102,572,930)	₱2,371,901,941	₱19,051,631	₱8,173,297,791
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)
At December 31, 2020	₱3,429,375,000	₱2,455,542,149	₱–	₱2,690,003,170	(₱38,585,381)	₱8,536,334,938

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱1,232,714,359**	(₱345,012,123)	(₱545,518,629)
Adjustments for:			
Depreciation and amortization of property and equipment (Note 9)	**595,215,592**	606,735,487	497,444,254
Finance costs (Note 17)	**523,494,595**	469,455,919	512,183,440
Depreciation and amortization of ROU assets - net (Note 24)	**389,328,155**	518,263,490	859,437,309
Gain on lease modification (Note 24)	**(106,318,492)**	(4,830,438)	(84,463,838)
Retirement benefits costs (Note 21)	**67,799,324**	68,241,526	88,378,081
Interest income (Note 17)	**(60,965,124)**	(29,076,640)	(50,751,483)
Gain on insurance claims - net (Note 17)	**(53,681,402)**	–	(104,364,149)
Foreign currency exchange losses (gains) (Note 17)	**(48,874,026)**	(2,761,482)	6,164,814
Provision for impairment and write off of nonfinancial assets (Notes 8 and 19)	**(33,608,129)**	23,660,791	133,358,471
Provision for impairment and write off of receivables (Notes 6 and 19)	**11,515,752**	23,447,783	24,292,248
Casualty loss from typhoon Odette (Notes 7, 9 and 17)	**–**	34,387,035	–
Provision for decline in inventories values (Note 7)	**35,167,252**	20,076,626	45,465,268
Loss (gain) on retirement/disposal of property and equipment (Note 9)	**(14,675,584)**	4,649,628	4,532,824
Loss on stores closure - net (Note 19)	**–**	–	217,449,025
Operating income before working capital changes	**2,537,112,272**	1,387,237,602	1,603,607,635
Decrease (increase) in:			
Merchandise inventories	**(1,367,456,249)**	764,605,251	(390,509,258)
Receivables	**(236,200,479)**	(25,440,019)	339,300,631
Other current assets	**20,513,896**	(212,725,910)	(22,274,650)
Increase (decrease) in:			
Trade and other payables	**1,285,202,619**	(1,112,623,056)	(834,521,785)
Contract liabilities	**4,935,422**	17,759,650	(21,392,097)
Other noncurrent liabilities	**(2,656,056)**	11,505,169	290,785
Cash flows generated from operations	**2,241,451,425**	830,318,687	674,501,261
Interest paid	**(124,105,588)**	(56,362,076)	(27,123,619)
Interest received	**54,449,958**	33,253,093	57,013,949
Income tax paid	**(63,822,791)**	(28,834,164)	(352,087,946)
Retirement benefits paid	**(34,235,653)**	(14,488,298)	(88,643,728)
Proceeds from insurance claims on merchandise inventory and business interruption	**–**	–	208,728,297
Net cash provided by operating activities	**2,073,737,351**	763,887,242	472,388,214
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 9)	**(544,727,723)**	(790,785,583)	(737,201,461)
Proceeds from sale of property and equipment	**49,400,000**	–	–
Proceeds from (availment of) short-term investments	**1,091,644,133**	179,000,301	(641,069,460)
Decrease (increase) in other noncurrent assets	**(72,605,645)**	43,168,298	(32,054,926)
Net cash provided by(used in) investing activities	**523,710,765**	(568,616,984)	(1,410,325,847)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availment (Note 13)	**2,500,000,000**	1,300,000,000	1,500,000,000
Purchase of treasury stock (Note 15)	**(104,577,328)**	(102,572,930)	–
Payments of:			
Loans payable	**(1,000,000,000)**	(1,300,000,000)	–
Lease liabilities (Note 24)	**(532,163,610)**	(677,225,703)	(1,001,989,894)
Debt issue cost (Note 13)	**(18,750,000)**	(3,750,000)	–
Cash dividends (Note 15)	**–**	–	(205,762,268)
Net cash provided by (used in) financing activities	**844,509,062**	(783,548,633)	292,247,838
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,441,957,178**	(588,278,375)	(645,689,795)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 17)	**48,874,026**	2,761,482	(6,164,814)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,671,751,798**	2,257,268,691	2,909,123,300
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱5,162,583,002**	₱1,671,751,798	₱2,257,268,691

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 80.07%-owned by Vicsal Development Corporation (VDC), 0.76%-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, 2022 and 2021 and for each of the three years in the year ended December 31, 2022 were approved and authorized for issue by the Board of Directors (BOD) on March 31, 2023.

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 (PFRSs).

Adoption of New and Amended Accounting Standards and Interpretations
The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the following new accounting pronouncements. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated:

- Amendments to PFRS 3, *Business Combinations, 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.

- Amendments to PAS 16, *Property, 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.

- Amendments to PFRS 9, *Financial Instruments*, Fees in the '10 percent' 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.

- 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.

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

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

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, Definition of Accounting Estimates

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

- Amendments to PAS 1, Classification of Liabilities as Current or Noncurrent

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or noncurrent. 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; and
  - 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.

Effective beginning on or after January 1, 2025

- 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

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, 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, accrued interest receivable and security deposits under "Other current assets" and lodged in "Deposits" under "Other noncurrent assets".

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

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

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

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

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

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

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

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

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

The Company has no financial assets measured at FVPL.

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

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

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

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

Impairment of financial assets

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 and rentals 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 foregoing, 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 PFRS 16, *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), loans payable, lease liabilities 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.

<u>Value-Added Tax (VAT)</u>
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.

<u>Property and Equipment</u>
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.

<u>Borrowing Costs</u>
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.

<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

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 ₱250,000). 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, 2022; and
- There is no substantive change to other terms and conditions of the lease.

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

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.

Equity

Capital Stock and Additional paid-in capital

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

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

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them respectively. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

The retained earnings is restricted to payments of dividends to the extent of the cost of treasury shares.

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

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

Revenue from Contracts with Customers
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.

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 judgment 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 2022 and 2021.

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

Assessing 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. In the event that NRV is lower than cost, the decline is recognized as an expense.

The Company recognized provision for shrinkage and decline in inventory values amounting to ₱35.17 million and ₱20.08 million in 2022 and 2021, respectively. Allowance for shrinkage and decline in inventory values amounted to₱100.71 million and ₱65.54 million as of December 31, 2022 and 2021, respectively (see Note 7). Merchandise inventories amounted to ₱5,495.33 million and ₱4,163.04 million as of December 31, 2022 and 2021, 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 COVID-19 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.

The Company recognized provision for expected credit losses of receivables amounting to ₱5.27 million and ₱7.38 million in 2022 and 2021, respectively. Allowance for expected credit losses of receivables amounted to₱38.93 million and ₱35.61 million as of December 31, 2022 and2021, respectively. The carrying amount of receivables, net of valuation allowance, amounted to ₱954.82 million and ₱669.94 million as of December 31, 2022 and 2021, respectively (see Note 6).

Allowance for impairment losses on security deposit amounted to ₱2.55 million and ₱6.22 million as of December 31, 2022 and 2021, respectively. The carrying amount of security deposit, net of impairment losses, amounted to ₱217.83 million and ₱218.22 million as of December 31, 2022 and 2021, 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 in 2020 and decided to reduce lease spaces in certain stores in 2021 and 2022. The company has also approved the permanent closure of two of its stores in 2023. 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 9.6%-12.4% and 9.7%–10.5% in 2022 and 2021, respectively, with an average growth rate of 3%. In 2021, the Company also considered in its assumptions the impact of COVID-19 on sales and the updated costs structure based on changes implemented during the year.

As of December 31, 2022 and 2021, the carrying value of the Company's nonfinancial assets are, as follows:

	2022	2021
Other current assets* (see Note 8)	**₱508,075,181**	₱638,784,417
Property and equipment (see Note 9)	**5,294,353,429**	5,325,379,067
Right-of-use assets (see Note 24)	**4,307,663,208**	4,700,055,422
Other noncurrent assets** (see Note 10)	**312,827,117**	257,962,509
	₱10,422,918,935	₱10,922,181,415

**Excluding security deposits, net of allowance*
***Excluding security deposits, net of allowance and deposit to utility companies*

In 2022, the Company recognized provision for impairment loss amounting to ₱27.97 million pertaining to leasehold improvements and building machineries and equipment which may not be recoverable with the approved permanent closure of two non-performing stores in 2023 (see Notes 9 and 19).

