METRO

RETAIL STORES GROUP, INC.

ANNUAL REPORT 2018

Resilience. Optimism. Growth.

METRO
RETAIL STORES GROUP, INC.

2018 Annual Report

Resilience. Optimism. Growth.

CONTENTS


stay curious
METRO
DEPARTMENT STORE
SUPERMARKET
NOSE PORE STRIPS

MISSION - VALUES

We remain committed to the promise of providing an exciting experience through our distinct and quality products at reasonable prices, delivered by dedicated and dynamic employees who are guided by the Metro core values passed on by our founders.

Make our **CUSTOMERS** happy.

Engage with our **COMMUNITIES.**

Take care of our **ENVIRONMENT.**

Returns for our **SHAREHOLDERS.**

Our **PEOPLE** are our partners.

VISION STATEMENT

By 2020, we will be a multi-format retailer that is best-in-class in sales, margins and OPEX per square meter of net selling space; profitably operating in strategic locations in the Philippines.

HISTORY AND MILESTONES

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

The strong influence of Doña Modesta led the enterprising Gaisano siblings to establish more businesses. In 1982, Doña Modesta's second youngest son Victor and his wife Sally opened the first Gaisano Metro Department Store and Supermarket in Colon, Cebu City. During this time their children Margaret, Jack, Edward, and Frank first learned the ways of entrepreneurship, enabling them to have a keen understanding of their business and their industry. The first store in Colon paved the way for Gaisano Metro's transformation into Metro Department Store and Supermarket, the leading retailer in the Visayas region.

Steered by the core values set forth by its founder Victor, Metro undertook aggressive expansion to major cities outside Cebu and the Visayas, establishing its presence in Central Luzon, the National Capital Region, and Southern Luzon. Taking its expansion further, Metro then diversified into three different store formats with the establishment of Metro Department Store, Metro Supermarket, and Super Metro Hypermarket, now known as the Metro Retail Stores Group, Inc.

In 2015, MRSGI completed its evolution from a family-run enterprise into a publicly-listed company led by retail professionals with decades of local and international retail experience. It had grown its network to 52 stores, employing close to 9,000 store associates and serving over 250,000 shoppers a day.

In a span of more than 35 years, Victor Gaisano and his family successfully built an admired brand while staying true to the values of hard work and perseverance. With these values, the family was able to earn the trust of customers and partners, and establish a greater future for the company.

"Our people and drive for constant improvement are key to our success"
- Victor Gaisano

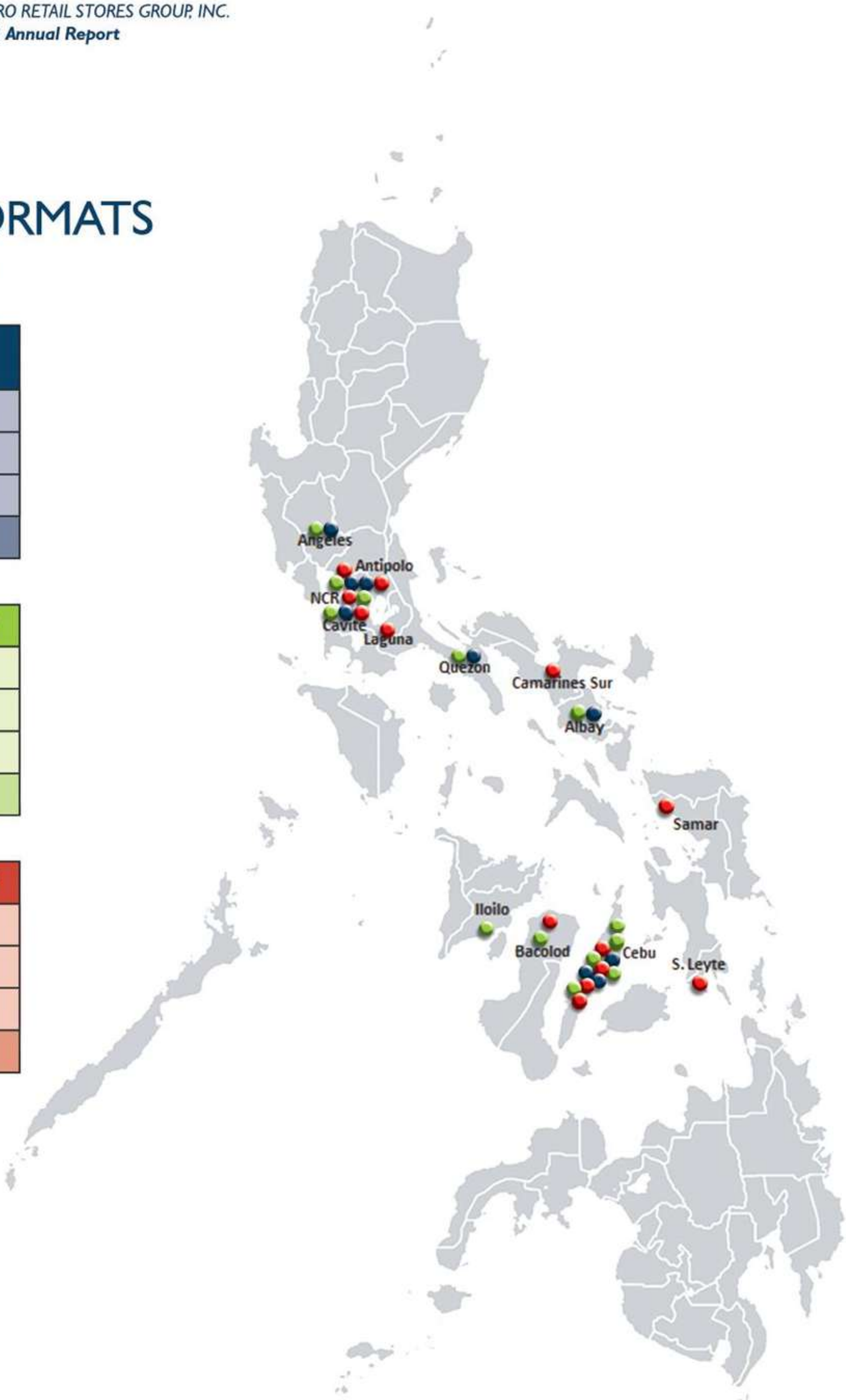
Standing: Frank Gaisano, Edward Gaisano, Margaret Gaisano Ang, Jack Gaisano
Seated: Mrs. Sally Gaisano
Portrait: Mr. Victor Gaisano

STORE FORMATS YTD 2018

DEPARTMENT STORES	
NCR	5
Luzon	4
Visayas	3
Total	12

SUPERMARKET	
NCR	7
Luzon	4
Visayas	17
Total	28

HYPERMARKET	
NCR	-
Luzon	4
Visayas	9
Total	13



NETWORK EXPANSION

Metro Retail Stores Group, Inc.(MRSGI) began its operations in 1982 with a single store in Colon, Cebu City.

An aggressive network expansion consequently brought MRSGI to major key cities across the country, establishing its presence in Metro Manila, Central Luzon and South Luzon, as well as in Central, Western, and Eastern Visayas.

Envisioned to be a world-class retail company, Metro has successfully adapted to various store formats that have made it more accessible and visible to its markets: Metro Department Store, Metro Supermarket and Super Metro Hypermarket.

By 2018, MRSGI has steadily grown and operated 53 multi store formats – 12 department stores, 28 supermarkets, and 13 hypermarkets.

METRO DEPARTMENT STORE

Shoppers have come to rely on Metro Department Stores to provide quality choices and a wide product assortment at competitive prices. From basic needs to stylish buys, local and international brands alike– all these are made available and affordable to Filipinos in 12 locations across the country.

Metro Alabang • Metro Colon • Metro Fairview Teracces • Metro Legazpi
Metro Lucena • Metro Mandaue • Metro Market! Market! • Metro Angeles
Metro Pasig • Metro Imus • Metro Toledo • Metro U.P. Town Center

METRO SUPERMARKET

Customers come regularly to Metro Supermarket for its wide range of products: from the freshest-of-the-fresh produce, meat, poultry, and seafood, to household supplies and its complete selection of international products. A world-class shopping experience is guaranteed in its 28 locations across the country that all adhere to global safety standards.

Metro Alabang • Metro Atria • Metro Ayala Center Cebu • Metro Ayala Capitol Bacolod • Metro Binondo Metro Canduman • Metro Carmen • Metro Colon • Metro Legazpi • Metro Lucena • Metro Mandaluyong Metro Mandaue • Metro Market! Market! • Metro Angeles • Metro Pasig • Metro Newport City • Metro Imus Metro Toledo • Metro Fresh 'N Easy Banilad • Metro Fresh 'N Easy Basak • Metro Fresh 'N Easy Mactan Metro Fresh 'N Easy Minglanilla • Metro Fresh 'N Easy Punta • Metro Fresh 'N Easy Tabok Metro Fresh 'N Easy Tabunok • Metro Fresh 'N Easy Taguig • Metro Fresh 'N Easy Umapad Metro Wholesale Mart Colon

METRO HYPERMAKERT

Packing ease and convenience into the shopping experience, Super Metro Hypermarket is the one-stop shop frequented by busy individuals searching for a wide variety of products. The expansive selection of general merchandise and food products in each of the 13 hypermarkets found across the country offers shoppers value for money.

Super Metro Antipolo • Super Metro Bogo • Super Metro Calamba • Super Metro Calbayog
Super Metro Camarines Sur • Super Metro Carcar • Super Metro Colon
Super Metro Lapu-Lapu • Super Metro Maasin • Super Metro Mambaling
Super Metro Naga • Super Metro Tagaytay • Super Metro Talisay

ANCILLIARY BUSINESSES

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

Food Avenue

Showcases a wide selection of affordable yet delicious meals set in a modern food court ambience.

Metro Gourmet

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

Suisse Cottage

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

Metro Pharmacy

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

CHAIRMAN'S MESSAGE

To our dear shareholders,

2018 has been a very challenging and eventful year, but still we managed to overcome the trials and steer ourselves to a positive track and wrap up this period with grace and optimism. I am therefore pleased to share with you our achievements this year.

Overall, I will say that our bottom line figures pulled through in a healthy fashion, and this demonstrates the strength of our business strategies that have helped us remain resilient despite internal and external challenges. Our inventory and margin productivity, price competitiveness and merchandise assortment contributed to helping our gross profit margins rise over those in the last two years.

We faced an unexpected and unfortunate circumstance at the beginning of the year, when fire broke out in our flagship store in Ayala Center Cebu, which brought about a slight 1.2 percent decline in our 12-month profit over the previous year. Thankfully, it was an isolated incident and the rest of our stores made up for this setback by exceeding 2017 performance, reflecting a 5.1 percent same-store sales growth and 110 basis points improvement in same-store gross profit.

We look upon all these as a blessing. We were able to pull through this trying period because of our commitment and passion to serve our customers. We remain true to our fundamental reason for being - and this culture of service excellence continues to make MRSGI a prime mover in the Philippine retail landscape.

We have faced numerous adversities in the past, and I am sure that many more will come to test us - as an organization, as a family. Guided by our core values and commitment to our customers and shareholders, we will persist on finding ways to create and deliver a great shopping experience for everyone. We will continue to provide broad and compelling assortment of goods and merchandise to today's value-driven shoppers. We will keep pace with their changing lifestyles, their needs and aspirations. Serving them and keeping them happy is the key to our enduring success.

We have come a long way from our humble origins as a department store along the historical street of Colon in Cebu. And yet, MRSGI beats with the same familial values imparted to us by our founders, my parents Victor and Sally Gaisano. These values are anchored on trust and hard work, which have always guided our way of doing things.

Through the years, we have learned that it takes a lot to earn the patronage and loyalty of customers. But our business performance results show we have built and maintained a strong connection with shoppers across the country. We know that customers' tastes and preferences are always changing. What we have to ensure is that we consistently grow the underlying earnings capability of our business while satisfying their demands. To achieve this, we have framed our strategic priorities into three key areas where we will attain growth and profitability. We will:

- Invest in emerging business hubs. We will keep on strengthening our presence in Luzon and Visayas. We have shown this already when we broke ground for the Super Metro Hypermarket in Leyte, and when we opened Metro Ayala Feliz Department Store and Supermarket in Pasig City, and Metro Ayala Capitol Supermarket in Bacolod. We will continue to create strategic partnerships with industry leaders in the course of building our store network. We will continue to prioritize areas where we are confident of sustaining profits.

- Remain at the competitive forefront of retail shopping excellence. We have always taken great pride in delivering value-for-money shopping across our three store formats of department store, supermarket and hypermarket. Our commitment to excellence goes beyond just offering lower prices. It also means making our supply chain and logistics capabilities more efficient at delivering goods timely and cost-effectively.

- Answer the call to improve communities. As a corporate citizen, we at MRSGI take seriously our role to drive various social responsibility programs and make a positive impact on the lives of our communities. In this way, we add greater meaning to our existence. This is our guiding principle, and it is ingrained in our culture and taken to heart by our management team, our employees and even our corporate partners and our loyal patrons.

By choosing to focus on our strengths, and affirming the important role we play in society as a responsible corporate citizen, we manage to bring solid returns to our business. Rest assured that we will continue to deliver sustainable, profitable growth to our investors, colleagues and the communities where we operate.

As always, working together is critical to achieving our goals. I would like to express my heartfelt appreciation and gratitude to all our people and to our shareholders, whose continued contribution and commitment to our organization fuels our resilience and optimism to charge into the future.

Frank S. Gaisano
Chairman & CEO

PRESIDENT'S REPORT

Our defined heritage - a trusted institution guided by the values of trust and hard work imparted to us by our founders, Victor and Sally Gaisano, served us well in 2018. At the end of an eventful year, we remain ever more resilient and optimistic as we move confidently towards growth and innovation.

MRSGI capped its 2018 performance with a net profit of P965.4 million. Gross profit margins posted another 60 basis points increase versus prior year. Over the last two years, we have seen growth in gross profit margins to 200 basis points, arising from improvements in inventory and margin productivity, price competitiveness, merchandise assortment and overall operational excellence.

The role played by our customers in helping MRSGI become steadfast in the face of adversity is immeasurable. Their loyalty and unwavering support provide us the drive to continuously optimize the planning and execution of our daily store operations as well as raising our level of service. This helps us ensure that shoppers will always find what they need, have a wide array of products to choose from, get the best value, and consistently experience satisfaction every time they shop in any Metro department store and supermarket, and Super Metro hypermarket.

Every day we remind ourselves that customers' trust and loyalty can only be gained and maintained by serving them wholeheartedly. We add real value to their lives by delivering high quality yet affordable products and excellent service. We let them benefit from a brand of experiential shopping that only MRSGI provides.

During the year, we set in place an effective operational system and organizational structure, relevant retail strategy, and efficient logistics and supply chain. As a result, we were able to keep our growth momentum in 2018 even as we sought to expand our store network in Luzon and Visayas. By the end of the year, we had achieved 434,364 sqm of gross floor area, with several other sites currently in the pipeline for opening and development. With the expansion of Metro stores, the lives and livelihood of our people and communities continue to improve.

Our efforts to enhance the way we do business has also reaped awards and citations from both the public and private sectors. This year, Metro Market! Market! Supermarket received the Citations for Good Manufacturing Practice, or GMP, and the Hazard Analysis and Critical Control Points, or HACCP from SGS Philippines. Metro holds the distinction of being the only store in the country to receive these qualifications for three of its supermarkets – Metro Alabang, Metro Ayala Center Cebu, and Metro Market! Market!.

