

COVER SHEET

for
QUARTERLY FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| C | S | 2 | 0 | 0 | 3 | 1 | 5 | 8 | 7 | 7 |
|---|---|---|---|---|---|---|---|---|---|---|

COMPANY NAME

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|--|---|---|---|---|---|---|--|---|---|---|---|---|---|--|---|---|---|---|---|---|--|---|---|---|
| M | E | T | R | O | | R | E | T | A | I | L | | S | T | O | R | E | S | | G | R | O | U | P | , | | I | N | C |
| . | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| V | I | C | S | A | L | | B | U | I | L | D | I | N | G | , | | C | O | R | N | E | R | | O | F | | C | . | D |
| . | | S | E | N | O | | A | N | D | | W | . | O | . | | S | E | N | O | | S | T | R | E | E | T | S | , | |
| G | U | I | Z | O | , | | N | O | R | T | H | | R | E | C | L | A | M | A | T | I | O | N | | A | R | E | A | , |
| | M | A | N | D | A | U | E | | C | I | T | Y | , | | C | E | B | U | | | | | | | | | | | |

Form Type

| | | | |
|---|---|---|---|
| 1 | 7 | - | Q |
|---|---|---|---|

Department requiring the report

| | | | |
|---|---|---|---|
| C | R | M | D |
|---|---|---|---|

Secondary License Type, If Applicable

| | | |
|---|---|---|
| N | / | A |
|---|---|---|

COMPANY INFORMATION

Company's Email Address

info@metroretail.com.ph

Company's Telephone Number

(032) 236-8390

Mobile Number

N/A

No. of Stockholders

21

Annual Meeting (Month / Day)

First Friday of May

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Joselito G. Orense

Email Address

**joel.orense@metro
retail.com.ph**

Telephone Number/s

(032) 236-7793

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

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

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2018
2. Commission identification number..... ... CS200315877
3. BIR Tax Identification No.... 226-527-915-000
4. Exact name of issuer as specified in its charter METRO RETAIL STORES GROUP, INC.
5. Province, country or other jurisdiction of incorporation or organization Cebu, Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
- Vicsal Building, Corner of C.D. Seno and W.O. Seno Sts., Guizo, North Reclamation Area,
Mandaue City, Cebu 6014**
8. Issuer's telephone number, including area code (032) 236-8390
-
9. Former name, former address and former fiscal year, if changed since last report N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of each Class | Number of shares of common stock Outstanding and Amount of Debt outstanding |
|----------------------|--|
| Common Shares | 3,429,375,000 |

11. Are any or all of the securities listed on a Stock Exchange?

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange, Inc. Common Shares

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes No

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes No

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The financial Statements are filed as part of this form 17-Q, pages 1 to 19 and are incorporated herein by reference to said quarterly report.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Furnish the information required by Part III, Paragraph (A) (2)(b) of "Annex C".

METRO RETAIL STORES GROUP, INC.**UNAUDITED INTERIM STATEMENTS OF FINANCIAL POSITION**

AS AT SEPTEMBER 30, 2018

(With Comparative Audited Figures as at December 31, 2017)

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|--|--------------------------------------|-----------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Notes 3 and 21) | ₱2,277,574,940 | ₱3,707,152,708 |
| Short-term investments (Notes 4 and 21) | 1,160,728,765 | 755,204,271 |
| Receivables (Notes 5 and 21) | 1,709,116,503 | 955,537,954 |
| Merchandise inventories (Note 6) | 3,332,688,337 | 4,002,495,549 |
| Other current assets (Note 7) | 279,854,528 | 185,494,287 |
| Total Current Assets | 8,759,963,073 | 9,605,884,769 |
| Noncurrent Assets | | |
| Property and equipment (Note 8) | 2,832,975,680 | 2,370,402,358 |
| Deferred tax assets (Note 18) | 160,033,438 | 149,932,184 |
| Other noncurrent assets (Note 9) | 696,788,425 | 593,831,479 |
| Total Noncurrent Assets | 3,689,797,543 | 3,114,166,021 |
| TOTAL ASSETS | ₱12,449,760,616 | ₱12,720,050,790 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Trade and other payables (Notes 10 and 21) | ₱3,379,942,677 | ₱3,773,383,677 |
| Income tax payable | 36,827,487 | 190,054,649 |
| Finance lease liability - current portion (Note 22) | 34,353,099 | 28,661,059 |
| Total Current Liabilities | 3,451,123,263 | 3,992,099,385 |
| Noncurrent Liabilities | | |
| Finance lease liability - net of current portion (Note 22) | 34,221,361 | 50,609,267 |
| Retirement benefit obligation (Note 16) | 387,378,200 | 353,707,351 |
| Other noncurrent liabilities (Note 11) | 384,601,198 | 380,370,371 |
| Total Noncurrent Liabilities | 806,200,759 | 784,686,989 |
| Total Liabilities | 4,257,324,022 | 4,776,786,374 |
| Equity | | |
| Capital stock (Note 12) | 3,429,375,000 | 3,429,375,000 |
| Additional paid-in capital (Note 12) | 2,455,542,149 | 2,455,542,149 |
| Retained earnings (Note 12) | 2,265,032,188 | 2,015,860,010 |
| Remeasurement losses on defined benefit obligation (Note 16) | 42,487,257 | 42,487,257 |
| Total Equity | 8,192,436,594 | 7,943,264,416 |
| TOTAL LIABILITIES AND EQUITY | ₱12,449,760,616 | ₱12,720,050,790 |