In 2022 and 2021, the Company recognized a net provision for impairment loss amounting to nil and ₱6.22 million, respectively, which pertains to estimated unrecoverable security deposits and long outstanding advances to nontrade suppliers (see Note 8 and 10).

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

The Company's lease liabilities amounted to ₱5,262.95 million and ₱5,574.95 million as of December 31, 2022 and 2021, 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 ₱67.80 million, ₱68.24 million and ₱88.38 million in 2022, 2021 and 2020, respectively. Retirement benefits obligation amounted to ₱470.42 million and ₱536.85 million as of December 31, 2022 and 2021, respectively (see Note 21).

4. Cash and Cash Equivalents

This account consists of:

	2022	2021
Cash on hand	**₱209,836,470**	₱135,648,257
Cash in banks	**2,126,827,451**	1,434,909,883
Cash equivalents	**2,825,919,081**	101,193,658
	₱5,162,583,002	₱1,671,751,798

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%–4.50% in 2022, 0.10%–2.00% in 2021 and 0.10%–4.50% in 2020.

Interest income earned from cash and cash equivalents amounted to ₱40.13 million, ₱6.77 million and ₱14.96 million in 2022, 2021 and 2020, 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 1.89% to 2.05%, 1.70% to 2.00%, and 2.0% to 5.25% in 2022, 2021 and 2020, respectively.

Short term investments as of December 31, 2022 and 2021 amounted to nil and ₱1,091.64 million, respectively.

Interest income earned from short-term investments amounted to ₱19.63 million, ₱21.43 million and ₱28.34 million in 2022, 2021 and 2020, respectively (see Note 17).

6. Receivables

This account consists of:

	2022	2021
Trade		
Third parties	**₱682,401,888**	₱584,619,138
Rentals	**81,238,183**	39,095,564
Nontrade		
Related parties (see Note 22)	**120,897,945**	21,346,974
Receivable from insurance	**53,681,402**	–
Receivable from SSS	**30,062,455**	23,034,715
Accrued interest receivable	**10,296,471**	4,079,885
Others	**15,173,408**	33,373,205
	993,751,752	705,549,481
Less allowance for expected credit losses	**(38,926,995)**	(35,606,019)
	₱954,824,757	₱669,943,462

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 30–90 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.

As of December 31, 2022, the Company recognized receivable from insurance pertaining to Insurance claims for the damage in inventory and assets amounting to ₱45.44 million and business interruption claims amounting to ₱8.24 million (see Note 17). As of March 31, 2023, this is already fully collected.

Receivable from Social Security System (SSS) pertains to maternity loans proceeds and are collectible within one (1) year.

Others consist of advances to employees and construction cash bond for store fit-outs and are collectible within the year.

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

Trade receivables

	2022	2021	2020
At January 1	**₱25,606,019**	₱21,595,332	₱11,612,412
Add provisions (see Note 19)	**5,272,136**	7,376,230	9,982,920
Less write-off	**(1,951,160)**	(3,365,543)	–
At December 31	**₱28,926,995**	₱25,606,019	₱21,595,332

Rentals

	2022	2021	2020
At January 1	**₱10,000,000**	₱10,000,000	₱–
Add provisions (see Note 19)	**–**	–	10,000,000
At December 31	**₱10,000,000**	₱10,000,000	₱10,000,000

The Company has directly written off receivables which are deemed uncollectible amounting to ₱6.24 million, ₱16.07 million and ₱4.31 million in 2022, 2021 and 2020, respectively (see Note 19).

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2022	2021	2020
Beginning inventory	**₱4,163,043,783**	₱4,981,620,260	₱4,636,576,270
Add purchases – net	**31,415,449,276**	24,568,611,392	25,276,452,552
Cost of goods available for sale	**35,578,493,059**	29,550,231,652	29,913,028,822
Less cost of merchandise sold (Note 18)	**(29,982,451,133)**	(25,287,751,375)	(24,885,943,294)
Less inventory loss due to typhoon Odette (see Note 17)	**–**	(33,894,600)	–
	5,596,041,926	4,228,585,677	5,027,085,528
Less allowance for shrinkage and decline in inventory values (see Note 3)	**(100,709,146)**	(65,541,894)	(45,465,268)
Ending inventory	**₱5,495,332,780**	₱4,163,043,783	₱4,981,620,260

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

In December 2021, various stores in Visayas were hit by typhoon Odette. The cost of the damaged inventories amounted to ₱33.89 million (see Note 17).

The inventories carried at NRV, which is the lower of cost or NRV, amounted to ₱27.42 million and ₱41.33 million as of December 31, 2022 and 2021, respectively. The related costs of the inventories carried at NRV amounted to ₱82.17 million and ₱106.87 million as of December 31, 2022 and 2021, respectively.

The Company recognized provision for decline in inventory values and shrinkage amounting to ₱35.17 million, ₱20.08 million and ₱45.47 million in 2022, 2021 and 2020, respectively. These are lodged under "Others" in the Cost of Sales section in the statements of comprehensive income (see Note 18).

No inventories have been used or pledged as security for the Company's obligations in 2022 and 2021.The Company does not have any purchase commitments as of December 31, 2022 and 2021.

8. Other Current Assets

This account consists of:

	2022	2021
Input VAT - net	**₱187,983,257**	172,979,561
Security deposits - current	**124,847,427**	69,694,588
Prepayments	**121,028,920**	127,432,839
Advances to trade suppliers		
Related parties (see Note 22)	**101,031,984**	₱194,523,890
Third parties	**6,296,916**	5,128,128
Supplies	**52,141,333**	52,678,665
Deferred input VAT - current	**39,634,557**	61,011,134
Prepaid income tax	**–**	25,071,986
	632,964,394	708,520,791
Allowance for impairment losses	**(2,591,786)**	(6,265,230)
	₱630,372,608	₱702,255,561

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

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

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

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

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

Allowance for impairment losses pertains to estimated unrecoverable security deposits and long-outstanding advances to third party trade suppliers. Movements in the allowance for impairment loss for other current assets follow:

Security deposits

	2022	2021	2020
At January 1	**₱6,223,444**	₱–	₱–
Provision for impairment losses (see Note 19)	**–**	6,223,444	–
Reclassification (Note 10)	**(3,673,444)**	–	–
At December 31	**₱2,550,000**	₱6,223,444	₱–

Advances to trade suppliers

	2022	**2021**	2020
At January 1	**₱41,786**	₱41,786	₱5,984,803
Write-off	**–**	–	(5,943,017)
At December 31	**₱41,786**	₱41,786	₱41,786

The Company has directly written off security deposits identified to be unrecoverable amounting to ₱11.55 million, ₱17.44 million and nil in 2022, 2021 and 2020 respectively. This is recognized under operating expenses in the statements of comprehensive income (see Note 19).