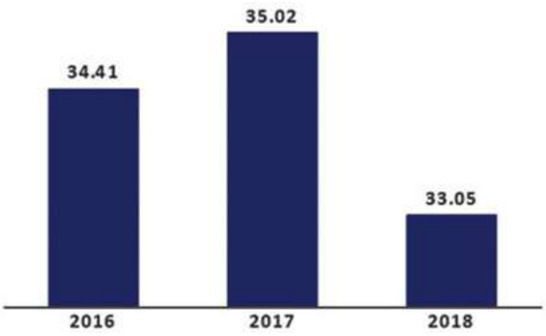
As 2018 closed, the baton of leading MRSGI into the future was passed on to me by our recently retired president and chief operating officer, Arthur Emmanuel. He has guided the company in the past six years, and always reminded us to stay true to the basics of retailing, best-in-class merchandising and customer centricity. I have big shoes to fill but I take on this responsibility with the same vigor and energy that carried us throughout the years.

Let me end with a message of deep appreciation and gratitude to everyone who has contributed in making MRSGI one of the country's leading retailers. With our theme for 2019, *Growth Through Operational Excellence and Quality Customer Service*, we will succeed.

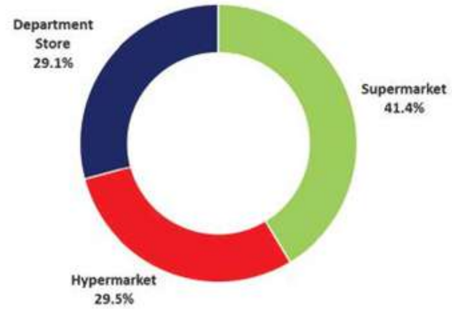
Manuel C. Alberto
President & COO

FINANCIAL AND OPERATING HIGHLIGHTS

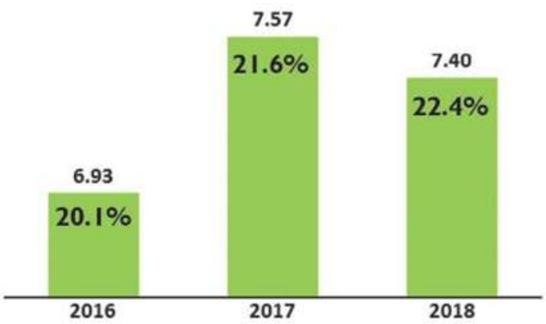
Net Sales



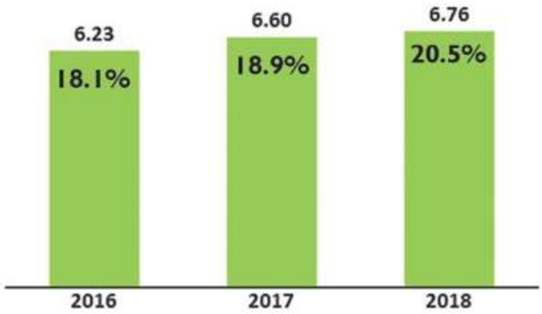
Composition of Net Sales



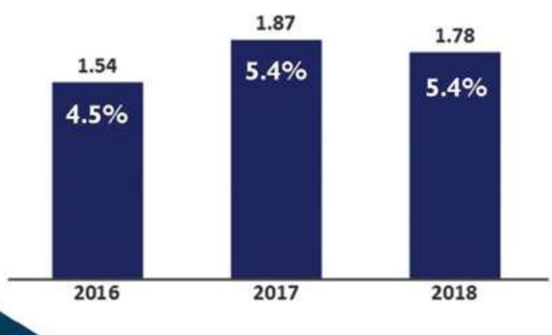
Gross Margin



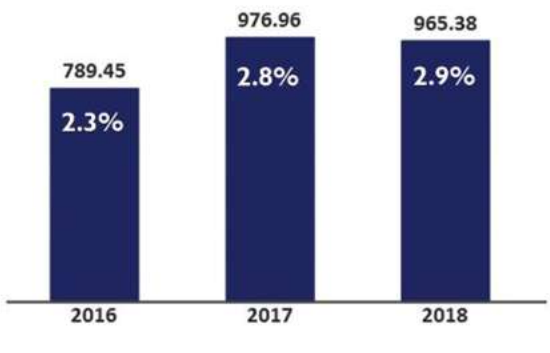
Operating Expense



EBITDA



Net Income



Note: Figures are in Php billions except net income (in Php millions); percentages represents percent to net sales

*Earnings Before Interest, Tax, Depreciation and Amortization

FINANCIAL OPERATING HIGHLIGHTS

(In millions pesos, unless indicated)

Income Statement	2018	2017	2016
Revenue	33,050	35,016	34,411
Gross Margin	7,400	7,572	6,935
EBITDA	1,779	1,874	1,544
Net Income	965	977	789
Balance Sheet			
Total Asset	13,868	12,788	12,072
Total Liabilities	5,165	4,845	4,927
Stockholder's Equity	8,703	7,943	7,145
Financial Ratios			
Current Ratio	2.01	2.20	2.14
Debt to Equity Ratio	-	-	-
Net Debt to Equity Ratio	(0.41)	(0.47)	(0.46)
Asset to Equity Ratio	1.59	1.61	1.69
Return on Total Asset	7.24%	7.83%	6.65%
Return on Equity	11.60%	12.95%	11.62%

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 align these with applicable international practices. Significant efforts were made to not only comply with the mandates of the Philippine Stock Exchange (PSE) and Securities and Exchange Commission (SEC) but also adopt best practices that fill in 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 2018:

Independent Director selection process;
Board of Directors performance evaluation system;
Audit and Risk Committee charter;
Investment Committee charter;
Governance Committee charter; and
Nomination and Remuneration Committee charter.

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

Rights and Equitable Treatment of Shareholders
The Board of Directors remained committed to its duty of promoting shareholder rights. Though there were no known impediments to the exercise of shareholders' rights in 2018, the Board nevertheless ensured that an adequate venue for them to seek timely redress for violation of their rights existed. The Company's Investor Relations Department (IRD), the Office of Chief Strategy and Governance Officer (CSGO), the Office of the Chief Finance Officer (CFO) and the Legal Office actively engaged 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 provide 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 2018, 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, were encouraged to personally attend such affairs. They were likewise apprised beforehand of their right to appoint a proxy should they be unable to attend the company's Annual Shareholders Meeting which was conducted on May 4, 2018 at the Mandani Bay Showroom in Mandaue City, Cebu. Notices of Annual Stockholders Meeting were sent to the shareholders either by personal delivery, e-mail or other means at least two weeks prior to the date of the said meeting.

Related-party Transaction

The Audit and Risk Committee (ARC), which is composed of a majority of independent directors, reviewed all related party transactions in 2018 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 2018 and no such 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 continues to engage its shareholders primarily through the CSGO, CFO and the Investor Relations Department. As a team, they ensured that relations with investors are maintained and nurtured. MRSGI's strategies and quarterly performance were communicated through a combination of one-on-one meetings with various investor groups, quarterly earnings calls and other mediums of correspondence.

Stakeholder Relations

The Board of Directors and management remained steadfast in its belief that responsible business practices require that the company's stakeholders be productively engaged and treated in a fair and just manner. In 2018, the Company worked closely with the following stakeholders groups through carefully developed and executed engagement programs:

Suppliers and Contractors

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

Customers

Through various customer service programs such as mystery shopping, one-on-one and focus group dialogues, customer satisfaction surveys, technology-enabled customer analytics, among others; the company continuously improved its customer oriented systems and processes to provide a pleasant and memorable customer experience that would make them return to our Metro 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 Metro stores.

Employees

Cognizant of the importance of human resources in the execution of the company's business strategies and realization of its goals, several people-related initiatives were conducted in 2018. Some of these are indicated below:

People development

- The Metro Retail Academy (MRA), the Company's internal training arm, has been providing various learning programs and courses under the management development program. Since its launching, the MRA continuous to build relevant capabilities in our supervisors and managers.

  The Management Training Program (MTP) developed a total of 28 Management Trainees of which 17 management trainees were already hired into permanent positions under Human Resources, Merchandising, Marketing, Store Operations, Business Process Competency Group, Corporate Affairs and Site Analysis.

- To sustain the Company's core value on "Make our Customers happy", all business units-most especially the Store Operations Department, regularly conducts training on Cashier Certification, Meat Retailing, Fresh Excellence Training, Work Attitude and Values Enhancement (WAVE) and Customer Service programs.

Engagement

Different employee activities have been institutionalized in order to sustain an engaged workforce and improve the overall employee morale and camaraderie. The activities include Monthly General Assembly featuring company updates, inspirational messages from Board of Directors and Executives, and themed contests for employees; annual New Year's Party; seasonal employee engagement activities; and recognition of tenured employees through the Loyalty Awards Program showcasing those that have rose from the ranks.

Health and wellness

"Our people are our partners", and to uphold this Metro Core Value, we promote work-life blending through Employee Health Awareness Programs like "Health Talks", Annual Physical Examination and enrollment to life, hospitalization and accident insurance given to all regular full-time active employees.

Labor compliance

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

- Organization-wide cascade of the Updated Manual on Company Rules and Regulations Governing Employee Conduct and Discipline;

- Compliance to legitimate contractualization and orientation of line managers on how to manage and handle third party employees such as promodisers, agency workers and the like.

- Compliance to DOLE policies on anti-sexual harassment, drug-free workplace, tuberculosis and Hepatitis B prevention and DOLE Order No. 178 on Safety and Health Measures for Workers who by the Nature of their Work have to Stand at Work by allowing the use of more practical and comfortable footwear, providing more break periods for rest and providing common rest areas.

Technology

The Human Resource Information System (HRIS) was upgraded this year to further improve its ability to efficiently deliver HR services. Among the upgrades introduced was the full automation of timekeeping and payroll processing. Data extraction and analytical tools were also included and scheduled for full roll out.

Community

Through the Company's Corporate Affairs Department led by its Vice President for Corporate Affairs Anna Marie Periquet, MRSGI implemented various community oriented programs such as the METRO CSR Employees Volunteerism Program, which encourages company employees to contribute their time and effort during relief operations, medical missions and other CSR projects of the Company. Details on the community-related activities implemented in 2018 are further elaborated under the Corporate Social Responsibility section of this annual report.

Transparency and disclosure

MRSGI remains committed to fully disclosing material information such as, but not limited to, external audit fees and ownership structure to the appropriate regulatory agencies as well as to the investing public. Through its Compliance Officer, Attorney Tara Tsarina B. Perez-Retuya, MRSGI diligently complied with all required information through the mechanisms established for listed companies by the Securities and Exchange Commision and the Philippine Stock Exchange.

- External audit and Fees

Name of Auditor	Audit Fee	Non-Audit Fee
SGV & Co.	P2,079,000.00	P145,000.00

- Ownership structure
  Indicated below is the ownership structure of MRSGI as of December 31, 2018.

Stockholder	Nationality	No. of Shares Subscribed and Paid-Up	% to Total Outstanding Shares
Vicsal Development Corporation (VDC)	Filipino	2,552,241,300	74.42
Valueshop Stores, Inc.	Filipino	24,801,489	0.72
Gaisano, Frank S.	Filipino	2	0
Gaisano, Edward S.	Filipino	75,002	0
Gaisano, Jack S.	Filipino	2	0
Gaisano Ang, Margaret	Filipino	2	0
Parayno Jr., Guillermo L.	Filipino	1	0
Jacinto, Ricardo Nicanor N.	Filipino	500,001	0.01
Emmanuel, Arthur	American	1,774,001	0.05
Others	Various	849,983,200	24.79
Total		3,429,375,000.00	100%

CONTROL ENVIRONMENT AND PROCESSES

In 2018, the Board of Directors together with MRSGI Management continued to strengthen its internal control and audit system through the implementation of policies that ensure efficiency of operations, reliability of financial reporting, safeguarding assets and compliance with laws and regulations. Through the active leadership of the ARC, the Company focused on risk management, internal audit, control and compliance. The objective was to manage or minimize risks that deter MRSGI's growth.

Risk Management

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

As a result of this close coordination, all store locations, all warehouses and majority of corporate departments have developed their own Risk Registers through the guidance of the Enterprise Risk Management (ERM) group under the General Loss Prevention (GLP) Department Head Mariven Bacalso Jayme. The risks previously identified were reassessed to check if these were minimized or removed. The actions taken to reduce these risks were likewise validated for effectiveness. New or emerging risks were noted and included in the risk register of 2018 for proper management and monitoring at store level. Critical risks not within the control of the stores and departments were automatically escalated to the Risk Management Committee (RMC). The RMC is an executive-level committee composed of the heads of the Corporate IT, Finance, Legal, GLP, Engineering, Distribution, Store Operations and Strategy, and was organized to ensure the proper management of the most critical risk factors of the organization as collated and submitted to the RMC by the GLP-ERM team.

Internal Audit

The Internal Audit Group (IAG) at MRSGI operates on a risk-based approach that primarily focuses on risk-involved activities and ensures that these risks are being managed within controllable levels. The IAG, headed by Kareen Tablizo and Martin Lorenzo Mendones, assists the ARC with its oversight on the integrity of MRSGI's operation, internal control system and compliance with laws and regulation. IAG enables the Company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and compliance processes. To ensure its independence and integrity, the IAG functionally reports to the ARC and administratively to the Chairman & CEO.

IAG performs regular audit engagements on the following areas:

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

Internal Control

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

Management remains confident that the policies, procedures and activities are all within a controlled framework due to the effort of the IAG and the Company SOPs.

Compliance Officer

The Company's Compliance Officer, Attorney Tara Tsarina B. Perez-Retuya, continues to ensure that MRSGI remained compliant with all relevant laws, rules and regulations of both National and Local Government Units, and the Amended Manual on Corporate Governance. Attorney Perez- Retuya closely coordinated and advised company officers and managers on their responsibilities to the shareholders and the general public.

Moreover, Attorney Perez-Retuya ensured that the Board of Directors and Senior Officers of the Company are compliant with the MRSGI's CG policies namely: the Amended Manual on Corporate Governance, the Guidelines on Matters Requiring Board of Directors, Shareholders, and Management Approval, Whistle-blower Policy, Related-Party Transaction Policy, Code of Conduct for Directors and Senior Management, among others.

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. The Board continues to ensure that Management's actions and decisions were in line with the strategic direction that it had set in its five-year strategic roadmap. To outline its directions for the year, the Board conducted its Annual Board Retreat on March 15-16, 2018 at the Rosal Ballrooms 2 and 3, Shangri-La Mactan Resort & Spa, Punta Engaño Road, Lapu-Lapu City, Cebu. The Retreat is an annual exercise by the MRSGI Board where they discuss and provide direction on key strategic areas that impact the Company's growth and profitability. For the 2018 retreat, the MRSGI Board focused on the following topics:

- People development
- Network expansion
- Operational excellence
- Strategic priorities
- Succession planning

To further improve its overall function and effectiveness, the MRSGI Board and select executives attended the Corporate Governance Forum conducted by the Philippine Stock Exchange and the Securities and Exchange Commission on October 23, 2018 and December 4, 2018. The MRSGI Board together with select executives also attended an in-house CG training by the Institute of Corporate Directors on November 8, 2018. The in-house training program covered topics such as fighting fraud through data analysis and whistleblowing, anti-money laundering and combating the financing of terrorism and CG updates.