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

| | For the Three Months Ended September 30 | | For the Nine Months Ended September 30 | |
|---|--|---------------------|---|---------------------|
| | 2018 (Unaudited) | 2017 (Unaudited) | 2018 (Unaudited) | 2017 (Unaudited) |
| REVENUE | | | | |
| Net sales | ₱7,806,577,069 | ₱7,989,538,639 | ₱22,790,583,458 | ₱24,427,456,118 |
| Rental (Note 22) | 57,722,665 | 73,158,279 | 175,743,073 | 222,551,913 |
| | 7,864,299,734 | 8,062,696,918 | 22,966,326,531 | 24,650,008,031 |
| COSTS AND EXPENSES | | | | |
| Cost of sales (Note 13) | 6,112,869,294 | 6,281,540,501 | 17,671,282,133 | 19,242,603,734 |
| Operating expenses (Note 14) | 1,621,347,500 | 1,591,824,074 | 4,736,214,772 | 4,704,348,051 |
| | 7,734,216,794 | 7,873,364,575 | 22,407,496,905 | 23,946,951,785 |
| OTHER INCOME (CHARGES) | | | | |
| Interest and other income (Note 15) | 31,462,822 | 25,574,758 | 103,940,769 | 89,394,866 |
| Finance costs (Notes 11 and 22) | (5,007,720) | (3,862,317) | (12,918,691) | (13,310,552) |
| | 26,455,102 | 21,712,441 | 91,022,078 | 76,084,314 |
| INCOME BEFORE INCOME TAX | 156,538,042 | 211,044,784 | 649,851,704 | 779,140,560 |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18) | | | | |
| Current | 49,026,518 | 65,643,626 | 205,018,281 | 238,915,406 |
| Deferred | (3,044,425) | (3,551,816) | (10,101,255) | (9,844,450) |
| | 45,982,093 | 62,091,810 | 194,917,026 | 229,070,956 |
| NET INCOME | 110,555,949 | 148,952,974 | 454,934,678 | 550,069,604 |
| OTHER COMPREHENSIVE INCOME | | | | |
| <i>Not to be reclassified to profit or loss in subsequent periods</i> | | | | |
| Remeasurement gains (losses) on defined benefit obligation | - | - | - | - |
| Income tax effect | - | - | - | - |
| | - | - | - | - |
| TOTAL COMPREHENSIVE INCOME | ₱110,555,949 | ₱148,952,974 | ₱454,934,678 | ₱550,069,604 |
| Basic/Diluted Earnings Per Share (Note 19) | ₱0.03 | ₱0.04 | ₱0.13 | ₱0.16 |

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

**UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018 AND 2017**

| | Capital Stock (Notes 12 and 19) | Additional Paid-in Capital (Note 12) | Retained Earnings (Note 12) | Remeasurement Gains (Losses) on Defined Benefit Obligation | Total |
|--|------------------------------------|--|-----------------------------------|---|-----------------------|
| Balances at December 31, 2017 (Audited) | ₱3,429,375,000 | ₱2,455,542,149 | ₱2,015,860,010 | ₱42,487,257 | ₱7,943,264,416 |
| Net income for the period | - | - | 454,934,678 | - | 454,934,678 |
| Other comprehensive income | - | - | - | - | - |
| Total Comprehensive Income | - | - | 454,934,678 | - | 454,934,678 |
| Declaration of dividends (Note 12) | - | - | (205,762,500) | - | (205,762,500) |
| Balances at September 30, 2018 (Unaudited) | ₱3,429,375,000 | ₱2,455,542,149 | ₱2,265,032,188 | ₱42,487,257 | ₱8,192,436,594 |
| Balances at December 31, 2016 (Audited) | ₱3,429,375,000 | ₱2,455,542,149 | ₱1,210,371,451 | ₱49,956,150 | ₱7,145,244,750 |
| Net income for the period | - | - | 550,069,604 | - | 550,069,604 |
| Other comprehensive income | - | - | - | - | - |
| Total Comprehensive Income | - | - | 550,069,604 | - | 550,069,604 |
| Declaration of dividends (Note 12) | - | - | (171,468,750) | - | (171,468,750) |
| Balances at September 30, 2017 (Unaudited) | ₱3,429,375,000 | ₱2,455,542,149 | ₱1,558,972,305 | ₱49,956,150 | ₱7,523,845,604 |