9. Property and Equipment

2022

	Land	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Building and Leasehold Improvements	Construction-in-Progress (Note 24)	Total
Cost:								
At January 1	₱231,169,293	₱1,533,566,340	₱1,968,887,208	₱1,448,870,378	₱388,423,082	₱3,646,207,888	₱225,940,834	₱9,443,065,023
Additions	787,906	58,175,778	63,943,626	53,421,611	-	69,225,845	409,417,954	654,972,720
Retirements/Disposals	-	(7,553,915)	(20,082,708)	(5,711,273)	(382,621,361)	(39,157,770)	-	(455,127,027)
Reclassifications	-	77,628,765	36,821,829	931,650	(5,801,721)	226,915,836	(336,496,359)	-
At December 31	231,957,199	1,661,816,968	2,049,569,955	1,497,512,366	-	3,903,191,799	298,862,429	9,642,910,716
Less Accumulated Depreciation and Amortization:								
At January 1	-	263,115,196	1,586,927,878	1,139,199,617	338,534,922	789,908,343	-	4,117,685,956
Depreciation and amortization (see Notes 18 and 19)	-	138,514,225	146,757,924	102,851,428	18,795,174	188,296,841	-	595,215,592
Retirements/Disposals	-	(7,488,403)	(19,549,491)	(5,704,442)	(354,037,498)	(5,534,748)	-	(392,314,583)
Reclassifications	-	3,285,804	953,012	-	(3,292,598)	(946,218)	-	-
At December 31	-	397,426,822	1,715,089,323	1,236,346,603	-	971,724,218	-	4,320,586,967
Less: Allowance for impairment loss Impairment Losses (see Note 19)	-	3,594,748	-	-	-	24,375,573	-	27,970,321
Net Book Value	₱231,957,199	₱1,260,795,398	₱334,480,632	₱261,165,763	₱-	₱2,907,092,008	₱298,862,429	₱5,294,353,429

2021

	Land	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Building and Leasehold Improvements	Construction-in-Progress (Note 24)	Total
Cost:								
At January 1	₱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
Additions	186,169,293	359,275,201	74,187,455	52,869,786	3,350,625	26,040,851	280,694,574	982,587,785
Retirements	-	(35,327,454)	(122,617,669)	(18,628,345)	(1,208,432)	(618,672)	-	(178,400,572)
Reclassifications	-	220,464,628	38,506,251	68,908,006	-	1,449,662,629	(1,777,541,514)	-
At December 31	231,169,293	1,533,566,340	1,968,887,208	1,448,870,378	388,423,082	3,646,207,888	225,940,834	9,443,065,023
Less Accumulated Depreciation and Amortization:								
At January 1	-	168,343,540	1,529,542,223	1,036,785,450	288,913,552	627,128,055	-	3,650,712,820
Depreciation and amortization (see Notes 18 and 19)	-	104,438,732	161,273,010	118,957,374	50,144,548	171,921,823	-	606,735,487
Retirements	-	(15,392,063)	(105,413,548)	(16,543,207)	(523,178)	(1,890,355)	-	(139,762,351)
Reclassifications	-	5,724,987	1,526,193	-	-	(7,251,180)	-	-
At December 31	-	263,115,196	1,586,927,878	1,139,199,617	338,534,922	789,908,343	-	4,117,685,956
Less: Allowance for impairment loss								
At January 1	-	18,119,395	13,807,376	1,569,386	-	-	-	33,496,157
Write-off	-	(18,119,395)	(13,807,376)	(1,569,386)	-	-	-	(33,496,157)
December 31	-	-	-	-	-	-	-	-
Net Book Value	₱231,169,293	₱1,270,451,144	₱381,959,330	₱309,670,761	₱49,888,160	₱2,856,299,545	₱225,940,834	₱5,325,379,067

In 2022, the Company recognized provision for impairment loss for the immovable property and equipment of two stores approved to be closed in 2023 amounting to ₱27.97 million under "Provision for impairment of nonfinancial assets" in the Operating Expenses section of the statement of comprehensive income (see Note 19).

In December 2021, various stores in Visayas were hit by typhoon Odette. The net book value of the damaged fixed assets amounted to ₱0.49 million. This was included under other income (charges) section of the statement of comprehensive income (see Note 17).

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). In 2021, the Company completed the sale and disposal of the aforementioned immovable property and equipment and recognized an income of ₱6.33 million recognized in other income (charges) in the statement of comprehensive income. Consequently, the allowance for impairment loss recognized in 2020 was written-off in 2021.

In 2022, Company sold and retired property and equipment from various stores with carrying values of ₱34.72 million and recognized a gain on sale and retirement of ₱14.68 million. In 2021 and 2020, carrying values of retired property and equipment amounted to ₱4.65 million and ₱4.53 million, respectively. These were 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.

Borrowing costs from loans payable capitalized to construction in progress amounted to ₱4.32 million and ₱5.02 million in 2022 and 2021, respectively (see Note 13).

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2022 and 2021.

The Company has contractual purchase commitments related to construction-in-progress amounting to ₱765.57 million and ₱289.82 million as of December 31, 2022 and 2021, respectively.

10. Other Noncurrent Assets

This account consists of:

	2022	2021
Deposits	**₱229,025,395**	₱290,489,082
Advances to nontrade suppliers		
Third parties	**226,362,463**	101,940,328
Related parties (see Note 22)	**22,450,521**	39,167,965
Deferred input VAT	**34,916,989**	82,226,233
	512,755,368	513,823,608
Less allowance for impairment loss (see Note 19)	**(12,445,692)**	(8,772,248)
	₱500,309,676	₱505,051,360

Deposits consist of the following:

	2022	2021
Security deposits	**₱95,531,108**	₱154,750,728
Deposit to utility companies*	**91,951,451**	92,338,123
Others	**41,542,836**	43,400,231
	₱229,025,395	₱290,489,082

**Deposit to utility companies is presented at cost since the timing and amounts of future cash flows are linked to the termination of the contract which cannot be reasonably and reliably estimated.*

Accretions of the security deposits amounted to ₱1.21 million, ₱0.88 million and ₱7.45 million in 2022, 2021 and 2020, respectively and are presented under "Interest and other income" in the statements of comprehensive income (see Note 17).

Others under "Deposits" pertain to payments made in relation to a lease agreement that has not yet commenced.

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 prior to 2022. 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 amounting to ₱28.17 million as a result of the closure of a non-performing store in 2018 was written-off.

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

	2022	2021	2020
At January 1	**₱8,772,248**	₱8,772,248	₱8,772,248
Reclassification (Note 8)	**3,673,444**	–	–
December 31	**₱12,445,692**	₱8,772,248	₱8,772,248

11. Trade and Other Payables

This account consists of:

	2022	2021
Trade		
Third parties	**₱3,257,205,865**	₱2,283,372,264
Related parties (see Note 22)	**33,107,812**	23,897,296
Nontrade		
Third parties	**510,371,092**	365,464,453
Related parties (see Note 22)	**44,907,446**	20,532,248
Accrued expenses	**473,731,762**	383,657,912
Credit cash bonds	**241,652,844**	250,884,882
Taxes payable	**61,335,831**	52,356,238
Others	**198,215,335**	156,795,314
	₱4,820,527,987	₱3,536,960,607

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:

	2022	2021
Suppliers and contractors	**₱146,358,298**	₱129,824,159
Utilities	**115,123,772**	71,923,516
Short-term rentals	**81,189,838**	59,945,719
Marketing-related cost	**21,846,947**	19,066,888
Professional fees	**14,076,720**	6,728,939
Other accruals	**95,136,187**	96,168,691
	₱473,731,762	₱383,657,912

Other accruals pertain to government remittances, retirement benefits 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 will 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%–6% based on accumulated cash bond and purchases volume. Finance cost included in profit or loss pertaining to cash bonds amounted to ₱8.91 million, ₱10.74 million and ₱12.13 million in 2022, 2021 and 2020, respectively. Interest incurred from cash bonds are settled through deduction from the Company's receivables from these credit account holders (see Note 17).

Taxes payable pertains to amount of taxes withheld by the Company on income payments yet to be remitted to the government.

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), current portion of tenants 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 and other sundry payables.

12. Contract Liabilities

This account consists of:

	2022	2021
Gift check outstanding	**₱40,017,200**	₱42,395,434
Accrued customer loyalty reward	**39,593,712**	30,129,692
Stored value cards	**25,217,900**	27,368,264
	₱104,828,812	₱99,893,390

These items can only be redeemed from the Company's own stores. These are recognized as revenue upon redemption and are expected to be redeemed within twelve months.