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

Name	Position
Frank S. Gaisano	Chairman & 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
Arthur M. Emmanuel	Executive Director & President/COO
Joel G. Orense	Treasurer Chief Finance Officer
Atty. Vincent E. Tomaneng	Corporate Secretary and Chief Legal Officer
Jonathan Juan DC. Moreno	Chief Strategy and Governance Officer
Atty. Tara Tsarina B. Perez-Retuya	Assistant Corporate Secretary and Compliance Officer

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

Director's Name	Type*	If Nominee, Identify the Principal	Nominator in the Last Election**	Date First Elected***	Date Last Elected	Elected When (Annual or Special Meeting)	No. of Years Served as Director
Frank S. Gaisano	ED		Vicsal Development Corporation (VDC)	August 28, 2003	May 4, 2018	Annual	15
Edward S. Gaisano	NED		VDC	August 28, 2003	May 4, 2018	Annual	15
Margaret Gaisano Ang	NED		VDC	August 28, 2003	May 4, 2018		15
Jack S. Gaisano	NED		VDC	August 28, 2003	May 4, 2018	Annual	15
Arthur Emmanuel	ED	VDC	VDC	April 13, 2015	May 4, 2018	Annual	3
Guillermo L. Parayno, Jr.	ID	No relation	N/A	July 16, 2015	May 4, 2018	Annual	3
Ricardo Nicanor N. Jacinto	ID	No relation	N/A	July 17, 2015	May 4, 2018	Annual	3

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

Board Committees

MRSGI Board committees assist in carrying out specific board responsibilities. They function as part of and under the control of the Board of Directors and are supplementary, directly aiding 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 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 2018, the discussion and resolutions in the ARC meetings included topics on strengthening MRSGI's internal control structure and system, identifying opportunities for processes, policy and control improvements and monitoring compliance to government regulations, internal policies and standard operating procedures. Specifically, the ARC covered findings in audit engagements on institutional sales, marketing, non-trade procurement, merchandising and supply chain operations, among others.

The ARC is composed of the following directors:

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

Nomination and Remuneration Committee (NRC)

The Nomination and Compensation Committee assists the Board of Directors in reviewing and evaluating the qualifications of all individuals nominated to the Board and other appointments that require Board approval. It likewise assesses the effectiveness of the Board's processes and procedures in the election or replacement of directors. The Nomination and Remuneration Committee has established a formal and transparent procedure for developing a policy on remuneration. In 2018, the discussions and resolutions in the NRC meetings included topics on top team development, the MRSGI retirement plan, compensation and benefits program design implementation, strategic HR programs and company performance management systems.

The NRC is composed of the following directors:

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

Governance Committee (GC)

The Governance Committee assists the Board of Directors in ensuring its effectiveness and constant improvement. It also ensures that the Board of Directors conforms to all its legal, ethical and functional obligations through adequate governance policy development, training programs, monitoring of Board activities and evaluation of Board performance. In 2018, the GC discussions covered, among others, topics on board functioning and effectiveness, succession planning for senior executives, director training and board-management engagement.

The GC is composed of the following directors:

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

Investment Committee (IC)

The Investment Committee assists the Board of Directors in the oversight of the company's major investment activities. It establishes, reviews and recommends to the Board of Directors the policies and strategies to be adopted by the company regarding the investment activities and portfolios necessary to achieve its goals and objectives; evaluates and enhances the company's investment processes and recommends the hiring and termination of investment managers. In 2018, the discussions and resolutions in the IC meetings included topics on site selection, potential mergers and acquisitions projects, store formats and budgets and strategic partnership opportunities.

The IC is composed of the following directors:

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

Board Meeting and Attendance

The Board of Directors meets at least once every two months. Meeting agenda and other necessary materials are given to the Board of Directors at least three days prior to the meeting. The minimum quorum requirement is determined by a simple majority or, in the case of MRSGI, at least four Directors. For the year 2018, 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	7	7	100%
Member	Edward S. Gaisano	7	7	100%
Member	Jack S. Gaisano	7	6	85%
Member	Margaret Gaisano Ang	7	6	85%
Member	Arthur Emmanuel	7	7	100%
Independent	Guillermo L. Parayno, Jr.	7	7	100%
Independent	Ricardo Nicanor N. Jacinto	7	7	100%

Name	1/24/ 2018 Regular	2/28/ 2018 Special	3/16/ 2018 Regular	5/4/ 2018 Organizational	8/10/ 2018 Regular	11/8/ 2018 Regular	12/17/ 2018 Special
Frank S. Gaisano	✔	✔	✔	✔	✔	✔	✔
Edward S. Gaisano	✔	✔	✔	✔	✔	✔	✔
Jack S. Gaisano	✔	✔	✔	✔	✔	✔	✔
Margaret Gaisano Ang	✔	✔	✔		✔	✔	✔
Arthur Emmanuel	✔	✔	✔	✔	✔	✔	✔
Guillermo L. Parayno, Jr.	✔	✔	✔	✔	✔	✔	✔
Ricardo Nicanor N. Jacinto	✔	✔	✔	✔	✔	✔	✔

Board Remuneration

The MRSGI By-laws 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 Php 10,000.00 (net of tax)	Nominal per diem of Php 10,000.00 (net of tax)
Non-Executive Directors	None	Nominal per diem of Php 10,000.00 (net of tax)	Nominal per diem of Php 10,000.00 (net of tax)
Independent Directors	None	Php 150,000.00 (gross of tax)	Chairman: Php 45,000.00 (gross of tax) Member: Php 40,000.00 (gross of tax)

Additional information about the company's corporate governance practices and initiatives are available at our website www.metroretail.com.ph.

Except for Frank S. Gaisano and Arthur Emmanuel, who receive salaries as Chief Executive Officer and President and 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 undergo 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.

CORPORATE SOCIAL RESPONSIBILITY

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

MRSGI's corporate social responsibility (CSR) programs are anchored on these objectives:

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

Implemented by the Office of Corporate Affairs, its CSR and community relations 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.

Volunteerism

Metro CSR Employees Volunteerism Program: Making Efforts To Reach Out

The Metro CSR Employees Volunteerism Program encourages and supports employees who wish to contribute their time and assistance in relief operations, medical missions, gift giving, feeding programs and other CSR projects of the company. MRSGI employees also donate blood during the Metro Bloodletting Program held in Metro stores in partnership with the Philippine National Red Cross.

Employment Opportunities

Metro Employment Generation: Promoting Productivity, Enhancing Capabilities

MRSGI implemented Metro S.T.E.P. (Skills Training and Employment Program) in various barangays through a series of baking workshops. The company also hosted the Metro CareerFest within Metro stores. Employers in the communities were invited to showcase their job openings, and MRSGI facilitated the hiring of qualified individuals on the spot.

Education

Metro Scholarship Program: Opening Doors to Deserving Students

Through Vicsal Foundation Inc., the corporate foundation of Vicsal Holdings Company, MRSGI provided scholarship grants to underprivileged yet deserving high school graduates. As of yearend 2018, 205 grants have been awarded, 55 of who are existing scholars and 150 of who have completed graduation. Scholar-Graduates are also given the opportunity to become management trainees for one-year through the MRSGI Management Training Program, after which they may apply for full-time employment. As of yearend 2018, 16 scholars are now management trainees under the Management Training Program.

MRSGI has also strengthened its partnership with Caritas Manila, Inc. through the Metro Segunda Mana Donations-in-Kind program wherein pre-loved items collected from SEGI boxes located at Metro stores are sold at Segunda Mana Charity Outlets and at the Buy & Give Expo. Proceeds of Segunda Mana help sustain the Caritas Manila flagship Youth Servant Leadership and Education Program (YSLEP), which focuses on education for the underprivileged youth nationwide. As of yearend 2018, 25 grants have been given to MRSGI's YSLEP scholars through the Metro Segunda Mana program, 9 of who have completed graduation.

Livelihood

Metro Hanepbuhay Program: Empowering Through Micro- Entrepreneurship

Through the Metro Hanepbuhay Program, MRSGI continues to work with social foundations, NGOs and local business sectors to provide the marginalized sectors, cooperatives, farmers, fishermen, handicraft groups and persons with disability with booths to promote their products. Special CSR Products Showcase spaces were provided to highlight the flagship products of the company's CSR livelihood projects. The Office of Corporate Affairs also provided these beneficiaries with entrepreneurial guidance and helped them promote their products in Metro stores by way of direct retailing or by hosting seasonal bazaars and product showcase kiosks.

Metro Margins

The Metro Caritas Margins project provides skills and training to urban poor communities and marginalized sectors, as well as honing them to become social entrepreneurs. Margins products from different marginalized community partners include food, home and ladies accessories, personal care products and artwork from inmates of penal communities cared for by the Caritas Restorative Justice Ministry, and other gift items and decor.

Metro GreenEarth

The Metro GreenEarth program is a sustainable agricultural development project that aims to provide income to indigent farmers through livelihood centers in organic agriculture. To date, GreenEarth Heritage Foundation distributes its Moringa Tea and Powder in Metro supermarkets across the country.

Environmental Protection

MRSGI partners with local government units for the Metro TreeVolution Tree Planting Program as well as the Solid Waste Management for Sustainable Livelihood Program in communities where Metro stores operate.

Community Outreach

Community Assistance Programs: Uplifting Lives in Areas We Touch

The Metro Cares. Metro Shares medical missions and outreach programs reached out to disaster-hit areas affected by typhoons, earthquakes and other natural calamities. With the help of volunteers from Metro Department Store, Metro Supermarket, Metro Pharmacy, city health offices, the Department of Social Welfare and Development (DSWD), city officials, barangay volunteers and Metro suppliers, MRSGI distributed medicines, set up soup kitchens and provided basic medical assistance to residents and families wherein Metro stores operate.

Community Service

Humanitarian Partnerships: Extending the Reach of Our Helping Hands

At least 745 patients were catered to during the medical and dental mission held at Barangay Sandayong Sur, Danao City, Cebu in November 2018 - 571 patients were attended to during the medical consultation, 71 for dental services, 53 for free haircut, and 50 children for oral health education. Vicsal Foundation Inc. conducted the activity in partnership with Metro Pharmacy, AFP Medical Doctors, CIM and UV medical students, Unilab, FERN, RiteMed and the CSWDO City Government of Danao.

Through Oplan Sagip Metro Relief Operations, MRSGI provided immediate relief and assistance to communities affected by natural disasters and calamities. MRSGI employee volunteers contributed and distributed relief goods to affected residents. Through Vicsal Foundation, Inc., 3,424 families and individuals were assisted. This included beneficiaries from the Mount Mayon eruption in Legazpi, Albay; typhoon victims in Marikina City; fire victims in Barangay Pasil and Barangay Hipodromo in Cebu City, and Barangay Basak and Barangay Pajo in Lapu-Lapu City, Cebu; and families affected by the landslide in Naga City, Cebu.

In the spirit of Christmas, Metro held its annual Christmas Gift Giving activity with the beneficiaries of St. Arnold Jansen's Kalinga Program, "Kain, Ligo ng Ayos" in Tayuman, Manila. A total of 200 individuals received Christmas bags from Metro Retail Stores Group, Inc. and Vicsal Foundation, Inc. Metro employees also volunteered their time and service to groom and feed the homeless and underprivileged.

2018 HIGHLIGHTS

Store Opening

MRSGI re-opens Ayala Center Cebu Supermarket.

Metro Supermarket Ayala Center Cebu once again opened its doors to its patrons after almost a year of temporarily ceasing operations to make way for its rebuilding program. The Metro Supermarket re-opened at its original location last December 30, 2018 just in time for the New Year's holiday rush. Loyal customers were greeted with a more spacious and organized set up. Following the fire incident early in 2018, Metro Supermarket found a temporary home in a 900 sqm space inside Ayala Center Cebu. The temporary location of Metro Supermarket is part of the Company's initiative to continuously serve its patrons and slowly rebuild its presence in Ayala. The 900-sqm store complements the pop-up store located near the mall's activity center.

Site Ground-Breaking

MRSGI holds Super Metro Hypermarket Baybay Ground-breaking

MRSGI continued to invest in its expansion in Eastern Visayas with the ground-breaking of Super Metro Hypermarket Baybay, Leyte. The soon-to-be opened store is expected to further strengthen the Cebu-based retailer's foothold in the Visayas as the City of Baybay is one of Leyte's emerging economic hub. The establishment of Super Metro Hypermarket brings to the residents of Baybay a one-stop shop that gives its customers access to a wide assortment of grocery items, basic essentials, fresh produce and quality merchandise at affordable prices.

Forging Parnerships

MRSGI partners with Petron for improved loyalty program

MRSGI and Petron Corporation forged a new partnership aimed to improve rewards in their respective loyalty programs. The Petron-Metro Retail partnership for the Metro Rewards Card (MRC) and Petron Value Cards (PVC) allows MRC and PVC loyalty card holders to gain more reward options for their accumulated points. PVC holders across the country can now transfer their points to their MRC to purchase items from any Metro store.

Awards and Recognition

Metro Market! Market! receives GMP, HACCP accreditation

MRSGI achieved another milestone as Metro Supermarket Market! Market! received its certification for Good Manufacturing Practice (GMP) and Hazard Analysis and Critical Control Points (HACCP) standards awarded by the Societe Generale de Surveillance (SGS) Philippines, a leading inspection, verification, testing and certification company. This certification for GMP and HACCP systems based on Codex Alimentarius Commission confirms the compliance of Metro Supermarket Market! Market! to international standards on Quality and Food Safety. Metro Supermarket remains to be the only supermarket in the Philippines to receive the GMP and HACCP accreditation which were awarded to Metro Alabang, Metro Ayala Center Cebu and Metro Market! Market!

BOARD OF DIRECTORS

1

2

1 **FRANK S. GAISANO**
Chairman and Chief Executive Officer

2 **MANUEL C. ALBERTO**
President and Chief Operating Officer

3

3 **EDWARD S. GAISANO**
Director

4

4 **MARGARET GAISANO ANG**
Director

5

5 **JACK S. GAISANO**
Director

6 **RICARDO NICANOR N. JACINTO**
Independent Director

7 **GUILLERMO L. PARAYNO, JR.**
Independent Director

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7

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 2003 to 2011. He also sits as Chairman of the Boards of AB Capital and Investment, Pacific Mall Corporation and Vicsal Investment, Inc., as well as Director of Vicsal Development Corporation, Taft Property, Filipino Fund, Inc., Taft Punta Engaño Property, Inc. and Direct Model Holdings, Inc. He received his Bachelor of Science degree in Civil Engineering from the Cebu Institute of Technology and completed courses at the Institute of Corporate Directors.

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. (MRSGI). Before his appointment, he served as the company's Chief Merchandising and Marketing Officer.where he played a key role in leading merchandising improvements and operational efficiencies.

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.

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

MARGARET GAISANO ANG
Director

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

JACK S. GAISANO
Director

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

EDWARD S. GAISANO
Director

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

RICARDO NICANOR N. JACINTO
Independent Director

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

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

GUILLERMO L. PARAYNO, JR.
Independent Director

Guillermo L. Parayno, Jr. is an Independent Director of MRSGI. He has held various leadership positions in both the government and private sectors. His accomplishments in public service, as well as his expertise in information technology infrastructure, logistics and supply chain have gained him recognition from different institutions.