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.**UNAUDITED INTERIM STATEMENTS OF CASH FLOWS**

| | Nine-Month Periods Ended September 30 | |
|--|---------------------------------------|-----------------|
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱649,851,704 | ₱779,140,560 |
| Adjustments for: | | |
| Depreciation and amortization (Note 8) | 374,191,058 | 389,316,990 |
| Retirement benefits cost (Note 16) | 34,249,480 | 31,882,604 |
| Finance costs (Notes 11 and 22) | 12,918,691 | 13,310,552 |
| Loss on retirement of property and equipment | 25,802 | - |
| Reversal of allowance for impairment loss (Note 8) | (155,972) | - |
| Interest income (Note 15) | (54,264,411) | (40,682,296) |
| Provision for impairment losses (Note 14) | - | 2,124,156 |
| Operating income before working capital changes | 1,016,816,352 | 1,175,092,566 |
| Decrease (Increase) in: | | |
| Receivables | (383,198,624) | 53,169,382 |
| Merchandise inventories | 350,082,657 | (139,402,837) |
| Other current assets | (120,613,389) | (1,723,930) |
| Increase (decrease) in: | | |
| Trade and other payables | (384,862,425) | (1,015,621,277) |
| Other noncurrent liabilities | 4,230,827 | 8,429,191 |
| Cash flows generated from operations | 482,455,398 | 79,943,095 |
| Interest received | 52,795,572 | 37,076,100 |
| Income tax paid | (331,992,294) | (356,644,411) |
| Interest paid | (22,084,056) | (23,139,191) |
| Net cash flows generated from (used in) operating activities | 181,174,620 | (262,764,407) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property and equipment (Note 8) | (885,820,741) | (331,753,942) |
| Increase in: | | |
| Short-term investments (Note 4) | (405,524,494) | (325,000,000) |
| Other noncurrent assets | (102,956,946) | (33,805,064) |
| Net cash flows used in investing activities | (1,394,302,181) | (690,559,006) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of dividend (Note 12) | (205,754,341) | (171,468,750) |
| Payment of finance lease liability (Note 22) | (10,695,866) | (29,106,203) |
| Net cash flows used in financing activities | (216,450,207) | (200,574,953) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (1,429,577,768) | (1,153,898,366) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 3,707,152,708 | 3,306,952,158 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | ₱2,277,574,940 | ₱2,153,053,792 |

See accompanying Notes to Interim Condensed Financial Statements.

METRO RETAIL STORES GROUP, INC.

NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

1. Corporate Information and Approval of the Financial Statements

Corporate Information

Metro Retail Stores Group, Inc. (MRSGL; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003. 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 12).

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 Unaudited Interim Condensed Financial Statements

The unaudited interim condensed financial statements of the Company as at September 30, 2018 and for the nine-month periods ended September 30, 2018 and 2017 were approved and authorized by the Board of Directors (BOD) on November 8, 2018.

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

Basis of Preparation

The unaudited interim condensed 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.

The accompanying unaudited interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2017.

Statement of Compliance

The accompanying unaudited interim condensed financial statements as of September 30, 2018 and for the nine-month periods ended September 30, 2018 and 2017 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*.

Changes in Accounting Policies

The accounting policies adopted by the Company are consistent with those of the previous financial years except for the following amendments to existing PFRS that became effective beginning January 1, 2018 and which have no impact on the Company's financial statements.

Effective beginning on or after January 1, 2018

- 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.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

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

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company since it does not have activities that are connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs.

Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently assessing the potential impact of adopting PFRS 15 in 2018.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses.

The Company is currently assessing the potential impact of adopting PFRS 9 in 2018.

- Amendments to PAS 28, *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. The amendments should be applied retrospectively, with earlier application permitted.

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

- 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. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The Company does not expect the amendments to have material impact on its financial statements.

- **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 a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Company does not expect the amendments to have material impact on its financial statements.