The rollforward analysis of this account follows:

	2022	2021
At January 1	**₱99,893,390**	₱82,133,740
Deferred during the year	**1,869,561,186**	1,494,046,141
Recognized as revenue during the year	**(1,864,625,764)**	(1,476,286,491)
At December 31	**₱104,828,812**	₱99,893,390

13. Loans Payable

This account consists of the following:

	2022	2021
Long-term bank loans with nominal interest rates ranging from 4.0%–5.6% per annum	₱3,000,000,000	₱500,000,000
Short-term bank loans with floating interest rates ranging from 2.75%- 3.0% per annum	–	1,000,000,000
	3,000,000,000	1,500,000,000
Less current portion of loans payable and unamortized debt issue cost	(130,208,334)	(1,000,000,000)
	2,869,791,666	500,000,000
Less noncurrent portion unamortized debt issue cost	(18,913,493)	(3,330,090)
Noncurrent portion of loans payable	₱2,850,878,173	₱496,669,910

Short-term bank loans
The Company availed short-term notes payable from local banks in an aggregate amount of nil and ₱800.00 million in 2022 and 2021, respectively, with floating interest rates ranging from 2.75%–3.00% per annum. These are payable within twelve months after the reporting date and were availed for additional working capital requirements. The Company paid short-term loans in 2022 and 2021 amounting to ₱1,000.00 million and ₱1,300.00 million, respectively.

Outstanding balance of short-term bank loans amounted to nil and ₱1,000.00 million as of December 31, 2022 and 2021, respectively.

Long-term bank loans
On March 30, 2021, the Company availed an unsecured long-term loan of ₱500.00 million payable in thirty-two equal quarterly installments of ₱15.63 million commencing on June30, 2023 to March 28, 2031. The loan bears a nominal interest rate of 4.0% per annum.

On March 3, 2022, the Company availed an unsecured long-term loan of ₱500.00 million payable in thirty-six equal quarterly installments of ₱13.89 million commencing on June 5, 2023 to March 3, 2032. The loan bears a nominal interest rate of 4.0%-5.6% per annum.

On March 17, 2022, the Company availed an unsecured long-term loan of ₱500.00 million payable in thirty-six equal quarterly installments of ₱13.89 million commencing on June 5, 2023 to March 3, 2032. The loan bears a nominal interest rate of 4.0%-5.6% per annum.

On March 24, 2022, the Company availed an unsecured long-term loan of ₱1,500.00 million payable in twenty equal quarterly installments of ₱75.00 million commencing on June 24, 2024 to March 23, 2029. The loan bears a nominal interest rate of 5.09% per annum.

Long-term bank loans were availed to finance construction of new store buildings.

The Company's long-term debt consists of:

	2022	2021
10-year loan due on March 28, 2031	**₱500,000,000**	₱500,000,000
10-year loan due on March 3, 2032	**500,000,000**	-
10-year loan due on March 3, 2032	**500,000,000**	-
7-year loan due on March 23, 2029	**1,500,000,000**	-
	3,000,000,000	500,000,000
Less unamortized debt issue cost	**(18,913,493)**	(3,330,090)
	₱2,981,086,507	₱496,669,910

The Company has no negative covenants and no prepayment options for its loans payable outstanding as of December 31, 2022 and 2021.

Interest expense from bank loans amounted to ₱121.05 million, ₱53.30 million and ₱21.95 million in 2022, 2021 and 2020, respectively (see Notes 9 and 17).

Borrowing costs from loans payable capitalized to construction in progress amounted to ₱4.32 million and ₱5.02 million in 2022 and 2021, respectively (see Note 9).

The movement of the unamortized debt issue cost follows:

	2022	2021
At January 1	**₱3,330,090**	₱–
Additions	**18,750,000**	3,750,000
Amortization	**(3,166,597)**	(419,910)
At December 31	**₱18,913,493**	₱3,330,090

The repayment schedule of Company's long-term debt is as follows:

	2022	2021
2022	**₱–**	₱–
2023	**130,208,333**	46,875,000
2024	**398,611,111**	62,500,000
2025	**473,611,111**	62,500,000
2026-2032	**1,997,569,445**	328,125,000
	₱3,000,000,000	₱500,000,000

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, 2022 and 2021 amounted to ₱14.47 million and ₱17.13 million, respectively (see Notes 24 and 27).

15. Equity

Capital Stock
The Company's common stock consists of:

	2022		2021	
	No. of shares	Amount	No. of shares	Amount
Common stock - ₱1.00 par value				
Authorized	10,000,000,000	₱10,000,000,000	10,000,000,000	₱10,000,000,000
Issued	3,429,375,000	3,429,375,000	3,429,375,000	3,429,375,000
Outstanding, beginning of year	3,355,996,000	3,326,802,070	3,429,375,000	3,429,375,000
Treasury shares acquired during the year	(73,693,000)	(104,577,328)	(73,379,000)	(102,572,930)
Outstanding, end of year	3,282,303,000	₱3,222,224,742	3,355,996,000	₱3,326,802,070

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, 2022 and 2021, the Company has 21 and 24 existing shareholders, respectively.

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

Treasury Shares
On January 22, 2021, the BOD of the Company has approved the implementation of a share buyback program of up to ₱300.00 million worth of the Company's common shares to be taken from the Company's existing cash (without using the IPO proceeds) and supported by the unrestricted retained earnings.

In 2022 and 2021, the Company bought back from the market 73,693,000 shares and 73,379,000 shares or ₱104.58 million and ₱102.57 million, respectively. As of December 31, 2022 and 2021, the Company repurchased a total of 147,072,000 shares and 73,379,000 shares, respectively, for a total amount of ₱207.15 million and ₱102.57 million, respectively. These treasury shares are recorded at cost.

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. The Company has not yet implemented the stock plan as of date of this report.

On December 23, 2022, the Board of Directors has approved the MRSGI Executive Stock Option Plan or MESOP. The Company has allotted 1% of the total outstanding capital stock as of December 20, 2022 or 32,832,230 common shares out of its Treasury Shares for the MESOP. In a Special Meeting of the stockholders held on February 7, 2023, the stockholders of MRSGI owning at least 2/3 of the total outstanding capital stock have ratified the MESOP. The MESOP shall only be implemented after obtaining the required approval from the Securities and Exchange Commission. An application for the approval of the MESOP was submitted to the Commission on February 17, 2023. As of March 31, 2023, the Commission has not yet approved the MESOP.

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.

The retained earnings is restricted to payments of dividends to the extent of the cost of treasury shares.

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, 2022 and 2021. The Company considers equity as capital excluding remeasurement effects on defined benefit obligation. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2022	2021
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**3,289,176,015**	2,371,901,941
Treasury stock	**(207,150,258)**	(102,572,930)
	₱8,966,942,906	₱8,154,246,160

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 accounted for under PFRS 15 are presented in the statements of comprehensive as follows:

	2022	2021	2020
Net sales	**₱38,101,661,412**	₱31,211,348,935	₱31,286,312,987
Other income (see Note 17):			
Others	**68,100,742**	20,314,671	30,834,628
	₱38,169,762,154	₱31,231,663,606	₱31,317,147,615

The following table disaggregates the Company's net sales by geographical markets and major goods or service lines for the years ended December 31, 2022, 2021 and 2020:

	2022	2021	2020
Geographical markets:			
Luzon	**₱12,999,828,695**	₱11,634,257,160	₱11,456,946,134
Visayas	**25,101,832,717**	19,577,091,775	19,829,366,853
Total revenue from contracts with customers from net sales	**₱38,101,661,412**	₱31,211,348,935	₱31,286,312,987
Major goods/service lines:			
Food retail	**₱27,558,361,389**	₱24,376,405,905	₱24,434,738,268
General merchandise	**10,543,300,023**	6,834,943,030	6,851,574,719
Total revenue from contracts with customers from net sales	**₱38,101,661,412**	₱31,211,348,935	₱31,286,312,987

17. Other Income (Charges)

Interest and other income

	2022	2021	2020
Gain on lease modification (Note 24)	**₱106,318,492**	₱4,830,438	₱84,463,838
Interest income (see Notes 4 and 5)	**60,965,124**	29,076,640	50,751,483
Gain on insurance claims – net	**53,681,402**	–	104,364,149
Foreign currency exchange gain (loss)	**48,874,026**	2,761,482	(6,164,814)
Scrap sales (see Note 16)	**12,911,655**	16,859,922	4,932,774
Casualty loss from typhoon Odette (see Notes 7 and 9)	–	(34,387,035)	–
Others (Notes 9 and 16)	**68,100,742**	20,314,671	30,834,628
	₱350,851,441	₱39,456,118	₱269,182,058

Casualty loss from typhoon Odette pertains to cost of inventories and net book value of properties damaged last December 16, 2021 amounting to ₱33.89 million and ₱0.49 million, respectively. The Company already filed insurance claims related to these and has received insurance offer for the losses.