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

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

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 and Integrated Micro-Electronics, Inc. (IMI); Group Controller and Group Head for Commercial Centers of Ayala Land, Inc. (ALI); Board Member of various subsidiaries of ALI, MWC and IMI; and Director of Blackhorse Emerging Enterprises Fund (Singapore), the state-owned Philippine Reclamation Authority and Psi Technologies.

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

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 Wal-Mart University and a frequent keynote speaker on behalf of Wal-Mart Stores, Inc. His contributions have earned him accolades, including the Wal-Mart Hero, Al Johnson Buck at a Time, Jewelry Industry Achievement and the Wal-Mart International Awards, recognizing Wal-Mart's growth in Argentina, Brazil and Mexico.

He earned his Transition to Management MBA from Columbia University in 2006.

KEY EXECUTIVES AND SENIOR MANAGEMENT


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1 FRANK S. GAISANO
Chairman and Chief Executive Officer

2 MANUEL C. ALBERTO
President and Chief Operating Officer


3

3 LUZ A. BITANG
Vice President Corporate Services


4

4 REX JUN T. CABANILLA
Chief Technology Officer

5 CHIT G. LAZARO
Chief Marchandising Officer for Food Retail


5

6 ARNOLD M. LEONCIO
Vice President Network Expansion

7 LUCILLE S. MALAZARTE
Vice President Financial Comptroller


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7

8 FILI P. MERCADO
Vice President Merchandising and Operations Planning and Control


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9 BENEDICTO CLARK T. MIRANDA
Vice President Land and Space

10 PILUT C. MONTES
Chief Marketing Officer

11 JONATHAN JUAN DC. MORENO
Chief Strategy and Governance Officer

12 JOSELITO G. ORENSE
Chief Finance Officer


11


12


13

13 ANNA MARIE K. PERIQUET
Vice President Corporate Affairs

14 VINCENT A. TOMANENG
Corporate Secretary and Chief Legal Counsel


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Working together. Growing together.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

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

Revenue

Net Sales

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

Rental income

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

Cost of sales

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

Operating expenses

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

Interest and other income

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

Finance costs

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

Provision for income tax

For the year ended December 31, 2018, our provision for income tax was ₱381.2 million, a decrease of 9.0% compared to ₱418.8 million for the year ended December 31, 2017. The decrease in provision for income tax was primarily due to the decrease in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2018, our net income was ₱965.4 million, a decrease of 1.2% compared to ₱977.0 million for the year ended December 31, 2017.

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

Revenue

Net sales

For the year ended December 31, 2017, our net sales were ₱35,015.7 million, an increase of 1.8% compared to ₱34,410.9 million for the year ended December 31, 2016. The increase in net sales was primarily due to the opening of a new hypermarket and a new supermarket. Same stores sales fell by 0.7% due to decisions to rationalize sales to resellers which were unprofitable. Transaction count fell by 5.2% in 2017 compared to 2016 but more focused marketing and sales efforts resulted to an average basket size increase of 7.3%.

Rental income

For the year ended December 31, 2017, our rental income was ₱299.9 million, an increase of 0.5% compared to ₱298.4 million for the year ended December 31, 2016. The increase in rental income was primarily due to the opening of two new stores, which led to an increase in net leasable space.

Cost of sales

For the year ended December 31, 2017, our cost of sales was ₱27,443.4 million, a decrease of 0.1% compared to ₱27,476.2 million for the year ended December 31, 2016. Margins have improved in 2017 compared to 2016 due to a well-executed margin enhancement plan that included among others, negotiations with suppliers, improvement of share to business of outright sales, lesser clearance sale events, and rationalization of sales to resellers.

Operating expenses

For the year ended December 31, 2017, our operating expenses were ₱6,596.9 million, an increase of 5.9% compared to ₱6,227.0 million for the year ended December 31, 2016. The increase in operating expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. In addition, nonrecurring expenses were incurred in 2017 amounting to ₱88.4 million resulting from the planned closure of an unprofitable store in the first quarter of 2018.

Interest and other income

For the year ended December 31, 2017, our interest and other income was ₱138.0 million, an increase of 0.7% compared to ₱137.1 million for the year ended December 31, 2016. The increase in interest and other income was primarily due to an increase in foreign currency gains resulting from the movements of the market exchange rates.

Finance costs

For the year ended December 31, 2017, our finance costs were ₱17.6 million, a decrease of 22.8% compared to ₱22.8 million for the year ended December 31, 2016. The decrease in finance costs is due to the payment of total outstanding loan of ₱950M as of December 31, 2015 in March 2016. The company had minimal loans for working capital in 2017 and had nil loans outstanding as of the end of December 2017.

Provision for income tax

For the year ended December 31, 2017, our provision for income tax was ₱418.8 million, an increase of 26.5% compared to ₱331.0 million for the year ended December 31, 2016. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

Net income

As a result of the foregoing, for the year ended December 31, 2017, our net income was ₱977.0 million, an increase of 23.7% compared to ₱789.5 million for the year ended December 31, 2016.

The year ended December 31, 2016 compared with the year ended December 31, 2015

Revenue

Net sales

For the year ended December 31, 2016, our net sales were ₱34,410.9 million, an increase of 6.5% compared to ₱32,304.5 million for the year ended December 2015. The increase in net sales was largely a result of opening of two new department stores, a new supermarket and a new hypermarket. Same store sales growth was 2.8%.

Rental Income

For the year ended December 31, 2016, our rental income was ₱298.4 million, an increase of 48.4% compared to ₱201.1 million for the year ended December 31, 2015. The increase in rental income was primarily due to the opening of four new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of certain concession sales from percentage of revenue to fixed or percentage to revenue rent leases.

Cost of sales

For the year ended December 31, 2016, our cost of sales was ₱27,476.2 million, an increase of 6.6% compared to ₱25,774.5 million for the year ended December 31, 2015 which is generally in line with the 6.5% increase in net sales.

Operating expenses

For the year ended December 31, 2016, our operating expenses were ₱6,227.0 million, an increase of 9.4% compared to ₱5,689.6 million for the year ended December 31, 2015. The increase was primarily due to an increase in salaries and wages, rent expenses, overhead expenses and depreciation expenses resulting from the opening of new stores.

Interest and other income

For the year ended December 31, 2016, our interest and other income was ₱137.1 million, an increase of 80.2% compared to ₱76.1 million for the year ended December 31, 2015. The increase in interest and other income was primarily due to the increase in cash balances of bank accounts maintained by the Company for our working capital requirements and interest income from short term investments and cash equivalents arising from the proceeds of the initial public offering which happened later part of 2015.

Finance costs

For the year ended December 31, 2016, our finance costs were ₱22.8 million, a decrease of 36.8% compared to ₱36.1 million for the year ended December 31, 2015 after full payment of loans was made in March 2016.

Provision for income tax

For the year ended December 31, 2016, our provision for income tax was ₱331.0 million, an increase of 2.5% compared to ₱322.8 million for the year ended December 31, 2015. 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, 2016, our net income was ₱789.5 million, an increase of 4.1% compared to ₱758.6 million for year ended December 31, 2015.

Financial Position

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

As of December 31, 2018 and 2017, our net current assets, or the difference between total current assets and total current liabilities, were ₱4,730.3 million and ₱5,273.4 million, respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2018 and 2017 were ₱9,420.9 million and ₱9,660.0 million, respectively. The decrease of 2.5% of current assets is due to the decrease in short-term investments and inventories.

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

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

Current Liabilities

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

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

As of December 31, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,273.4 million and ₱4,788.1 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were ₱9,660.0 million and ₱8,973.7 million, respectively. The increase of 7.6% of current assets is significantly due to the increase of cash and cash equivalents, short-term investments and receivables.

As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱878.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱316.7 million. As of December 31, 2016, short-term investment totaled ₱525.0 million, receivables totaled ₱846.3 million, merchandise inventories totaled ₱4,014.7 million and other current assets totaled ₱280.7 million.

As of December 31, 2017, cash and cash equivalents amounted to ₱3,707.2 million, an increase of 12.1% from ₱3,307.0 million as of December 31, 2016. The increase were mainly attributable to ₱1,349.5 million generated from operation activities and were offset by the increase of short-term investments by ₱230.2 million, addition to property and equipment amounting to ₱446.3 million and dividends payment amounting to ₱171.5 million.

Current Liabilities

Total current liabilities as of December 31, 2017 and December 31, 2016 were ₱4,386.0 million and ₱4,185.6 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled ₱4,167.9 million and ₱3,940.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

The year ended December 31, 2016 compared with the year ended December 31, 2015

As of December 31, 2016 and December 31, 2015, our net current assets, or the difference between total current assets and total current liabilities, were ₱4,788.1 million and ₱5,059.5 million respectively, representing a positive net working capital position.

Current Assets

Our current assets consist of cash and cash equivalents, short-term investment, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2016 and December 31, 2015 were ₱8,973.7 million and ₱9,576.5 million, respectively. The decrease of 6.3% of current assets is significantly due to the conversion of ₱1,700.0 million short term investments to cash equivalent and the decrease in other current assets. As of December 31, 2016, short term investment totaled ₱525.0 million, and other current assets totaled ₱280.7 million. As of December 31, 2015, short-term investments totaled ₱2,225.0 million, and other current assets totaled P481.6 million.

As of December 31, 2016, cash and cash equivalents amounted to ₱3,307.0 million, an increase of 40.7% from ₱2,351.0 million as of December 31, 2015. The increase were mainly attributable to the conversion of ₱1,700.0 million short-term investments to cash equivalent and ₱1,482.6 million generated from operating activities and were offset by the payment of ₱950.0 million of the outstanding loans payable, acquisition of ₱831.7 million property and equipment and dividend payment of ₱154.3 million.

Current Liabilities

Total current liabilities as of December 31, 2016 and December 31, 2015 were ₱4,185.6 million and ₱4,517.0 million, respectively. As of December 31, 2016 and December 31, 2015, trade and other payables totaled P3,940.9 million and ₱3,374.2 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory. Loans payable outstanding amounted to nil and ₱950.0 million as of December 31, 2016 and December 31, 2015, respectively.

Cash Flows

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

	For the years ended December 31,		
	2018	2017	2016
		(₱ million)	
Net cash flows from operating activities	₱1,450.2	₱1,349.5	₱1,459.8
Net cash flows from (used in) investing activities	(1,352.2)	(763.0)	653.4
Net cash flows from (used in) financing activities	(219.6)	(202.6)	(1,172.5)
Net increase in cash	(₱121.6)	₱383.9	₱940.7

Net cash flows from operating activities

Our net cash flows from operating activities for the year ended December 31, 2018 was ₱1,450.2 million, which is comprised of operating income before working capital changes of ₱1,494.7 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to the increase in other current assets amounting to ₱184.4 million, proceeds from insurance claims on merchandise inventory of ₱111.3 million and decrease in merchandise inventories of ₱112.4 million, as well as, the increase in trade and other payables and contract liabilities of ₱221.7 million ₱103.2 million, respectively.

Our net cash flows generated from operating activities for the year ended December 31, 2017 was ₱1,349.5 million, which comprised operating income before working capital changes of ₱1,992.5 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in receivables, other current assets and trade and other payables and decrease in noncurrent liabilities.

Our net cash flows generated from operating activities for the year ended December 31, 2016 was ₱1,459.8 million, which comprised operating income before working capital changes of ₱1,581.2 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributable to increase in merchandise inventories of ₱334.9 million primarily due to the opening of new stores. The increase in trade and other payables of ₱441.6 million also significantly contributed to the change in working capital requirements.

Net cash flows from (used in) investing activities

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

For the year ended December 31, 2017, net cash flows used in investing activities was ₱763.0 million, which resulted from the increase in short-term investment by ₱230.2 million, additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱446.3 million and increase in other non-current assets by ₱86.5 million.

For the year ended December 31, 2016, net cash flows generated from investing activities was ₱653.4 million, which resulted from the decrease in short-term investment by ₱1,700.0 million and partially offset by the additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱831.7 million and increase in other non-current assets by ₱214.9 million.

Net cash flows from (used in) financing activities

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

Net cash flows used in financing activities was ₱202.6 million for the year ended December 31, 2017, as a result of payments of finance lease liability amounting to ₱31.1 million and payment of cash dividends amounting to ₱171.5 million declared on March 16, 2017.

Net cash flows used in financing activities was ₱1,172.5 million for the year ended December 31,2016, primarily as a result of bank loan payments amounting to ₱950.0 million and payment of cash dividends amounting to ₱154.3 million declared on March 16, 2016.

Indebtedness

We have nil outstanding loans as of December 31, 2018, 2017 and 2016.

Key Performance Indicators

	For the years ended December 31, 2018	2017	2016
The Company			
Net Sales(1) (₱ millions)	33,050.1	35,015.7	34,410.9
Average Basket Size(2) (₱)	590.2	594.5	554.1
Same store sales growth(3) (%)	5.1%*	(0.7)	2.8
Number of Stores	53*	52	50
Net selling area(4) (sqm)	194,536	228,980	224,835

**excludes discontinued operations and temporary closure of stores*

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

Quantitative and qualitative disclosure of market risk

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

Liquidity risk

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

Credit Risk

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

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

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

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

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

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

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

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

METRO
RETAIL STORES GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Metro Retail Stores Group, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 18, 2018

SUBSCRIBED AND SWORN to before me this MAR 27 2019 affiants exhibiting to me their respective Philippine passports as follows:

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

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Book No. 111
Series of 2019

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COMMISSION UNTIL DEC. 31, 2020
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FINANCIAL STATEMENTS

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Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metro Retail Stores Group, Inc.

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, 2018 and 2017, 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, 2018, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Metro Retail Stores Group, Inc. as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matter

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

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

Adoption of PFRS 15, *Revenue from Contracts with Customers*

Effective January 1, 2018, the Company adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach. The adoption of PFRS 15 resulted in changes in the Company's revenue recognition policies, process, and procedures. The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment and estimation in the determination of the stand-alone selling price of goods and loyalty points for the allocation of the transaction price.

The disclosures related to the adoption of PFRS 15 are included in Note 15 to the financial statements.

Audit response
We obtained an understanding of the Company's process in implementing the new revenue recognition standard. We reviewed the PFRS 15 assessment and accounting policies prepared by management, including revenue streams identification and scoping, and contract analysis.

In relation to customer loyalty program, we reviewed the management's determination of the estimated stand-alone selling price of loyalty points by comparing the underlying assumptions (e.g., redemption rate of loyalty points, probability of redemption of each redeemable item, etc.) against available historical data, and the allocation of the transaction price between the sale of goods and loyalty points.

We also reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 15.

Existence and completeness of merchandise inventories

As of December 31, 2018, total inventories of ₱3.59 billion represent 26% of total assets. The Company operates 53 stores (consisting of department stores, supermarkets and hypermarkets) and 7 warehouses in Luzon and Visayas. We focused on this area since inventories are material to the financial statements and are located in various locations across the country.

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

Audit response
Our audit procedures included understanding the physical inventory stock-take process, and testing the relevant controls in selected stores and warehouses. We observed the conduct of physical inventory stock-take procedures for selected stores and warehouses and performed test counts. We traced our test counts to the Company's inventory compilation. We reviewed the reconciliation of the merchandise inventories based on physical count with the Company's financial records and tested the selected reconciling items. We performed rollforward and rollback procedures for inventory movements from the physical stock-take date to year-end and tested selected purchases and sales transactions against supporting documents such as sales invoices and delivery receipts.