3. Cash and Cash Equivalents

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|------------------|---|-----------------------------------|
| Cash on hand | ₱107,200,617 | ₱128,987,374 |
| Cash in banks | 1,091,548,609 | 1,902,103,372 |
| Cash equivalents | 1,078,825,714 | 1,676,061,962 |
| | ₱2,277,574,940 | ₱3,707,152,708 |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned from cash in banks and cash equivalents amounted to ₱26.50 million and ₱17.73 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

4. Short-term Investments

These pertain to money market placements with maturities of more than three months but less than one year and earn interest ranging from 3.4% to 3.75% and 2.125% to 2.625% in 2018 and 2017, respectively.

Short-term investments as of September 30, 2018 and December 31, 2017 amounted to ₱1,160.73 million and ₱755.20 million, respectively.

Interest income earned from short-term investments amounted to ₱27.76 million and ₱22.95 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

5. Receivables

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|--------------------------------------|---|-----------------------------------|
| Trade | | |
| Third parties | ₱623,885,034 | ₱810,610,601 |
| Related parties (Note 17) | 482,731,085 | 89,607,005 |
| Nontrade | | |
| Third parties | 613,970,041 | 56,692,579 |
| Related parties (Note 17) | 142,755 | 10,240,181 |
| | 1,720,728,915 | 967,150,366 |
| Less allowance for impairment losses | 11,612,412 | 11,612,412 |
| | ₱1,709,116,503 | ₱955,537,954 |

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

Nontrade receivables consist primarily of insurance claims of the Company for the reimbursement of losses against insurance coverage for inventories, properties and business interruption and other reimbursable costs amounting to ₱521.61 million. These also include receivables from tenants that lease spaces in the Company's stores, advances to employees and officers, accrued interest receivable and other miscellaneous advances.

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

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---------------------------------|---|-----------------------------------|
| Beginning of year | ₱11,612,412 | ₱9,488,256 |
| Provision for impairment losses | - | 6,853,766 |
| Write-off | - | (4,729,610) |
| End of year | ₱11,612,412 | ₱11,612,412 |

6. Merchandise Inventories

For the nine-month periods ended September 30, 2018 and 2017, total net purchases amounted to ₱16,970.44 million and ₱19,352.06 million, respectively, while cost of merchandise sold amounted to ₱17,640.25 million and ₱19,212.66 million for the nine-month periods ended September 30, 2018 and 2017, respectively (see Note 13).

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

In January 2018, a department store and supermarket of the Company were seriously damaged by fire. As a result, the carrying value of the damaged inventories as of that date amounting to ₱319.72 million was claimed from the insurance companies (see Note 5).

No inventories have been pledged as security for the Company's obligations as at September 30, 2018 and December 31, 2017.

The Company does not have any purchase commitments as at September 30, 2018 and December 31, 2017.

As of September 30, 2018 and December 31, 2017, the Company's merchandise inventories amounted to ₱3,332.69 million and ₱4,002.50 million, respectively.

7. Other Current Assets

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|------------------------------|---|-----------------------------------|
| Prepayments | ₱119,697,219 | ₱44,564,688 |
| Supplies | 56,499,102 | 56,708,234 |
| Deferred input VAT – current | 54,140,724 | 44,114,542 |
| Advances to trade suppliers | 49,517,483 | 29,166,803 |
| Others | – | 10,940,020 |
| | ₱279,854,528 | ₱185,494,287 |

Prepayments consist of advance payments of insurance, rental, software, and subscriptions.

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

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

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

8. Property and Equipment

For the nine-month periods ended September 30, 2018 and 2017, total additions to property and equipment amounted to ₱885.82 million and ₱331.75 million, respectively, while depreciation and amortization amounted to ₱374.19 million and ₱389.32 million for the nine-month periods ended September 30, 2018 and 2017, respectively (see Notes 13 and 14).

There are no items of property and equipment that are pledged as security to liabilities as at September 30, 2018 and December 31, 2017.

In January 2018, a department store and supermarket of the Company were seriously damaged by fire. Thus, the Company claimed from insurance the carrying value of the damaged property and equipment as of that date amounting to ₱49.18 million (see Note 5).

In March 2018, the company discontinued the operations of a non-performing hypermarket store. As of September 30, 2018, 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 December 2017, resulting to a reversal of impairment loss of ₱0.16 million recognized in the third quarter results.

As of September 30, 2018 and December 31, 2017, the Company's net book value of property and equipment amounted to ₱2,832.98 million and ₱2,370.40 million, respectively.