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.

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 2021 typhoon casualty losses.

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

Finance costs

	2022	2021	2020
Finance cost on lease liabilities (see Note 24)	**₱397,857,648**	₱410,445,495	₱478,109,609
Interest expense from bank loans (see Note 13)	**116,726,975**	48,275,142	21,945,833
Interest expense on cash bond (see Note 11)	**8,909,972**	10,735,282	12,127,998
	₱523,494,595	₱469,455,919	₱512,183,440

18. Cost of Sales

	2022	2021	2020
Cost of merchandise sold (see Note 7)	**₱29,982,451,133**	₱25,287,751,375	₱24,885,943,294
Others (see Notes 7, 9 and 20)	**70,784,388**	48,606,374	74,230,573
	₱30,053,235,521	₱25,336,357,749	₱24,960,173,867

Others pertain to direct labor, other overhead costs, depreciation and amortization, and provision for decline in inventories values.

Depreciation and amortization charged to cost of sales amounted to ₱0.03 million, ₱0.05 million, and ₱0.15 million in 2022, 2021 and 2020, respectively (see Note 9).

19. **Operating Expenses**

	2022	2021	2020
Personnel cost (see Note 20)	**₱1,708,345,310**	₱1,646,863,783	₱1,983,235,812
Rental (see Notes 22 and 24)	**1,290,582,389**	802,565,292	584,216,674
Light, water and communication	**1,131,136,263**	758,921,442	690,812,973
Depreciation and amortization of property and equipment (see Note 9)	**595,187,972**	606,680,884	497,297,401
Depreciation and amortization of right-of-use assets - net (see Note 24)	**389,328,155**	518,263,490	859,437,309
Contracted services (see Note 22)	**371,486,341**	336,848,942	340,482,025
Taxes and licenses	**342,747,716**	359,305,821	450,029,872
Repairs and maintenance	**277,133,141**	199,703,664	227,485,633
Supplies	**157,127,117**	126,591,620	158,615,888
Commission	**127,736,755**	89,370,431	86,484,112
Subscriptions	**121,883,420**	111,916,552	76,725,647
Advertising	**116,845,642**	106,311,345	108,373,223
Insurance	**107,736,040**	112,398,330	105,559,758
Professional fees	**93,708,383**	89,934,377	85,032,406
Transportation and travel	**40,191,769**	20,442,148	84,235,819
Representation and Entertainment	**32,334,577**	25,243,540	57,571,947
Write-off of assets (see Notes 6 and 8)	**17,789,308**	33,508,900	4,309,328
Provision for (reversal of):			
Impairment of receivables (see Note 6)	**5,272,136**	7,376,230	19,982,920
Impairment of nonfinancial assets (see Notes 8, 9, 10 and 24)	**(45,153,820)**	6,223,444	133,358,471
Loss on stores closure - net	**–**	–	217,449,025
Others	**5,307,221**	4,000,000	4,803,607
	₱6,886,725,835	₱5,962,470,235	₱6,775,499,850

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 ₱51.24 million, ₱187.47 million and ₱228.16 million in 2022, 2021 and 2020, respectively (see Note 24).

Write-off of assets pertains to receivables, unrecoverable security deposits and advances to suppliers where there is no reasonable expectation of recovery and long outstanding advances to supplier.

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, estimated forfeiture of security deposits due to planned reduction of lease premises and long outstanding advances to supplier and nonrefundable deposits relating to lease agreements that were already terminated.

In 2022, the Company recognized provision for impairment of property and equipment related to the pre-terminated leases amounting to ₱27.97 million (see Note 9), net of gain on pretermination of lease contract of ₱73.12 million (see Note 24).

Loss on stores closure in 2020 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).

Others pertain to representation, entertainment, donations and contributions.

20. Personnel Cost

	2022	2021	2020
Salaries and wages	**₱1,412,884,164**	₱1,360,720,226	₱1,603,655,194
Retirement benefits costs (Note 21)	**67,799,324**	68,241,526	88,378,081
Other employee benefits	**269,732,303**	265,731,179	347,405,228
	₱1,750,415,791	₱1,694,692,931	₱2,039,438,503

Personnel cost that were recognized as cost of sales amounted to₱20.55 million,₱19.78 million and ₱20.92 million in 2022, 2021 and 2020, respectively.

Personnel cost that were capitalized as part of construction-in-progress amounted to ₱21.52 million, ₱28.05 million and ₱35.28 million in 2022, 2021 and 2020, 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:

	2022	2021	2020
Current service cost	**₱36,522,861**	₱45,065,091	₱39,054,536
Interest cost	**27,379,278**	22,544,320	27,033,643
Net transferred liabilities	**3,897,185**	–	–
Past service cost: curtailment	**–**	632,115	22,289,902
	₱67,799,324	₱68,241,526	₱88,378,081

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:

	2022	2021	2020
Remeasurement(loss) gain due to:			
Changes in financial assumptions	**₱102,814,152**	₱65,655,522	(₱79,088,409)
Experience adjustments	**(2,819,407)**	14,857,116	15,837,781
	₱99,994,745	₱80,512,638	(₱63,250,628)

The rollforward analysis of the retirement benefit obligation follow:

	2022	2021
At January 1	**₱536,848,593**	₱563,608,003
Current service cost	**36,522,861**	45,065,091
Interest cost	**27,379,278**	22,544,320
Net transferred liabilities	**3,897,185**	–
Benefits paid	**(34,235,653)**	(14,488,298)
Past service cost- curtailment	**–**	632,115
Remeasurement gain due to:		
Changes in financial assumptions	**(102,814,152)**	(65,655,522)
Experience adjustments	**2,819,407**	(14,857,116)
At December 31	**₱470,417,519**	₱536,848,593

The benefits paid includes payments 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:

	2022	2021	2020
Salary increase rate	**4.00%**	4.00%	4.00%
Discount rate	**7.30%**	5.10%	4.00%

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.

	2022		2021	
	Increase (decrease)	**Net retirement benefit liability**	Increase (decrease)	Net retirement benefit liability
Discount Rates	**+1.0%**	**(₱36,055,755)**	+1.0%	(₱49,019,360)
	−1.0%	**42,161,506**	−1.0%	59,707,985
Salary increase rate	**+1.0%**	**₱40,537,877**	+1.0%	₱56,714,745
	−1.0%	**(35,189,203)**	−1.0%	(47,399,337)

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:

	2022	2021
1 year and less	**₱–**	₱–
More than one year to 5 years	**230,514,015**	213,218,476
More than 5 years to 10 years	**257,225,242**	232,591,469
More than 10 years to 15 years	**326,116,200**	332,044,197
More than 15 years to 20 years	**2,214,632,289**	2,266,652,956
	₱3,028,487,746	₱3,044,507,098

The weighted average duration of the defined benefit obligation is 14 years in 2022 and 2021.