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, 2018, 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, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metro Retail Stores Group, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332588, January 3, 2019, Makati City

March 18, 2019

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017 (Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 26)	**₱3,606,179,404**	₱3,707,152,708
Short-term investments (Notes 5 and 26)	**358,438,404**	755,204,271
Receivables (Notes 6 and 26)	**1,371,593,749**	878,455,834
Merchandise inventories (Note 7)	**3,589,605,171**	4,002,495,549
Other current assets (Note 8)	**495,107,374**	316,693,089
Total Current Assets	**9,420,924,102**	9,660,001,451
Noncurrent Assets		
Property and equipment (Note 9)	**3,286,048,181**	2,370,402,358
Deferred tax assets - net (Note 22)	**152,995,229**	149,932,184
Other noncurrent assets (Note 10)	**1,008,491,592**	607,465,065
Total Noncurrent Assets	**4,447,535,002**	3,127,799,607
TOTAL ASSETS	**₱13,868,459,104**	₱12,787,801,058
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 26)	**₱4,392,287,409**	₱4,167,874,105
Contract liabilities (Note 12)	**103,195,660**	–
Income tax payable	**158,339,929**	190,054,649
Finance lease liability - current portion (Notes 23 and 26)	**36,744,720**	28,661,059
Total Current Liabilities	**4,690,567,718**	4,386,589,813
Noncurrent Liabilities		
Finance lease liability - net of current portion (Notes 23 and 26)	**28,648,744**	50,609,267
Retirement benefit obligation (Note 20)	**393,006,901**	353,707,351
Other noncurrent liabilities (Note 13)	**53,216,403**	53,630,211
Total Noncurrent Liabilities	**474,872,048**	457,946,829
Total Liabilities	**5,165,439,766**	4,844,536,642
Equity		
Capital stock (Note 14)	**3,429,375,000**	3,429,375,000
Additional paid-in capital (Note 14)	**2,455,542,149**	2,455,542,149
Retained earnings (Note 14)	**2,775,475,030**	2,015,860,010
Remeasurement gains on defined benefit obligation (Note 20)	**42,627,159**	42,487,257
Total Equity	**8,703,019,338**	7,943,264,416
TOTAL LIABILITIES AND EQUITY	**₱13,868,459,104**	₱12,787,801,058

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Net sales (Note 15)	**₱33,050,084,154**	₱35,015,740,598	₱34,410,947,243
Rentals (Notes 21 and 23)	**233,751,621**	299,880,342	298,394,972
	33,283,835,775	35,315,620,940	34,709,342,215
COSTS AND EXPENSES			
Cost of sales (Note 17)	**25,650,018,422**	27,443,433,483	27,476,168,638
Operating expenses (Note 18)	**6,758,799,769**	6,596,907,791	6,227,008,098
	32,408,818,191	34,040,341,274	33,703,176,736
OTHER INCOME (CHARGES)			
Interest and other income (Notes 4, 5 and 16)	**490,605,042**	138,020,790	137,103,998
Finance costs (Notes 11 and 23)	**(19,041,131)**	(17,576,617)	(22,805,794)
	471,563,911	120,444,173	114,298,204
INCOME BEFORE INCOME TAX	**1,346,581,495**	1,395,723,839	1,120,463,683
PROVISION FOR INCOME TAX (Note 22)			
Current	**384,326,979**	451,008,374	336,516,418
Deferred	**(3,123,004)**	(32,241,844)	(5,504,837)
	381,203,975	418,766,530	331,011,581
NET INCOME	**965,377,520**	976,957,309	789,452,102
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit obligation (Note 20)	**199,860**	(10,669,847)	92,703,552
Income tax effect (Note 22)	**(59,958)**	3,200,954	(27,811,066)
	139,902	(7,468,893)	64,892,486
TOTAL COMPREHENSIVE INCOME	**₱965,517,422**	₱969,488,416	₱854,344,588
Basic/Diluted Earnings Per Share (Note 24)	**₱0.28**	₱0.28	₱0.23

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2018, 2017 and 2016

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Retained Earnings (Note 14)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 20)	Total
Balances at January 1, 2018	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,015,860,010**	**₱42,487,257**	**₱7,943,264,416**
Net income for the year	**–**	**–**	**965,377,520**	**–**	**965,377,520**
Other comprehensive loss	**–**	**–**	**–**	**139,902**	**139,902**
Total comprehensive income	**–**	**–**	**965,377,520**	**139,902**	**965,517,422**
Declaration of dividends (Note 14)	**–**	**–**	**(205,762,500)**	**–**	**(205,762,500)**
Balances at December 31, 2018	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,775,475,030**	**₱42,627,159**	**₱8,703,019,338**
Balances at January 1, 2017	₱3,429,375,000	₱2,455,542,149	₱1,210,371,451	₱49,956,150	₱7,145,244,750
Net income for the year	–	–	976,957,309	–	976,957,309
Other comprehensive income	–	–	–	(7,468,893)	(7,468,893)
Total comprehensive income	–	–	976,957,309	(7,468,893)	969,488,416
Declaration of dividends (Note 14)	–	–	(171,468,750)	–	(171,468,750)
Balances at December 31, 2017	₱3,429,375,000	₱2,455,542,149	₱2,015,860,010	₱42,487,257	₱7,943,264,416
Balances at January 1, 2016	₱3,429,375,000	₱2,455,542,149	₱575,241,224	(₱14,936,336)	₱6,445,222,037
Net income for the year	–	–	789,452,102	–	789,452,102
Other comprehensive loss	–	–	–	64,892,486	64,892,486
Total comprehensive income	–	–	789,452,102	64,892,486	854,344,588
Declaration of dividends (Note 14)	–	–	(154,321,875)	–	(154,321,875)
Balances at December 31, 2016	₱3,429,375,000	₱2,455,542,149	₱1,210,371,451	₱49,956,150	₱7,145,244,750

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,346,581,495**	₱1,395,723,839	₱1,120,463,683
Adjustments for:			
Depreciation and amortization (Note 9)	**490,362,102**	519,524,410	464,842,064
Net gain on insurance claims (Notes 6, 7, 9 and 16)	**(350,681,819)**	–	–
Retirement benefits costs (Note 20)	**47,134,866**	36,352,996	47,239,708
Finance costs (Notes 11 and 23)	**19,041,131**	17,576,617	22,805,794
Provision for impairment of assets (Notes 8, 9, and 10)	**26,859,905**	64,977,300	–
Provision for impairment of receivables (Note 6)	–	2,124,156	–
Write off of assets	**11,344,445**	4,729,610	–
Loss on retirement of property and equipment (Note 9)	**25,804**	31,618	1,976,322
Provisions (Note 18)	–	23,467,777	–
Interest income (Note 16)	**(75,072,482)**	(55,627,487)	(60,878,058)
Foreign currency exchange gains (Note 16)	**(20,721,700)**	(16,345,152)	(15,245,103)
Reversal of impairment loss (Note 9)	**(155,972)**	–	–
Operating income before working capital changes	**1,494,717,775**	1,992,535,684	1,581,204,410
Decrease (increase) in:			
Receivables	**(44,069,074)**	(39,000,629)	(5,219,517)
Merchandise inventories	**112,403,617**	12,231,756	(334,911,810)
Other current assets	**(184,399,088)**	(81,542,027)	58,342,076
Increase (decrease) in:			
Trade and other payables	**221,712,387**	200,202,890	441,621,981
Contract liabilities	**103,195,660**	–	–
Other noncurrent liabilities	**(413,808)**	(311,488,228)	10,347,372
Cash flows generated from operations	**1,703,147,469**	1,772,939,446	1,751,384,512
Proceeds from insurance claims on merchandise inventory (Note 7)	**111,323,800**	–	–
Interest received	**75,739,031**	55,609,537	58,877,673
Income tax paid	**(416,041,698)**	(463,314,481)	(326,887,245)
Interest paid	**(16,348,371)**	(14,270,100)	(22,476,312)
Retirement benefits paid	**(7,635,456)**	(1,464,085)	(1,073,175)
Net cash provided by operating activities	**1,450,184,775**	1,349,500,317	1,459,825,453
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from insurance claims on property, plant and equipment (Note 9)	**133,408,200**	–	–
Increase in other noncurrent assets	**(434,681,564)**	(86,547,605)	(214,948,384)
Acquisition of property and equipment (Note 9)	**(1,447,741,078)**	(446,290,592)	(831,698,218)
Decrease (increase) in short-term investments	**396,765,867**	(230,204,271)	1,700,000,000
Net cash (used in) provided by investing activities	**(1,352,248,575)**	(763,042,468)	653,353,398
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of:			
Cash dividends (Note 14)	**(205,754,341)**	(171,468,750)	(154,321,875)
Finance lease liability (Note 23)	**(13,876,863)**	(31,133,701)	(68,187,311)
Loans payable	**–**	–	(950,000,000)
Net cash used in financing activities	**(219,631,204)**	(202,602,451)	(1,172,509,186)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(121,695,004)**	383,855,298	940,669,665
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE (Note 16)	**20,721,700**	16,345,152	15,245,103
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,707,152,708**	3,306,952,158	2,351,037,390
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,606,179,404**	₱3,707,152,708	₱3,306,952,158

See accompanying Notes to Financial Statements.

1. Corporate Information and Approval of the Financial Statements

Corporate Information
Metro Retail Stores Group, Inc. (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003 in the Republic of the Philippines with a corporate life of 50 years. The Company is 74.42%-owned by Vicsal Development Corporation (VDC), 0.72%-owned by Value Shop Stores, Inc., and the rest by the public. Its primary purpose is to buy, sell and trade, goods, wares and merchandise of every kind and description and in general to carry on the businesses of a supermarket, hypermarket and department store operator. The Company began commercial operations on November 19, 2004.

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

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

Approval of the Financial Statements
The financial statements of the Company as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were approved and authorized for issue by the Board of Directors (BOD) on March 18, 2019.

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

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

Statement of Compliance
The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

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 adoption of the following new accounting pronouncements which became effective January 1, 2018.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at January 1, 2018. Any cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings.

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our statement of comprehensive income and statement of financial position follows:

Statement of comprehensive income

	For the year ended December 31, 2018		
	As reported	Balances without adoption of PFRS 15	Effect of change Higher (Lower)
Revenues and other income	₱33,283,835,775	₱33,283,835,775	₱–
Cost and expenses	32,408,818,191	32,408,818,191	–
Operating income	875,017,584	875,017,584	–
Other income (charges)	471,563,911	471,563,911	–
Income before income tax	1,346,581,495	1,346,581,495	–
Provision for income tax	381,203,975	381,203,975	–
Net income	**₱965,377,520**	**₱965,377,520**	**₱–**

Statement of financial position

	As of December 31, 2018		
	As reported	Balances without adoption of PFRS 15	Effect of change Higher (Lower)
Assets	**₱13,868,459,104**	**₱13,868,459,104**	**₱–**
Liabilities			
Trade and other payables	4,392,287,409	4,495,483,069	(103,195,660)
Contract liabilities	103,195,660	–	103,195,660
Other liabilities	669,956,697	669,956,697	–
Total liabilities	**5,165,439,766**	**5,165,439,766**	**–**
Equity	**₱8,703,019,338**	**₱8,703,019,338**	**₱–**

	As of January 1, 2018		
	As reported	Balances without adoption of PFRS 15	Effect of change Higher (Lower)
Assets	**₱12,787,801,058**	**₱12,787,801,058**	**₱–**
Liabilities			
Trade and other payables	4,036,793,228	4,167,874,105	(131,080,877)
Contract liabilities	131,080,877	–	131,080,877
Other liabilities	676,662,537	676,662,537	–
Total liabilities	**4,844,536,642**	**4,844,536,642**	**–**
Equity	**₱7,943,264,416**	**₱7,943,264,416**	**₱–**

The Company concluded that under PFRS 15, the loyalty points, gift checks and stored value cards give rise to separate performance obligations because they provide a material right to the customer and portion of the transaction price was allocated to these performance obligations. Upon adoption, deferred revenue amounting to ₱131.08 million was reclassified to contract liabilities as at January 1, 2018.

The change did not have a material impact on other comprehensive income and statement of cash flows for the period.

- PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied PFRS 9 retrospectively, with the initial application date of January 1, 2017.

As of January 1, 2017, the Company has reviewed and assessed all of its existing financial assets, and financial liabilities. The table below illustrates the classification and measurement of financial assets under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Company in its evaluation of the classification and measurement categories under PFRS 9 are discussed in a separate section of this note.

Classification and measurement

The measurement category and the carrying amount of financial assets in accordance with PAS 39 and PFRS 9 as of January 1, 2017 are compared as follows:

Financial Assets	**Original Measurement Category Under PAS 39**	**Original Carrying Amount under PAS 39**	**New Measurement Category Under PFRS 9**	**New Carrying Amount under PFRS 9**
Cash in banks	Loans and receivables	₱1,600,350,953	Financial assets at amortized cost	₱1,600,350,953

Financial Assets	Original Measurement Category Under PAS 39	Original Carrying Amount under PAS 39	New Measurement Category Under PFRS 9	New Carrying Amount under PFRS 9
Cash equivalents	Loans and receivables	1,590,000,000	Financial assets at amortized cost	1,590,000,000
Accounts receivables	Loans and receivables	855,779,276	Financial assets at amortized cost	855,779,276

There is no impact coming from changes in classification and measurement except for the change in category of loans and receivables under PAS 39 to amortized cost category under PFRS 9.

The Company does not have financial assets and financial liabilities which had previously been designated at FVPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

Impairment testing under expected credit loss (ECL) model
The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. PFRS 9 requires the Company to record an allowance for impairment losses for all loans and other debt financial assets not held at fair value through profit or loss (FVPL). 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. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include net cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The assessment of the Company's ECL was made as of the date of initial application, January 1, 2017.

For receivable from credit account holders and receivable from tenants presented under receivables, the Company has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. 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.

In addition to historical credit loss experience, primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on unemployment rates and GDP growth rate were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

For other financial assets such as cash and cash equivalents and receivable from credit card companies, 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).

The Company applies the low credit risk simplification in determining significant increase in credit risk since initial recognition. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from external market information to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Company considered the guarantors' credit cash bonds in determining the percentage of loss given default in the computation of the expected credit loss. Receivables from credit account holders are guaranteed by the corresponding balances of guarantors' credit cash bond balance. Accordingly, the Company retrospectively reclassified the balance of guarantors' credit cash bond from non-current to current liabilities to align with the classification of the receivables as follows:

	December 31, 2017		January 1, 2017	
	As Previously Reported	As Reclassified	As Previously Reported	As Reclassified
Guarantors' credit cash bond – current liability	₱–	₱326,740,160	₱–	₱316,956,963
Guarantors' credit cash bond – noncurrent liability	326,740,160	–	316,956,963	–

This resulted in the increase in total current liabilities by ₱326.74 million and ₱316.96 million as of December 31, 2017 and January 1, 2017, respectively, and corresponding decrease in total noncurrent liabilities by the same amounts.

The Company opted not to provide a third statement of financial information at the beginning of the earliest comparative period as impact of the reclassification is limited to liability accounts and not pervasive to other statement of financial position accounts. The reclassification did not have significant impact in the statement of cash flows.

There are no changes in measurement for the Company's financial liabilities.