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, 2022 and 2021 are as follows:

December 31, 2022

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Advances (see Note 6; a)	₱84,991,507	₱55,932,734	Noninterest-bearing and due in 30 days, unsecured
Entities Under Common Control			
Advances and rental income (see Note 6; c and f)	152,776,135	64,965,211	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (see Notes 8 and 10; d)	1,039,404,940	123,482,505	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱244,380,450	

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Lease liabilities (see Note 24; b)	₱2,221,455	(₱27,427,889)	Noninterest-bearing and payable in 30 days, unsecured
Rent expense (see Note 11; b)	1,185,817,559	(10,638,049)	Noninterest-bearing and for application within 30 days, unsecured
Management fee (see Note 11; e)	40,781,093	–	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
Purchase of goods (see Note 11;d)	148,124,872	(35,361,323)	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (see Note 11; c)	132,489,365	(32,015,886)	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(₱105,443,147)	

December 31, 2021

	Amount/Volume	Outstanding	Terms and Conditions
Entities Under Common Control			
Advances and rental income (see Note 6; c)	₱72,241,236	₱21,346,974	Noninterest-bearing and due in 30 days, not impaired
Advances to suppliers (see Notes 8 and 10; d)	652,001,157	233,691,855	Noninterest-bearing and for application within 30 days, not impaired
Due from related parties		₱255,038,829	

	Amount/Volume	Outstanding	Terms and Conditions
Parent Company (VDC)			
Lease liabilities (see Note 24; b)	₱6,680,102	(₱75,128,391)	Noninterest-bearing and payable in 30 days, unsecured
Rent expense (see Note 11; b)	940,128,962	(9,910,811)	Noninterest-bearing and for application within 30 days, unsecured
Advances (see Note 11; a)	5,972,681	(2,168,547)	Noninterest-bearing and due in 30 days, unsecured
Management fee (see Note 11; e)	57,988,660	–	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
Purchase of goods (see Note 11; d)	96,749,984	(23,897,296)	Noninterest-bearing and payable in 30 days, unsecured
Purchases of services and rent expense (see Note 11; c)	117,982,206	(8,452,890)	Noninterest-bearing and payable in 30 days, unsecured
Due to related parties		(₱119,557,935)	

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 and vice versa.
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.
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.
f. In 2022, the Company sold its used equipment to its affiliates amounting to ₱49.40 million.

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 ₱1,175.88 million and ₱662.07 million in 2022 and 2021, respectively, which earn interest based on prevailing market interest rates amounting to ₱7.06 million and ₱8.38 million in 2022 and 2021 respectively.

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

	2022	2021	2020
Short-term employee benefits	**₱115,724,245**	₱114,053,170	₱128,968,021
Post-employment benefits	**6,649,482**	6,721,883	8,565,056

There are no amounts due to or due from members of key management as of December 31, 2022 and 2021.

The Company has not recognized any impairment losses on amounts due from related parties in 2022 and 2021. 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 (benefit from) income tax consists of:

	2022	2021	2020
Current			
MCIT/RCIT	**₱279,591,374**	₱28,099,188	₱134,045,862
Final	**9,934,330**	6,432,547	9,840,326
	289,525,704	34,531,735	143,886,188
Deferred	**25,914,581**	(61,442,629)	(239,813,226)
	₱315,440,285	(₱26,910,894)	(₱95,927,038)

The Company's provision for current income tax in 2022, 2021 and 2020 represents regular corporate income tax and minimum corporate income tax, respectively.

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

	2022	2021
Recognized at profit or loss:		
Lease liabilities (see Note 24)	**₱1,315,738,045**	₱1,393,738,798
Right-of-use assets, including provision for impairment losses (see Note 24)	**(1,078,534,577)**	(1,165,095,622)
Retirement benefit obligation (see Note 21)	**86,255,150**	127,861,604
Provision for decline in value of inventories (see Note 7)	**25,177,287**	16,385,473
Unrealized foreign exchange gain	**(12,066,276)**	–
Contract liability from customer loyalty program (see Note 12)	**9,898,428**	7,532,423
Allowance for impairment of receivables (see Note 6)	**9,731,749**	8,901,505
Allowance for impairment of property and equipment (see Note 9)	**6,992,580**	–

(Forward)

	2022	2021
Unamortized debt issuance cost (see Note 13)	**(₱4,728,373)**	(₱832,522)
Allowance for impairment of advances to suppliers (see Note 10)	**3,759,370**	3,759,369
Excess MCIT	**–**	162,145,050
NOLCO	**–**	37,964,065
Casualty loss from Typhoon Odette (see Note 17)	**–**	7,920,243
	362,223,383	600,280,386
Recognized at other comprehensive income:		
Remeasurement gain on defined benefit obligation	**31,349,230**	6,350,544
	₱393,572,613	₱606,630,930

The Company recognized net deferred tax liability in 2022 amounting to ₱25.00 million and ₱22.88 million in 2021, 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, 2022 and 2021 follow:

Year Incurred	Expiry Date	At December 31, 2021	Addition	Expired	Applied	At December 31, 2022
2020	December 31, 2023	₱100,534,397	₱–	₱–	₱100,534,397	₱–
2021	December 31, 2024	61,610,653	–	–	61,610,653	–
		₱162,145,050	₱–	₱–	₱162,145,050	₱–

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbb) 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, 2022 and 2021, the Company has incurred NOLCO in taxable years 2021 and 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	At December 31, 2021	Addition	Expired	Applied	At December 31, 2022
2020	2021-2025	₱151,336,387	₱–	₱–	₱151,336,387	₱–
2021	2022-2026	519,876	–	–	519,876	–
		₱151,856,263	–	₱–	₱151,856,263	₱–

Republic Act (RA) 11534 or the CREATE Act

President Rodrigo Duterte signed into law on March 26, 2021 the Republic Act (RA) 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, to introduce reforms to the corporate income tax and incentives systems. It took effect last April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations except for domestic corporations with net taxable income not exceeding ₱5.0 million and with total assets not exceeding ₱100.0 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year whose RCIT rate is reduced to 20%;
- Minimum corporate income tax MCIT rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and
- Imposition of improperly accumulated earnings tax is repealed.

The passage of CREATE Act into law on March 26, 2021 resulted to the measurement of the provision for current and deferred income tax using the revised income tax rate of 25% for the three months ended March 31, 2021. Accordingly, the differences in the amount of current and deferred income tax recognized in the books using the old income tax rate and the amount that should be recorded using the revised income tax rate under CREATE Act as of December 31, 2020, were adjusted in the December 31, 2021 balances of the deferred income tax and other comprehensive income, as follows:

	Using Revised Tax Rate	Using Old Tax Rate	Effect in 2021
Net Income			
2020 MCIT Payable	₱100,534,397	₱134,045,862	(₱33,511,465)
2020 Deferred Tax Assets	449,177,794	551,579,130	102,401,336
			68,889,871
Other Comprehensive Income			
2020 Deferred Tax Assets	13,737,333	16,484,799	(2,747,466)

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

	2022	2021	2020
Provision for income tax computed at statutory rate	**₱308,178,590**	(₱86,253,031)	(₱163,655,589)
Tax effects of:			
Nondeductible expenses	**15,655,773**	11,869,917	70,792,980
Income subjected to final tax	**(4,953,610)**	(362,793)	(3,064,429)
Nontaxable excess of insurance proceeds on damaged fixed assets	**(3,440,468)**	(21,054,858)	–
Remeasurements to prior period taxes relating to changes in tax rates	–	68,889,871	–
	₱315,440,285	(₱26,910,894)	(₱95,927,038)

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, 2022

	Land	Building	Total
Cost			
At January 1, 2022	**₱1,760,106,298**	**₱5,001,943,908**	**₱6,762,050,206**
Lease modification	**–**	**(140,103,125)**	**(140,103,125)**
At December 31, 2022	**1,760,106,298**	**4,861,840,783**	**6,621,947,081**
Accumulated depreciation			
At January 1, 2022	**800,465,064**	**1,161,667,406**	**1,962,132,470**
Depreciation	**59,679,624**	**374,542,598**	**434,222,222**
Lease modification	**–**	**(186,742,771)**	**(186,742,771)**
At December 31, 2022	**860,144,688**	**1,349,467,233**	**2,209,611,921**
Less allowance for impairment losses	**–**	**(104,671,952)**	**(104,671,952)**
Net Book Value	**₱899,961,610**	**₱3,407,701,598**	**₱4,307,633,208**

December 31, 2021

	Land	Building	IT Equipment	Total
Cost				
At January 1, 2021	₱1,776,088,593	₱5,133,348,214	₱90,985,965	₱7,000,422,772
Additions	–	36,484,176	–	36,484,176
Lease modification	–	(114,016,662)	–	(114,016,662)
Asset retirement	(15,982,295)	(53,871,820)	(90,985,965)	(160,840,080)
At December 31, 2021	1,760,106,298	5,001,943,908	–	6,762,050,206
Accumulated depreciation				
At January 1, 2021	539,250,489	867,248,983	85,888,872	1,492,388,344
Depreciation	277,196,870	429,427,633	5,097,093	711,721,596
Lease modification	–	(81,137,390)	–	(81,137,390)
Asset retirement	(15,982,295)	(53,871,820)	(90,985,965)	(160,840,080)
At December 31, 2021	800,465,064	1,161,667,406	–	1,962,132,470
Less allowance for impairment losses	–	(99,862,314)	–	(99,862,314)
Net Book Value	₱959,641,234	₱3,740,414,188	₱–	₱4,700,055,422

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).

The 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 and capitalized depreciation expense of right-of-use assets to property and equipment under construction totaling amounting to ₱51.24 million and ₱193.46 million in 2022 and 2021, respectively (see Note 9).

In 2020, the Company had plans of reducing leased premises in some of its stores 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.

The Company entered into various agreements to revise existing lease contracts with its lessors which were accounted for by the Company as lease modifications resulting to a gain amounting to ₱106.32 million, ₱4.83 million and ₱84.46 million in 2022, 2021 and 2020, respectively. The Company also recognized a gain on lease termination for its pre-terminated leases in 2022, 2021 and 2020 amounting to ₱73.12 million, nil and ₱104.8 million, respectively, presented as net of the provision for impairment of nonfinancial assets under "Operating expenses" (see Notes 17 and 19).

The following are the amounts recognized in statement of income:

	2022	2021
Variable lease payments (see Note 19)*	**₱1,157,150,033**	₱721,567,507
Finance cost on lease liabilities (see Note 17)	**397,857,648**	410,445,495
Depreciation expense of right-of-use assets - net (see Note 19)	**389,328,155**	518,263,490
Expenses relating to short-term leases (see Note 19)*	**133,432,356**	80,997,785
Gain on lease modification (see Note 17)	**(106,318,492)**	(4,830,438)
Total amount recognized in statement of income	**₱1,971,449,700**	₱1,726,443,839

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

The rollforward analysis of lease liabilities follows:

	2022	2021
At January 1	**₱5,574,955,193**	₱6,021,950,271
Finance cost (see Note 17)	**397,857,648**	418,922,032
Additions	**–**	36,484,176
Payments	**(532,163,609)**	(677,225,703)
Lease modification and waived rentals	**(177,697,054)**	(225,175,583)
At December 31	**₱5,262,952,178**	₱5,574,955,193

In 2022 and 2021, the Company capitalized finance cost on lease liabilities to property and equipment under construction amounting to nil and ₱8.48 million, respectively (see Note 9).

Classification of lease liabilities is as follows:

	2022	2021
Current portion	₱156,724,371	₱212,043,486
Noncurrent portion	5,106,227,807	5,362,911,707
	₱5,262,952,178	₱5,574,955,193

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

	2022	2021
Within one year	₱530,014,484	₱596,627,470
More than one year but not more than five years	2,737,160,622	2,406,926,886
More than five years	9,261,481,261	8,315,514,643
	₱12,528,656,367	₱11,319,068,999

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 ₱130.85 million and ₱79.55 million as of December 31, 2022 and 2021, respectively (see Notes 11 and 14). Rental income amounted to ₱243.65 million, ₱172.47 million and ₱146.84 million in 2022, 2021 and 2020, respectively.

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

	2022	2021
Within one year	₱97,758,557	₱27,181,086
More than one year but not more than five years	106,215,298	40,974,727
More than five years	14,925,385	2,611,655
	₱218,899,240	₱70,767,468

25. Earnings Per Share

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

	2022	2021	2020
Net income (loss)	₱917,274,074	(₱318,101,229)	(₱449,591,591)
Weighted-average number of common shares (Note 15)	3,310,752,027	3,401,269,747	3,429,375,000
Basic/Diluted Earnings (Loss) Per Share	₱0.28	(₱0.09)	(₱0.13)

There are no potentially dilutive common shares as of December 31, 2022, 2021 and 2020.

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 operation 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, 2022 and 2021, 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, accrued interest receivable and security deposits under "Other current assets" approximate the carrying values at yearend.

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:

	2022		2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Security deposits, net of allowance for impairment losses (see Note 10)	**₱187,482,557**	**₱173,790,498**	₱247,088,851	₱236,455,754

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 1.70%–7.22% for 2022 and 1.61%-5.37% for 2021.

Financial Liabilities

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

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

	2022		2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Noncurrent portion of long-term loans payable (see Note 13)	**₱2,850,878,173**	**₱2,634,236,671**	₱496,669,910	₱467,224,989
Other noncurrent liabilities (see Note 14)	**14,473,976**	**12,079,811**	17,130,032	16,222,069

The fair value of security deposits were determined by discounting future cash flows using the applicable rate of 5.30% to 6.89% for 2022 and 2.69% for 2021.

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 ₱10,700.00 million and ₱8,200.00 million with various local banks as of December 31, 2022 and 2021, 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, 2022 and 2021based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

December 31, 2022

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱–	₱3,257,205,865	₱–	₱3,257,205,865
Related parties	–	33,107,812	–	33,107,812
Nontrade				
Third parties	–	510,371,092	–	510,371,092
Related parties	–	44,907,447	–	44,907,447
Accrued expenses	–	473,731,762	–	473,731,762
Credit cash bonds	–	241,652,844	–	241,652,844
Others*	–	192,720,915	–	192,720,915
Short-term bank loans:				
Principal	–	–	–	–
Future interest payments	–	–	–	–
Long-term bank loans:				
Principal	–	130,208,333	2,869,791,667	3,000,000,000
Future interest payments	–	134,977,683	443,692,921	578,670,604
Lease liabilities	–	530,014,484	11,998,641,883	12,528,656,367
Other noncurrent liabilities	–	–	14,473,976	14,473,976
	₱–	₱5,548,898,237	₱15,326,600,447	₱20,875,498,684

**Excluding statutory payables*

December 31, 2021

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱–	₱2,283,372,264	₱–	₱2,283,372,264
Related parties	–	23,897,296	–	23,897,296
Nontrade				
Third parties	–	365,464,453	–	365,464,453
Related parties	–	20,532,248	–	20,532,248
Accrued expenses	–	383,657,912	–	383,657,912
Credit cash bonds	–	250,884,882	–	250,884,882
Others*	–	152,004,906	–	152,004,906
Short-term bank loans:				
Principal	–	1,000,000,000	–	1,000,000,000
Future interest payments	–	3,875,000	–	3,875,000
Long-term bank loans:				
Principal	–	–	500,000,000	500,000,000
Future interest payments	–	20,000,000	87,551,370	107,551,370
Lease liabilities	–	596,627,470	10,722,441,529	11,319,068,999
Other noncurrent liabilities	–	–	17,130,032	17,130,032
	₱–	₱5,100,316,431	₱11,327,122,931	₱16,427,439,362

**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 exposure of the Company to credit risk:

	2022			
	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	**₱682,401,888**	**₱241,652,844**	**₱440,749,044**	**₱241,652,844**
Rentals	**81,238,183**	**64,497,675**	**16,740,508**	**64,497,675**
Nontrade				
Related parties	**120,897,945**	**-**	**120,897,945**	**-**
Accrued interest receivable	**10,296,471**	**-**	**10,296,471**	**-**
Receivable from insurance	**53,681,402**	**-**	**53,681,402**	
Others*	**15,173,408**	**-**	**15,173,408**	**-**
	₱963,689,297	**₱306,150,519**	**₱657,538,778**	**₱306,150,519**

	2021			
	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	₱584,619,138	₱250,884,882	₱333,734,256	₱250,884,882
Rentals	39,095,564	13,685,869	25,409,695	13,685,869
Nontrade				
Related parties	21,346,974	-	21,346,974	-
Accrued interest receivable	4,079,885	-	4,079,885	-
Others*	33,373,205	-	33,373,205	-
	₱682,514,766	₱264,570,751	₱417,944,015	₱264,570,751

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.