The impairment requirements of PFRS 9 did not have a significant impact on the Company.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

The Company has no share-based payment transactions. Therefore, these amendments do not have any impact on the Company's financial statements.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Company since it has no activities that are connected with insurance or issue insurance contracts.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

  These amendments are not applicable to the Company since the Company does not have investments in associates and joint ventures.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments are not applicable to the Company since the Company does not have investment property.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of this interpretation.

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

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PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

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

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

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

  These amendments are not expected to have any impact in the Company's financial statements.

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

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

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

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Company is currently assessing the impact of adopting this interpretation.

Effective beginning on or after January 1, 2020

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

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

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

Deferred effectivity

- Amendments to PFRS 10 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, *Business Combinations*. 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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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.

  These amendments are not expected to have any impact to the Company.

<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 represents cash funds that are deposited in various bank accounts of the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from the date of 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, FVOCI, and FVTPL.

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 FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient 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 FVTPL

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 includes trade receivables, rentals and receivable from related parties, and other receivables (Claims from insurers, Accrued interest receivable and Advances to employees & officers).

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's financial liabilities include trade and other payables (excluding contract liabilities and statutory payables) and "Finance lease liability".

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

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.

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.

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.

Other noncurrent liabilities
Other noncurrent liabilities include tenants' deposits. Other noncurrent liabilities are measured initially at fair value. After initial recognition, other noncurrent liabilities are subsequently measured at amortized cost using the effective interest method.

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

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

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

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

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

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

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

Other Assets
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.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pension cost comprise the following:
- service cost;
- interest on the pension liability; and
- remeasurements of pension liability.

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

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

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

Equity

Capital Stock and Additional paid-in capital

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

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

Retained Earnings

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

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

Revenue recognition Effective January 1, 2018

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

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

Sale of goods

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

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

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

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

<u>Contract Balances</u>

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

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

<u>Revenue recognition Prior to January 1, 2018</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty, as applicable. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements.

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

Rental
Rental income is recognized in 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 to the extent that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably.

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

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

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

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

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

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

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 carryforward benefits of excess MCIT and NOLCO can be utilized.

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

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

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

Segment Reporting

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

Earnings Per Share (EPS)

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

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

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

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

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

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

Finance lease liabilities pertaining to leased computer equipment amounted to ₱65.39 million and ₱79.27 million as of December 31, 2018 and 2017, respectively (see Notes 9 and 23).

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

As of December 31, 2018 and 2017, contract liabilities and deferred revenue amounted to ₱103.20 million and ₱131.08 million, respectively (see Notes 11 and 12).

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

Accordingly, no provision for probable losses was recognized by the Company in 2018 and 2017.

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

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

Merchandise inventories amounted to ₱3,589.61 million and ₱4,002.50 million as of December 31, 2018 and 2017, respectively (see Note 7).

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

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

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

Allowance for impairment losses of receivables amounted to ₱11.61 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the carrying amount of receivables, net of valuation allowance, amounted to ₱1,371.59 million and ₱878.46 million, respectively (see Note 6).

In 2017, the Company recognized allowance for impairment losses pertaining to security deposits which may not be recoverable due to the acceleration of lease termination date from a planned closure of a non-performing store amounting to ₱28.17 million for the year ended December 31, 2017. As of December 31, 2018 the carrying amount of security deposit, net of impairment losses, amounted to ₱482.85 million (see Note 10).

Evaluation of Impairment of Nonfinancial Assets
The Company reviews property and equipment with definite lives for impairment of value.

The Company estimates the recoverable amount as the higher of the fair value les cost to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that may affect property and equipment.

As of December 31, 2018 and 2017, the carrying value of the Company's property and equipment amounted ₱3,286.05 million and ₱2,370.40 million, respectively (see Note 9).

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

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

The Company's retirement benefits costs amounted to ₱47.13 million, ₱36.35 million and ₱47.24 million in 2018, 2017 and 2016, respectively. Retirement benefits obligation amounted to ₱393.01 million and ₱353.71 million as of December 31, 2018 and 2017, respectively (see Note 20).

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**₱136,731,652**	₱128,987,374
Cash in banks	**1,487,443,196**	1,902,103,372
Cash equivalents	**1,982,004,556**	1,676,061,962
	₱3,606,179,404	₱3,707,152,708

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.

Interest income earned from cash and cash equivalents amounted to ₱57.16 million, ₱40.77 million and ₱30.57 million in 2018, 2017 and 2016, respectively (see Note 16).

5. Short-term Investments

These pertain 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 3.9% to 6.3% and 2.00% to 3.00% in 2018 and 2017, respectively.

Short term investments as of December 31, 2018 and 2017 amounted to ₱358.44 million and ₱755.20 million, respectively.

Interest income earned from short-term investments amounted to ₱14.84 million, ₱14.86 million and ₱30.31 million in 2018, 2017 and 2016, respectively (see Note 16).

6. Receivables

This account consists of:

	2018	2017
Trade		
Third parties	**₱838,558,786**	₱810,610,601
Related parties (Note 21)	**420,314**	1,297,140
Nontrade		
Receivable from insurance	**455,625,348**	–
Rentals	**29,838,612**	23,190,823
Advances to employees and officers	**25,034,521**	23,401,822
Related parties (Note 21)	**24,295,195**	21,467,926
Accrued interest receivable (Note 16)	**9,433,385**	10,099,934
	1,383,206,161	890,068,246
Less allowance for expected credit losses	**11,612,412**	11,612,412
	₱1,371,593,749	₱878,455,834

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

Receivable from insurance consist of insurance claims of the Company for loss of income against insurance coverage for business interruption amounting to ₱455.63 million.

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

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

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

	2018	2017	2016
Beginning of year	**₱11,612,412**	₱9,488,256	₱9,488,256
Provision for impairment of receivables (Note 18)	**5,889,959**	6,853,766	–
Write-off	**(5,889,959)**	(4,729,610)	–
End of year	**₱11,612,412**	₱11,612,412	₱9,488,256

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2018	2017	2016
Beginning inventory	**₱4,002,495,549**	₱4,014,727,305	₱3,679,815,495
Add purchases - net	**25,497,242,262**	27,391,644,395	27,766,881,546
Cost of goods available for sale	**29,499,737,811**	31,406,371,700	31,446,697,041
Less cost of merchandise sold (Note 17)	**(25,609,645,879)**	(27,403,876,151)	(27,431,969,736)
Inventory loss due to fire (Note 16)	**(300,486,761)**	–	–
Ending inventory	**₱3,589,605,171**	₱4,002,495,549	₱4,014,727,305

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

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

In April 2018, the Company received insurance proceeds amounting to ₱111.32 million for the inventory damaged by fire in January 2018 (see Note 28).

No inventories have been used or pledged as security for the Company's obligations in 2018 and 2017.

No allowance for obsolescence had been recognized in 2018 and 2017.

The Company does not have any purchase commitments as of December 31, 2018 and 2017.

8. Other Current Assets

This account consists of:

	2018	2017
Prepayments	**₱82,302,483**	₱44,564,688
Deferred input VAT - current	**60,903,530**	44,114,542
Supplies	**58,822,792**	56,708,234
Advances to trade suppliers		
Related parties (Note 21)	**288,563,247**	131,198,802
Third parties	**7,311,341**	29,166,803
Others	**3,188,784**	10,940,020
	501,092,177	316,693,089
Less allowance for impairment losses (Note 18)	**5,984,803**	–
	₱495,107,374	₱316,693,089

Prepayments consist of prepaid insurance and advance rental payments.

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

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

Others consist of security deposits and cash advances used to fund bayad center facilities.

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

9. Property and Equipment

The rollforward analysis of this account follows:

2018

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

2017

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱197,843,206	₱1,491,202,863	₱1,013,371,762	₱265,329,237	₱1,258,074,297	₱179,054,009	₱4,404,875,374
Additions	5,476,553	112,707,967	107,526,434	58,344,721	109,630,540	97,783,382	491,869,297
Retirements	–	(348,167)	(241,651)	–	–	–	(589,818)
Reclassifications	(28,829,096)	–	28,829,096	–	114,063,355	(114,063,355)	–
At end of year	174,490,663	1,603,562,663	1,149,885,641	323,673,958	1,481,768,192	162,773,736	4,896,154,853
Less Accumulated Depreciation and Amortization:							
At beginning of year	₱40,479,644	₱962,737,605	₱640,174,771	₱57,087,435	₱269,498,354	₱–	₱1,969,977,809
Depreciation and amortization (Notes 17 and 18)	18,319,230	193,866,801	143,672,109	50,672,130	112,994,140	–	519,524,410
Retirements	–	(345,956)	(212,244)	–	–	–	(558,200)
Reclassifications	(3,123,152)	–	3,123,152	–	–	–	–
At end of year	55,675,722	1,156,258,450	786,757,788	107,759,565	382,492,494	–	2,488,944,019
Less Allowance for impairment losses:							
Impairment losses (Note 18)	–	991,936	–	–	35,816,540	–	36,808,476
Net Book Value	₱118,814,941	₱446,312,277	₱363,127,853	₱215,914,393	₱1,063,459,158	₱162,773,736	₱2,370,402,358

In January 2018, a department store and supermarket of the Company were seriously damaged by fire. The net book value of the damaged property and equipment amounted to ₱49.19 million.

In April 2018, the Company received insurance proceeds amounting to ₱133.41 million for the property and equipment damaged by fire in January 2018 (Note 28).

In March 2018, the Company closed a non-performing hypermarket store. The company completed the retirement of the store's property and equipment with carrying value of ₱36.65 million. An allowance for impairment losses of ₱36.81 million was previously recognized in 2017, resulting to a reversal of impairment loss of ₱0.16 million.

The Company leases computer equipment which was accounted for as finance lease. The carrying amount of the computer equipment amounted to ₱107.54 million and ₱143.26 million as of December 31, 2018 and 2017, respectively.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2018 and 2017.

There are no contractual purchase commitments for property and equipment as of December 31, 2018 and 2017.

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

10. Other Noncurrent Assets

This account consists of:

	2018	2017
Deposits	**₱506,712,406**	₱462,862,067
Advances to nontrade suppliers		
Related parties (Note 21)	**206,194,971**	13,633,586
Third parties	**203,816,267**	64,712,450
Deferred input VAT	**130,945,400**	94,425,786
Deferred Charges	**9,866,474**	–
	1,057,535,518	635,633,889
Allowance for impairment losses (Note 18)	**(49,043,926)**	(28,168,824)
	₱1,008,491,592	₱607,465,065

Deposits are payments to lessors and utility companies for rental and meter deposits. In 2018, the Company paid security deposits pertaining to new lease contracts and existing contracts amounting to ₱91.9 million and ₱1.79 million, respectively. These will be offset against the Company's outstanding balance at the end of the contract term.

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

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

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

Deferred charges represent the excess of the principal amount of the security deposits over its fair value.

Movements in the deferred charges for the year ended December 31, 2018 are as follow:

	2018
At January 1	₱–
Additions during the year	12,933,625
Amortization	(3,067,151)
At December 31	₱9,866,474

Amortizations of deferred charges amounted to ₱3.07 million in 2018 and are presented as "rental" under "operating expenses" in the statements of comprehensive income (see Note 16).

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

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

	2018	2017
Beginning of year	₱28,168,824	₱–
Provision for impairment losses (Note 18)	20,875,102	28,168,824
End of year	₱49,043,926	₱28,168,824

11. Trade and Other Payables

This account consists of:

	2018	2017
Trade		
Third parties	₱3,023,314,615	₱2,802,050,389
Related parties (Note 21)	73,333,005	71,349,932
Nontrade	400,728,580	198,960,416
Credit cash bonds	328,163,607	326,740,160
Accrued expenses	297,442,442	254,975,921
Output VAT - net	182,599,123	237,340,635
Deferred revenue	–	131,080,877
Others	86,706,037	145,375,775
	₱4,392,287,409	₱4,167,874,105

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

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

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

Finance cost included in profit or loss pertaining to cash bonds amounted to ₱16.57 million, ₱14.68 million and ₱14.41 million in 2018, 2017 and 2016, respectively. These were settled through deduction in the credit account holders' receivable balance.

Accrued expenses consist of:

	2018	2017
Suppliers and contractors	**₱80,342,977**	₱71,767,386
Utilities	**63,502,862**	56,886,038
Rentals	**63,180,353**	28,585,246
Marketing-related cost	**26,235,151**	15,353,296
Professional fees	**12,288,843**	10,210,811
Other accruals	**51,892,256**	72,173,144
	₱297,442,442	₱254,975,921

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

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

Others include provision pertaining to the store closure of non-performing store in 2018 (Note 18), amounts payable to government agencies for mandatory contributions and payments to the Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF), withholding tax payables, and other sundry payables.

12. Contract Liabilities

This account consists of:

	2018
Gift check outstanding	₱47,092,121
Stored value cards	29,235,254
Accrued customer loyalty reward	26,868,285
	₱103,195,660

Below is the rollforward of contract liabilities from the date of initial application of the adoption of PFRS 15:

	2018
At January 1	₱–
Reclassification from deferred revenue upon adoption of PFRS 15	144,484,224
Deferred during the year	3,165,169,755
Recognized as revenue during the year	-3,206,458,319
At December 31	₱103,195,660

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

13. Other Noncurrent Liabilities

Other noncurrent liabilities mainly pertain to security deposits from tenants. Security deposits to be applied to last term of the lease pertain to rental deposits from tenants that lease space from the Company's stores.

Other noncurrent liabilities as of December 31, 2018 and 2017 amounted to ₱53.22 million and ₱53.63 million, respectively.

14. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2018 and 2017 are as follows:

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

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

The Company has 151 existing shareholders as of December 31, 2018 and 2017.

Additional Paid-in Capital

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

Stock Option Plan

The BOD and stockholders of the Company have adopted resolutions on July 27, 2015 approving the establishment of a stock option plan to offer up to 103,320,000 shares out of its unissued capital stock to key personnel. However, the Company has not formalized the stock option plan, hence, no actual grant has been made as of December 31, 2018 and 2017.

Retained Earnings

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

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

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

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2018 amounted to ₱2,604.16 million.

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2018 and 2017. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2018	2017
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**2,775,475,030**	2,015,860,010
	₱8,660,392,179	₱7,900,777,159

15. Net sales

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

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

Geographical markets	
Luzon	₱13,846,959,038
Visayas	19,203,125,116
Total revenue from contracts with customers	₱33,050,084,154

Major goods/service lines	
Food retail	₱21,058,429,818
General Merchandise	11,991,654,336
Total revenue from contracts with customers	₱33,050,084,154

The comparative information has not been presented as it continues to be reported under the accounting standards in effect for those periods.

16. Interest and Other Income

	2018	2017	2016
Gain on insurance claims – net (Notes 6, 7 and 9)	**₱350,681,819**	₱–	₱–
Interest income (Notes 4 and 5 and 10)	**75,072,483**	55,627,487	60,878,058
Foreign currency exchange gains	**20,721,700**	16,345,152	15,245,103
Scrap sales	**11,167,237**	12,018,292	12,031,896
Others	**32,961,803**	54,029,859	48,948,941
	₱490,605,042	₱138,020,790	₱137,103,998

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

Interest income pertains to the interest earned from cash placements and deposits in banks.

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

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

17. Cost of Sales

	2018	2017	2016
Cost of merchandise sold (Note 7)	**₱25,609,645,879**	₱27,403,876,151	₱27,431,969,736
Others (Notes 9 and 19)	**40,372,543**	39,557,332	44,198,902
	₱25,650,018,422	₱27,443,433,483	₱27,476,168,638

Others pertain to the direct labor and other overhead costs.