Other than those disclosed above, the carrying amount of the financial assets represent the maximum exposure of the Company to credit risk.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate exposure management policy centers on reducing the Company's overall interest expense and exposure to changes in interest rates.

As of December 31, 2022 and 2021, the Company's exposure to interest rate risk arises primarily from its long-term debt from a local bank with interest rate fixed for five years, subject to quarterly repricing at the end of the fifth year. Changes in market interest rates will have no significant impact on the Company's income before income tax and cash flows in 2022 and 2021 as the rate is still fixed.

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, 2022 and 2021:

<u>December 31, 2022</u>
Trade receivables

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	0.02%	98.84%	
Gross carrying amount	₱653,239,485	₱29,162,403	₱682,401,888
ECL	102,735	28,824,260	28,926,995

Rental

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	12.31%	0.00%	
Gross carrying amount	₱81,238,183	₱–	₱81,238,183
ECL	₱10,000,000	–	₱10,000,000

December 31, 2021

Trade receivables

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	0.01%	92.36%	
Gross carrying amount	₱557,272,079	₱27,347,059	₱584,619,138
ECL	349,760	25,256,259	25,606,019

Rental

	Current Stage 1 (12-month ECL)	Credit-impaired Stage 3	Total
Expected credit loss rates	25.58%	0.00%	
Gross carrying amount	₱39,095,564	₱–	₱39,095,564
ECL	₱10,000,000	–	₱10,000,000

The Company recognized provision for impairment loss on trade receivables and rentals amounting to ₱5.27 million, ₱7.38 million and 19.98 in 2021, 2020, and 2019, 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 Statements of Cash Flows

The Company's noncash activities are as follows:

a) In 2021, total cost of inventories and net book value of properties damaged amounting to ₱33.89 million and ₱0.49 million, respectively, were recognized as casualty loss as a result of the typhoon Odette (see Note 17).
b) In 2022, gain on insurance claims pertaining to insurance recoveries and reimbursement of losses against insurance coverage for property damages and business interruption claims in

relation to the 2021 typhoon casualty losses was recognized amounting to ₱54.68 million and presented under "Other income/charges" (see Notes 17)

c) In 2022 and 2021, borrowing costs capitalized to construction in progress amounted to ₱4.32 million and ₱5.02 million, respectively (see Note 9).
d) In 2022 and 2021, depreciation and amortization of right-of-use assets amounting to nil and ₱5.99 million and interest expense on lease liabilities amounting to nil and ₱8.48 million were capitalized to "Construction-in-progress" under "Property and equipment" account (see Note 24).
e) 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 the ₱104.84 million gain on pre-termination of lease contracts arising from derecognition of right-of-use assets and lease liabilities amounting to ₱806.23 million and ₱911.07 million, respectively (see Notes 9, 19 and 24).
f) The Company entered into various agreements to revise existing lease contracts with its lessors which were accounted for by the Company as lease modifications resulting to a gain amounting to ₱106.32 million, ₱4.83 million and ₱84.46 million in 2022, 2021 and 2020, respectively. The Company also recognized a gain on lease termination for its pre-terminated leases in 2022, 2021 and 2020 amounting to ₱73.12 million, nil and ₱104.8 million, respectively, presented as net of the provision for impairment of nonfinancial assets under "Operating expenses" (see Notes 17 and 19).
g) In 2020, the Company recognized provision for impairment losses amounting to ₱33.50 million pertaining to immovable 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 with the Company's planned reduction of leased premises in 2021.
h) Transfers from advances to suppliers to property and equipment amounted to ₱82.16 million, ₱172.31 million and ₱327.99 million for 2022, 2021 and 2020, respectively.
i) Advance rentals, deposits and deferred charges amounting to ₱4.81 million, ₱4.69 million and ₱ 14.61 million were transferred from noncurrent assets to right-of-use assets in 2022, 2021 and 2020, respectively in accordance with the PFRS 16.
j) In 2022, the Company received ₱49.40 million proceeds from sale of property and equipment and recognized gain on sale and retirement of property and equipment amounting to ₱14.67 million.

The following are the cash flow movements of the Company's financing liabilities in 2022, 2021 and 2020:

	2022				
	January 1	Net cash flows	Movement in debt issue cost	Others	December 31
Lease liabilities	₱5,574,955,193	(₱532,163,609)	₱–	₱220,160,594	₱5,262,952,178
Loans payable:					
Short-term bank loans	₱1,000,000,000	(₱1,000,000,000)	–	–	–
Long-term bank loans	496,669,910	2,500,000,000	(15,583,403)	–	2,981,086,507
Dividends payable	8,500	–	–	–	8,500
	₱7,071,633,603	₱967,836,391	(₱15,583,403)	₱220,160,594	₱8,244,047,185

	2021				
	January 1	Net cash flows	Movement in debt issue cost	Others	December 31
Lease liabilities	₱6,021,950,271	(₱677,225,703)	₱–	₱230,230,625	₱5,574,955,193
Loans payable:					
Short-term bank loans	1,500,000,000	(₱500,000,000)	–	–	₱1,000,000,000
Long-term bank loans	–	496,250,000	419,910	–	496,669,910
Dividends payable	8,500	–	–	–	8,500
	₱7,521,958,771	(₱680,975,703)	₱419,910	₱230,230,625	₱7,071,633,603

	2020				
	January 1	Net cash flows	Dividends declared	Others	December 31
Lease liabilities	₱7,819,087,830	(₱1,001,989,894)	₱–	(₱795,147,665)	₱6,021,950,271
Loans payable:					
Short-term bank loans	–	1,500,000,000	–	–	1,500,000,000
Dividends payable	8,268	(205,762,268)	205,762,500	–	8,500
	₱7,819,096,098	₱292,247,838	₱205,762,500	(₱795,147,665)	₱7,521,958,771

Others include the effect of the additional lease liabilities, accretion of interest, waived rentals and lease modification affecting lease liabilities account.

29. 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

	2022			2021		
	No. of Transactions	**Amount in USD**	**Amount in PHP**	No. of Transactions	Amount in USD	Amount in PHP
Foreign currencies bought	**40,807**	**33,064,490**	**₱1,817,261,903**	25,089	22,922,831	₱1,134,635,519
Foreign currencies sold	**618**	**618,050**	**34,013,268**	400	398,500	19,715,935

Quantitative Indicators of Financial Performance

	2022	2021
Return on average equity: $\frac{\text{Net income (loss)}}{\text{Average total equity}}$	**10.64%**	-3.81%
Return on average assets: $\frac{\text{Net income (loss)}}{\text{Average total assets}}$	**4.35%**	-1.56%

30. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2022:

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 2022 are as follows:

	Net Sales/ Receipts	Output VAT
Sales subject to 12% VAT	₱33,139,515,992	₱3,976,741,919
Zero-rated sales	1,487,407,113	-
VAT-exempt sales	4,408,488,754	-
Total Sales	₱39,035,411,859	₱3,976,741,919

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

At January 1, 2022	₱172,979,561
Input VAT on purchases of goods exceeding ₱1 million deferred from prior period	143,237,367
Current year's domestic purchases of goods	3,952,553,252
Current year's capital goods purchases	-
Current year's services rendered by nonresidents	-
Total available input VAT	4,268,770,180
Less: Deductions from input VAT	
Input VAT on purchases of goods exceeding ₱1 million deferred to the succeeding period	82,226,233
Input VAT allocable to exempt sales	33,799,989
Total allowable input tax	4,152,743,958
Less: Input VAT applied to Output VAT	3,976,741,919
Add: VAT withheld on sales to government	11,981,218
At December 31, 2022	₱187,983,257

Taxes and Licenses

The following are taxes, licenses, registration fees and permit fees for the year ended December 31, 2022.

Business tax	₱232,953,365
Real property tax	79,165,440
Documentary stamp tax	17,020,231
Motor vehicle tax	550,308
Others	13,086,694
Total	₱342,776,038

Withholding taxes

The amount of withholding taxes paid and accrued in 2022 consists of the following:

Expanded withholding taxes	₱473,871,676
Tax on compensation and benefits	79,570,581
Final withholding taxes	373,179
Total	₱553,815,436

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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