18. Operating Expenses

	2018	2017	2016
Personnel cost (Note 19)	**₱2,148,349,706**	₱2,092,246,328	₱2,069,207,942
Rental (Notes 21 and 23)	**1,655,368,522**	1,546,596,778	1,461,529,754
Light, water and communication	**771,554,452**	775,924,103	759,444,165
Depreciation and amortization (Note 9)	**488,510,195**	516,456,796	461,508,512
Taxes and licenses	**335,216,318**	300,832,944	282,775,382
Contracted services	**323,312,764**	346,710,142	386,903,911

(Forward)

	2018	2017	2016
Repairs and maintenance	**₱228,491,256**	₱198,983,414	₱121,814,633
Supplies	**182,115,321**	173,321,819	167,452,430
Advertising	**172,889,025**	204,941,649	196,599,764
Transportation and travel	**102,573,301**	89,413,195	84,457,256
Commission	**84,837,363**	102,438,162	103,282,917
Professional fees	**91,367,699**	48,941,711	47,051,238
Insurance	**62,853,099**	31,557,777	29,722,785
Subscriptions	**40,791,458**	45,256,831	23,391,097
Write-off of assets	**11,344,445**	4,729,610	–
Provisions			
Impairment of assets (Notes 8, 9 and 10)	**26,859,905**	64,977,300	–
Impairment of receivables (Note 6)	–	2,124,156	–
Others (Note 11)	–	23,467,777	–
Others	**32,364,940**	27,987,299	31,866,312
	₱6,758,799,769	₱6,596,907,791	₱6,227,008,098

Write-off of assets pertain to trade receivables where there is no reasonable expectation of recovery (Note 6) and nonrefundable security deposits relating to lease agreements that are already terminated.

Provision for impairment of assets and other provisions are non-recurring expenses pertaining to long outstanding advances to supplier and security deposits of pre-terminated and terminated contracts.

Others pertain to representation, entertainment, donations and contributions.

19. Personnel Cost

	2018	2017	2016
Salaries and wages	**₱1,793,136,308**	₱1,741,795,649	₱1,762,420,237
Retirement benefits costs (Note 20)	**47,134,866**	36,352,996	47,239,708
Other employee benefits	**353,384,477**	339,636,308	288,117,067
	₱2,193,655,651	₱2,117,784,953	₱2,097,777,012

The salaries and wages that were recognized as cost of sales amounted to ₱26.90 million, ₱25.54 million and ₱28.57 million in 2018, 2017 and 2016, respectively.

Salaries and wages, retirement benefit cost and other employee benefits amounting to ₱14.19 million, ₱0.05 million and ₱4.16 million, respectively, were capitalized as part of a project cost in 2018.

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

20. Retirement Benefit Obligation

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

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

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

	2018	2017	2016
Current service cost	**₱25,558,718**	₱17,564,470	₱29,150,742
Interest cost	**21,576,148**	18,788,526	18,088,966
	₱47,134,866	₱36,352,996	₱47,239,708

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

	2018	2017	2016
Actuarial gain (loss) due to:			
Experience adjustments	**₱13,680,128**	(₱25,521,310)	₱24,277,645
Changes in financial assumptions	**(13,480,268)**	14,851,463	68,425,907
	₱199,860	(₱10,669,847)	₱92,703,552

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

	2018	2017
Balance at beginning of year	**₱353,707,351**	₱308,148,593
Current service cost	**25,558,718**	17,564,470
Interest cost	**21,576,148**	18,788,526
Benefits paid	**(7,635,456)**	(1,464,085)
Actuarial (gain) loss due to:		
Experience adjustments	**(13,680,128)**	25,521,310
Changes in financial assumptions	**13,480,268**	(14,851,463)
Balance at end of year	**₱393,006,901**	₱353,707,351

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

	2018	2017	2016
Salary increase rate	**5.00%**	3.00%	3.00%
Discount rate	**7.70%**	6.10%	5.70%

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

	2018		2017	
	Increase (decrease)	**Net Retirement benefit liability**	Increase (decrease)	Net Retirement benefit liability
Discount Rates	**+0.5%**	**(₱18,820,579)**	+0.5%	(₱17,237,917)
	-0.5%	**20,430,769**	-0.5%	18,721,956
Salary increase rate	**+0.5%**	**₱19,825,737**	+0.5%	₱18,211,957
	-0.5%	**(18,415,616)**	-0.5%	(16,903,834)

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:

	2018	2017
1 year and less	**₱–**	₱–
More than one year to 5 years	**124,304,913**	118,731,248
More than 5 years to 10 years	**198,397,643**	155,341,926
More than 10 years to 15 years	**436,970,053**	286,927,254
More than 15 years to 20 years	**3,775,078,887**	2,075,649,192
	₱4,534,751,496	₱2,636,649,620

The weighted average duration of the defined benefit obligation is 14 years in 2018 and 2017.

21. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties

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

The significant related party transactions and outstanding balances as of and for the years ended December 31, 2018 and 2017 are as follows:

December 31, 2018

	Amount/Volume for the year ended December 31, 2018	Outstanding Balance as of December 31, 2018	Terms and Conditions
Parent Company (VDC)			
Rental expense (Note 6)	**(₱1,205,781,177)**	**₱1,293,591**	**Noninterest-bearing and due in 30 days, unsecured**
Advances (Note 6)	**(9,239,086)**	**5,828,210**	**Noninterest-bearing and due in 30 days, not impaired**
Management fee	**(52,849,506)**	**–**	**Noninterest-bearing and payable in 30 days, unsecured**
Entities Under Common Control			
Purchase, sale of goods and services and rental income (Notes 6, 8, 10 and 11)	**(865,916,324)**	**439,018,921**	**Noninterest-bearing and payable in 30 days, not impaired**
Due from related parties		**₱446,140,722**	

December 31, 2017

	Amount/Volume for the year ended December 31, 2017	Outstanding Balance as of December 31, 2017	Terms and Conditions
Parent Company (VDC)			
Rental expense (Note 6)	(₱1,132,512,864)	(₱3,599,664)	Noninterest-bearing and due in 30 days, unsecured
Advances (Note 6)	956,584	10,240,181	Noninterest-bearing and due in 30 days, not impaired
Management fee	(26,474,577)	–	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
Purchase, sale of goods and services and rental income (Notes 6, 8, 10 and 11)	(999,527,095)	89,607,005	Noninterest-bearing and payable in 30 days, not impaired
Due from (to) related parties		₱96,247,522	

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

a. rental expense from leases for the Company's store spaces and warehouses;
b. short-term noninterest-bearing payables/receivables in the normal course of business pertaining to intercompany recovery of expenses and trade-related transactions;

c. purchases of goods, services and concession activities;
d. rent income from related party tenants that lease spaces in the Company's stores. These are noninterest-bearing and are collectible within 15 days;
e. management fee pertaining to legal and other services

Cash placements and bank accounts with Wealth Development Bank Corporation (an entity under common control) amounted to ₱1,480.29 million and ₱1,108.57 million in 2018 and 2017, respectively, which earn interest based on prevailing market interest rates amounting to ₱23.98 million and ₱20.38 million in 2018 and 2017, respectively.

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

	2018	2017	2016
Short-term employee benefits	**₱132,824,561**	₱135,149,156	₱125,620,820
Post-employment benefits	**4,483,218**	3,786,384	4,773,611

There are no amounts due to or due from members of key management as of December 31, 2018 and 2017.

The Company has not recognized any impairment losses on amounts due from related parties in 2018 and 2017. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

22. Income Taxes

Provision for income tax consists of:

	2018	2017	2016
Current			
RCIT	**₱370,560,574**	₱440,694,207	₱325,487,583
Final	**13,766,405**	10,314,167	11,028,835
	384,326,979	451,008,374	336,516,418
Deferred	**(3,123,004)**	(32,241,844)	(5,504,837)
	₱381,203,975	₱418,766,530	₱331,011,581

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

	2018	2017
Retirement benefit obligation (Note 20)	**₱117,902,070**	₱106,112,205
Provision for impairment of assets (Note 18)	**16,508,618**	19,493,190
Contract liability from customer loyalty program (Note 12)	**8,060,484**	–
Deferred revenue from customer loyalty program	**–**	13,802,732
Provisions (Note 18)	**7,040,333**	7,040,333
Allowance for impairment of receivables (Note 6)	**3,483,724**	3,483,724
	₱152,995,229	₱149,932,184

The Company recognized deferred tax liability amounting to ₱0.06 million in 2018 and deferred tax asset amounting to ₱3.20 million in 2017 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

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

	2018	2017	2016
Tax at 30% on income before tax	**₱403,974,448**	₱418,717,152	₱336,139,105
Tax effects of:			
Nondeductible expenses	**9,760,279**	5,742,448	1,477,765
Income subjected to final tax	**(7,264,922)**	(5,693,070)	(6,605,289)
Nontaxable gain	**(25,265,830)**	–	–
	₱381,203,975	₱418,766,530	₱331,011,581

23. Lease Commitments

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

Rental expense amounted to ₱1,656.05 million ₱1,546.97 million and ₱1,461.85 million in 2018, 2017 and 2016, respectively (see Note 18).

Rental expense that were recognized as cost of sales amounted to ₱0.68 million, ₱0.38 million and ₱0.32 million in 2018, 2017 and 2016, respectively.

Minimum lease payments amounted to ₱1,185.29 million, ₱1,085.46 million and ₱1,082.43 million in 2018, 2017 and 2016, respectively.

Future minimum lease payments as at December 31, 2018 are as follows:

	2018	2017
Within one year	**₱1,105,667,472**	₱1,233,139,970
After one year but not more than five years	**1,974,467,040**	2,620,279,159
More than five years	**17,145,165,701**	7,441,634,537
	₱20,225,300,213	₱11,295,053,666

Contingent rent payments amounted to ₱470.08 million, ₱461.51 million and ₱379.42 million in 2018, 2017 and 2016, respectively.

Payments made for sublease rentals amounted to ₱731.55 million, ₱724.85 million and ₱797.52 million in 2018, 2017 and 2016, respectively.

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

Rental income amounted to ₱233.75 million, ₱299.88 million and ₱298.39 million in 2018, 2017 and 2016, respectively.

Finance lease - Company as lessee
The Company entered into finance lease arrangements covering various computer equipment used in the operations of the Company. As of December 31, 2018 and 2017, carrying amount of the leased computer equipment amounted to ₱107.54 million and ₱143.26 million, respectively (see Note 9).

The finance lease obligation amounted to ₱65.39 million and ₱79.27 million in 2018 and 2017, respectively. The components are as follows:

	2018	2017
Gross finance lease obligation:		
Not later than one year	**₱40,205,491**	₱32,244,719
Later than one year but no later than five years	**29,481,484**	53,066,671
	69,686,975	85,311,390
Future finance lease charges:		
Not later than one year	**3,460,771**	3,583,660
Later than one year but no later than five years	**832,740**	2,457,404
	4,293,511	6,041,064
	₱65,393,464	₱79,270,326

The present value of minimum lease payments as of December 31, 2018 is as follow:

	2018	2017
Gross finance lease obligation:		
Not later than one year	**₱36,744,720**	₱28,661,059
Later than one year but no later than five years	**28,648,744**	50,609,267
	₱65,393,464	₱79,270,326

The finance cost related to finance lease obligation amounted to ₱2.47 million and ₱2.55 million in 2018 and 2017, respectively.

24. Earnings Per Share

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

	2018	2017	2016
Net income	**₱965,377,520**	₱976,957,309	₱789,452,102
Weighted average number of common shares	**3,429,375,000**	3,429,375,000	3,429,375,000
Basic/Diluted EPS	**₱0.28**	₱0.28	₱0.23

There are no potentially dilutive common shares as of December 31, 2018, 2017 and 2016.

25. Segment Reporting

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

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

The Company conducts its operations through the following store formats:

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

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

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

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

26. Financial Instruments

Fair Value of Financial Instruments
As of December 31, 2018 and 2017, 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" and "Receivables" (excluding "Advances to employees and officers") approximate the carrying values at year-end.

Financial Liabilities
Due to the short-term nature of "Trade and other payables" (excluding statutory payables), their carrying values approximate fair value.

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

	2018		2017	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Finance lease liability (Note 23)	**₱65,393,463**	**₱63,527,692**	₱79,270,326	₱82,908,212
Deposits (Note 13)	**53,216,403**	**47,874,695**	53,630,211	48,246,966
	₱118,609,866	**₱111,402,387**	₱132,900,537	₱131,155,178

The fair value of security deposits were determined by discounting future cash flows using the applicable rates of similar types of instruments. The fair value of the long term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 5.00% to 6.00% for 2018 and 2017.

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

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

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

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

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

The table below shows the maturity profile of the financial liabilities of the Company as of December 31, 2018 and 2017 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

December 31, 2018

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	**₱–**	**₱3,023,314,615**	**₱–**	**₱3,023,314,615**
Related parties	**–**	**73,333,005**	**–**	**73,333,005**
Nontrade	**–**	**400,728,580**	**–**	**400,728,580**
Credit cash bonds	**–**	**328,163,607**	**–**	**328,163,607**
Accrued expenses	**–**	**297,442,442**	**–**	**297,442,442**
Finance lease liability	**–**	**36,744,720**	**28,648,744**	**65,393,464**
Others*	**–**	**36,574,287**	**–**	**36,574,287**
Other noncurrent liabilities	**–**	**–**	**53,216,403**	**53,216,403**
	₱–	**₱4,196,301,256**	**₱81,865,147**	**₱4,278,166,403**

** Others excludes statutory payables*

December 31, 2017

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial liabilities:				
Trade and other payables				
Trade				
Third parties	₱–	₱2,802,050,389	₱–	₱2,802,050,389
Related parties	–	71,349,932	–	71,349,932
Nontrade	–	198,960,416	–	198,960,416
Credit cash bonds	–	326,740,160	–	326,740,160
Accrued expenses	–	254,975,921	–	254,975,921
Finance lease liability	–	28,661,059	50,609,267	79,270,326
Others*	–	22,571,855	–	22,571,855
Other noncurrent liabilities	–	–	53,630,211	53,630,211
	₱–	₱3,705,309,732	₱104,239,478	₱3,809,549,210

** Others excludes statutory payables*

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

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

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

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

	2018			
	Maximum exposure to credit risk	**Fair value of collaterals or credit enhancements**	**Net exposure**	**Financial effect of collaterals or credit enhancements**
Receivables:				
Trade				
Third parties	**₱838,558,786**	**₱328,163,607**	**₱510,395,179**	**₱328,163,607**
Related parties	**420,314**	**–**	**420,314**	**–**
Nontrade				
Rentals	**29,838,612**	**53,216,403**	**23,377,791**	**29,838,612**
Related parties	**24,295,195**	**–**	**24,295,195**	**–**
Advances to employees and officers	**4,224,559**	**–**	**4,224,559**	**–**
Receivable from insurance	**455,625,348**	**–**	**455,625,348**	**–**
Others	**30,243,347**	**–**	**30,243,347**	**–**
	₱1,383,206,161	**₱381,380,010**	**₱1,048,581,733**	**₱358,002,219**

	2017			
	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	₱810,610,601	₱326,740,160	₱483,870,441	₱326,740,160
Related parties	1,297,140	–	1,297,140	–

(Forward)

	2017			
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
Nontrade				
Rentals	₱23,190,823	₱53,630,211	₱30,439,388	₱23,190,823
Related parties	21,467,926	–	21,467,926	–
Advances to employees and officers	9,502,828	–	9,502,828	–
Receivable from insurance	–	–	–	–
Others	23,998,928	–	23,998,928	–
	₱890,068,246	₱380,370,371	₱570,576,651	₱349,930,983

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

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

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

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

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

December 31, 2018

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

December 31, 2017

	Days past due					
	Current	< 30 days	30-60 days	61-90 days	>91 days	Total
Expected credit loss rate	₱–	₱–	₱–	₱–	₱–	₱–
Estimated total gross carrying amount at default	788,732,711	51,716,573	4,783,865	2,411,156	42,423,941	890,068,246
Expected credit loss	₱–	₱–	₱–	₱–	₱–	₱–

January 1, 2017

	Days past due					
	Current	< 30 days	30-60 days	61-90 days	>91 days	Total
Expected credit loss rate	₱–	₱–	₱–	₱–	₱–	₱–
Estimated total gross carrying amount at default	780,461,264	33,495,550	5,005,764	1,267,332	22,289,030	842,518,940
Expected credit loss	₱–	₱–	₱–	₱–	₱–	₱–

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

Balances as of January 1, 2018, as calculated under PAS 39 and PFRS 9	₱11,612,412
Allowance recognized in profit or loss during the year	5,889,959
Receivables written off during the year	(5,889,959)
	₱11,612,412

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

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

27. Events after the Reporting Period

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

28. Others

On January 5, 2018, a department store and supermarket of the Company was seriously damaged by fire. The Company incurred a loss amounting to ₱349.68 million relating to the damaged properties. The Company expects indemnity from its insurers on account of this event.

In 2018, the Company recognized gain on insurance claims amounting to ₱700.36 million, of which ₱455.63 million relates to portion of claim for business interruption already confirmed by some insurers and the remaining ₱244.73 million relates to initial cash received for property damage rehabilitation.

In accordance with the accounting standard, the Company has not recognized the remaining claim for business interruption amounting to ₱372.78 million that is still for confirmation by the remaining insurers, as well as the remaining balance of its inventory claim.

29. Notes to Statements of Cash Flows

The Company's noncash activities are as follows:

a) The Company recognized a receivable from insurers amounting to ₱455.63 million pertaining to the insurance claims for business interruption (see Note 6).
b) Loss on merchandise inventories damaged due to fire amounting to ₱300.49 million was recorded in 2018 (see Note 7).
c) Security deposits relating to lease contracts were written off in 2018 amounting to ₱5.45 million.
d) Transfers from advances to suppliers to property and equipment amounted to ₱7.33 million and ₱45.58 million for 2018 and 2017, respectively.
e) The Company has a remaining unpaid cash dividend amounting to ₱8,159 out of the ₱205.76 million declared in 2018.
f) In 2016, the Company leased computer equipment amounting to ₱178.59 million which were accounted for as finance lease. The carrying amount of the finance lease liability amounted to ₱110.40 million (see Note 23).
g) Advances to suppliers were reclassified from other current assets to other noncurrent assets amounting to ₱64.71 million and ₱123.56 million for 2017 and 2016, respectively.
h) Purchases of property and equipment which remains unpaid amounted to ₱124.70 million for 2016.

i) Changes in finance lease liability for which cash flows have been classified as financing activity in the statement of cash flows follows:

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

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

The Company reported and/or paid the following taxes for 2018:

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's vatable sales are based on actual collections received, hence may not be the same as amounts accrued in the statements of comprehensive income. 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 2018 are as follows:

	Net Sales/Receipts	Output VAT
Sales subject to 12% VAT	₱29,674,482,201	₱3,560,937,864
Zero-rated sales	54,249,733	–
VAT-exempt sales	3,861,193,422	–
Total Sales	**₱33,589,925,356**	**₱3,560,937,864**

The Company's vatable sales are based on actual collections received, hence may not be the same as amounts accrued in the statements of comprehensive income.

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

Beginning of the year	₱450,086
Input tax on purchases of goods exceeding P1 million deferred from prior period	138,540,327
Current year's domestic purchases of goods	3,277,902,257
Current year's capital goods purchases	108,027,348
Total available input VAT	3,524,920,018
Less: deductions from input VAT	
Input tax on purchases of goods exceeding P1 million deferred for the succeeding period	191,848,930
Input tax allocable to exempt sales	34,002,291
Input tax on sales to government closed to expense	588,943
Total allowable input tax	3,298,479,854
Input VAT applied to Output VAT	3,298,479,854
Balance at December 31, 2018	₱–

The Company paid net output VAT during the year amounting to ₱262.46 million.

Taxes and Licenses
The following are taxes, licenses, registration fees and permit fees lodged under "Taxes and Licenses" account under expenses for the year ended December 31, 2018.

Business tax	₱248,447,587
Real property tax	66,027,626
Documentary tax	783,881
Motor vehicle tax	462,945
Others	19,494,279
Total	**₱335,216,318**

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

Expanded withholding taxes	₱428,166,747
Tax on compensation and benefits	85,657,373
Final withholding taxes	3,644,676
Total	**₱517,468,796**

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.

SGV
Building a better working world

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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 included in this Form 17-A, and have issued our report thereon dated March 18, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-AR-1 (Group A),
January 31, 2019 valid until January 30, 2022
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332588, January 3, 2019, Makati City

March 18, 2019

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

Schedule	Contents
A	Financial Assets
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets - Other Assets
E	Long-Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other issuers
H	Capital Stock
I	Reconciliation of Retained Earnings Available for Dividend Declaration
J	Map Showing the Relationships Between and Among the Companies in the Group, its Ultimate Parent Company and Co-subsidiaries
K	Schedule of All Effective Standards and Interpretations Under Philippine Financial Reporting Standards
L	Financial Ratios

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
DECEMBER 31, 2018

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Cash and cash equivalents			
Wealth Development Bank	₱1,122,588,277	₱1,122,588,277	
Philippine National Bank	652,792,194	652,792,194	
Bank of the Philippine Islands	430,276,775	430,276,775	
Security Bank	400,840,569	400,840,569	
Land Bank of the Philippines	117,184,621	117,184,621	
Others	745,765,316	745,765,316	
	3,469,447,752	3,469,447,752	57,156,235
Short-term investments			
Wealthbank	358,438,404	358,438,404	
	358,438,404	358,438,404	14,842,323
Receivables			
Third parties	838,558,786	838,558,786	
Related parties	24,715,509	24,715,509	
Rentals	29,838,612	29,838,612	
Others	490,093,254	490,093,254	
	1,383,206,161	1,383,206,161	-
	₱5,211,092,317	₱5,211,092,317	₱71,998,558

SCHEDULE B

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2018

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Current	Not Current	Balance at the end of the period
N/A	N/A	N/A	N/A	N/A	N/A	N/A

SCHEDULE C

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS DECEMBER 31, 2018

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

SCHEDULE D

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2018

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

SCHEDULE E

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF LONG-TERM DEBT
DECEMBER 31, 2018

Long-term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
N/A	N/A	N/A	N/A

SCHEDULE F

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2018

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

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

SCHEDULE G

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2018

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is file	Nature of guarantee
N/A	N/A	N/A	N/A	N/A

SCHEDULE H

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
DECEMBER 31, 2018

Capital Stock						
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares	10,000,000,000	3,429,375,000	103,320,000	2,577,042,789	14,818,011	–
Preferred Shares	–	–	–	–	–	–
	10,000,000,000	3,429,375,000	103,320,000	2,577,042,789	14,818,011	–

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2018

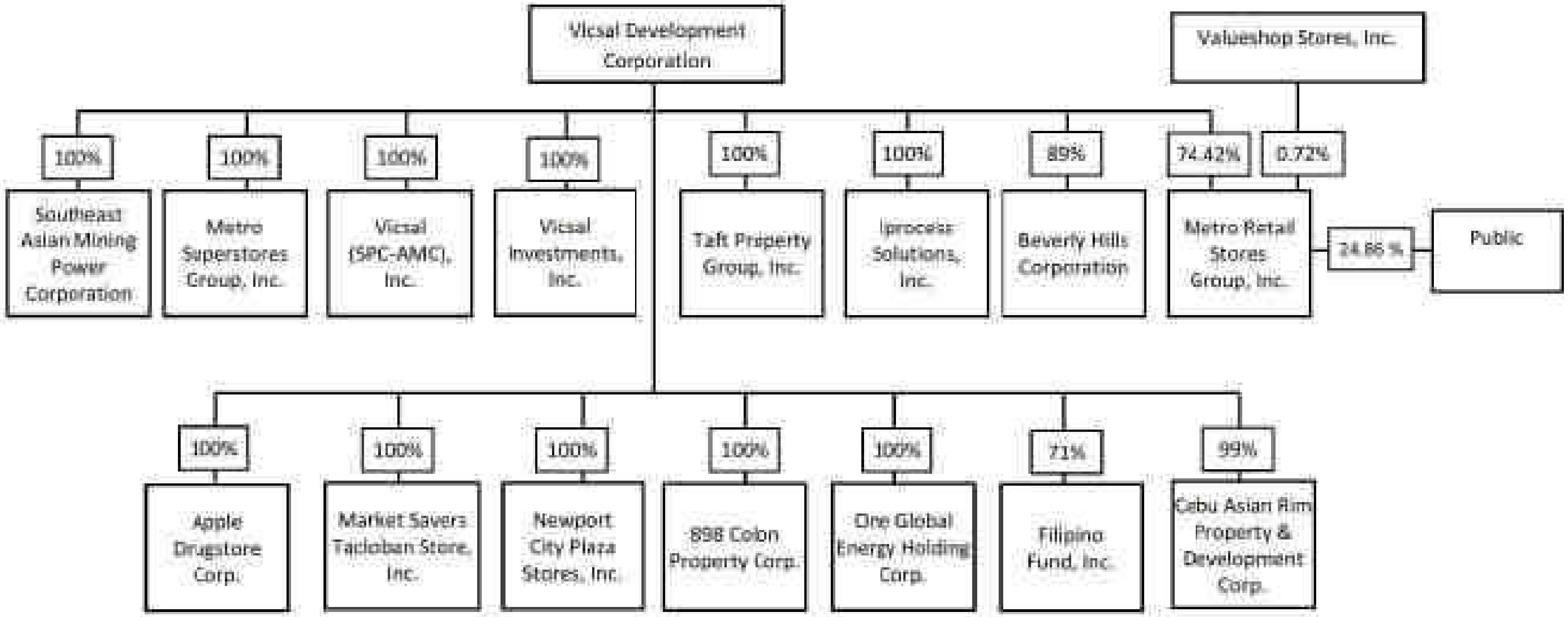
Unappropriated Retained Earnings, beginning	₱2,015,860,010
Less: Deferred tax assets that reduced the amount of income tax expense	(168,192,803)
Unappropriated Retained Earnings as adjusted, beginning	1,847,667,207
Net income based on the face of AFS	965,377,520
Less: Non-actual/unrealized income net of tax	
Amount of provisions for deferred tax during the year that reduced the amount of tax expense	3,123,004
Net Income Actual/Realized	962,254,516
Less: Dividend declarations during the period	205,762,500
Unappropriated Retained Earnings, as adjusted, ending	₱2,604,159,223

SCHEDULE J

METRO RETAIL STORES GROUP, INC.

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

DECEMBER 31, 2018



SCHEDULE K

METRO RETAIL STORES GROUP, INC.

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2018

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as "Part I" and "Part II", respectively. It also prescribed the additional schedule requirements for large entities showing a list of all effective standards and interpretations under Philippine Financial Reporting Standards (PFRS).

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2018:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements **Conceptual Framework Phase A: Objectives and qualitative characteristics**		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs'			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance			✓
	Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Disclosures – Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement (2010 version)	✓		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)	✓		
	Financial Instruments (2014 or final version)	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Presentation of Financial Statements – Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Separate Financial Statements			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 28, Sale or Contribution of Assets* between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 40	Investment Property			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatment	Not early adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Effectivity has been deferred by the Securities and Exchange Commission and FRSC.*

METRO RETAIL STORES GROUP, INC.
FINANCIAL RATIOS
DECEMBER 31, 2018

	December 31	
	2018	2017
CURRENT / LIQUIDITY RATIOS		
Current assets	**₱9,420,924,102**	₱9,660,001,451
Current liabilities	**4,690,567,718**	4,386,589,812
Current Ratios	**2.01**	2.20
Current assets	**₱9,420,924,102**	9,660,001,451
Merchandise inventories	**3,589,605,171**	4,002,495,549
Other current assets	**495,107,374**	316,693,089
Quick assets	**5,336,211,557**	5,340,812,813
Current liabilities	**4,701,070,262**	4,386,589,812
Quick Ratios	**1.14**	1.22

	December 31	
	2018	2017
SOLVENCY / DEBT-TO-EQUITY RATIOS		
Debt	**₱–**	₱–
Less: Cash and cash equivalents	**3,606,179,404**	**3,707,152,708**
Net debt	**(3,606,179,404)**	**(3,707,152,708)**
Equity	**8,703,019,338**	**7,943,264,416**
Net Debt to Equity Ratio	**(0.41)**	(0.47)

	December 31	
	2018	2017
ASSET TO EQUITY RATIOS		
Total assets	**₱13,868,459,104**	₱12,787,801,058
Total equity	**8,703,019,338**	7,943,264,416
Asset to Equity Ratios	**1.59**	1.61

	December 31		
	2018	2017	2016
INTEREST RATE COVERAGE RATIO			
Net income	**₱965,377,520**	₱976,957,309	₱789,452,102
Add:			
Provision for income tax	**381,203,975**	418,766,530	331,011,581
Interest and other financing charges	**19,041,131**	17,576,617	22,805,794
	1,365,622,626	1,413,300,456	1,143,269,477
Less:			
Interest income	**75,072,483**	55,627,487	60,878,058
EBIT	**1,290,550,143**	1,357,672,969	1,082,391,419
Depreciation and amortization	**490,362,103**	519,524,410	464,842,064
EBITDA	**1,780,912,246**	1,877,197,379	1,547,233,483
Finance costs	**19,041,131**	17,576,617	22,805,794
Finance Costs Coverage Ratio	**93.53**	106.80	67.84

	December 31		
	2018	2017	2016
PROFITABILITY RATIOS			
Net income	**₱965,377,520**	₱976,957,309	₱789,452,102
Revenue	**33,050,084,154**	35,015,740,598	34,410,947,243
Net Income Margin	**2.92%**	2.79%	2.29%
Net Income	**₱965,377,520**	₱976,957,309	₱789,452,102
Total assets CY	**13,868,459,104**	12,787,801,058	12,178,586,937
Total assets PY	**12,787,801,058**	12,178,586,937	11,671,653,258
Average total assets	**13,328,130,081**	12,483,193,998	11,925,120,098
Return on Total Assets	**7.24%**	7.83%	6.62%
Net Income	**₱965,377,520**	₱976,957,309	₱789,452,102
Total equity CY	**8,703,019,338**	7,943,264,416	7,145,244,750
Total equity PY	**7,943,264,416**	7,145,244,750	6,445,222,037
Average total equity	**8,323,141,877**	7,544,254,583	6,795,233,394
Return on Equity	**11.60%**	12.95%	11.62%

RETAIL STORES GROUP, INC.

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