Fully depreciated property and equipment

The cost of fully depreciated property and equipment still in use amounted to ₱1,430.96 million and ₱1,204.68 million as at September 30, 2018 and December 31, 2017, respectively.

9. Other Noncurrent Assets

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---------------------------------|---|-----------------------------------|
| Deposits | ₱471,257,939 | ₱462,862,067 |
| Advances to nontrade suppliers | 146,791,447 | 64,712,450 |
| Deferred input VAT | 106,907,863 | 94,425,786 |
| | 724,957,249 | 622,000,303 |
| Allowance for impairment losses | (28,168,824) | (28,168,824) |
| | ₱696,788,425 | ₱593,831,479 |

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

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

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.

Allowance for impairment losses pertains to security deposits which may not be recoverable due to the acceleration of lease termination date from the closure of a non-performing store.

10. Trade and Other Payables

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---------------------------|---|-----------------------------------|
| Trade payables | ₱2,074,472,667 | ₱2,802,050,389 |
| Nontrade | | |
| Third parties | 726,576,348 | 198,960,416 |
| Related parties (Note 17) | 1,764,570 | 3,599,664 |
| Accrued expenses | 333,392,450 | 254,975,921 |

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|------------------|---|-----------------------------------|
| Deferred revenue | 118,530,414 | 204,896,051 |
| Output VAT – net | 21,181,114 | 237,340,635 |
| Others | 104,025,114 | 71,560,601 |
| | ₱3,379,942,677 | ₱3,773,383,677 |

Trade payables pertain to payables to third 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.

Accrued expenses consist of:

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---------------------------|---|-----------------------------------|
| Personnel cost | ₱102,838,015 | ₱27,891,377 |
| Suppliers and contractors | 63,200,841 | 71,767,386 |
| Utilities | 55,415,011 | 56,886,038 |
| Rentals | 45,153,977 | 28,585,246 |
| Marketing-related cost | 20,625,063 | 15,353,296 |
| Professional fees | 6,668,721 | 10,210,811 |
| Other accruals | 39,490,821 | 44,281,767 |
| | ₱333,392,449 | ₱254,975,921 |

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

Others include provision pertaining to the closure of a non-performing store in 2018 and 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.

11. Other Noncurrent Liabilities

| | September 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|-------------------|---|-----------------------------------|
| Credit cash bonds | ₱333,491,346 | ₱326,740,160 |
| Deposits | 51,109,852 | 53,630,211 |
| | ₱384,601,198 | ₱380,370,371 |

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

Finance cost pertaining to the cash bonds amounted to ₱10.77 million and ₱10.94 million for the nine-month periods ended September 30, 2018 and 2017, respectively. These were settled through deduction in the credit account holders' receivable balance.

12. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of September 30, 2018 and December 31, 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 |

Initial Public Offering (IPO)

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

On November 6, 2015, the SEC through its Markets and Securities Regulation Department (MSRD) issued the Order of Registration (SEC-MSRD Order No. 75 Series of 2015) dated November 6, 2016, rendering effective the Company's Registration Statement and the registration of up to 3,429,375,000 common shares of the Company at an offer price of ₱3.99 per share. On the same day, the SEC through the MSRD issued a Certificate of Permit to Sell or Offer for Sale Securities dated November 6, 2016, covering the securities of the Company consisting of 3,429,375,000 common shares covered by SEC-MSRD Order No. 75 Series of 2015.

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

Additional Paid-in Capital

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

Stock Option Plan

The Board of Directors 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 September 30, 2018 and December 31, 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 to be 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 to be paid on May 2, 2017.

13. Cost of sales

| | September 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
|-----------------------------------|---|--------------------------------------|
| Cost of merchandise sold (Note 6) | ₱17,640,251,242 | ₱19,212,660,078 |
| Others (Note 8, 16 and 22) | 31,030,891 | 29,943,656 |
| | ₱17,671,282,133 | ₱19,242,603,734 |

Others pertain to the direct labor and other overhead costs.

14. Operating Expenses

| | September 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
|--|---|--------------------------------------|
| Personnel cost (Note 16) | ₱1,570,710,864 | ₱1,521,108,827 |
| Rental (Note 22) | 1,056,110,258 | 1,119,698,940 |
| Light, water and communications | 569,938,005 | 577,981,760 |
| Depreciation and amortization (Note 8) | 372,676,244 | 386,951,534 |
| Taxes and licenses | 239,673,193 | 225,822,791 |
| Contracted services | 237,495,903 | 252,245,370 |
| Repairs and maintenance | 163,945,240 | 148,959,885 |
| Supplies | 119,676,915 | 114,622,713 |
| Advertising | 115,699,157 | 117,988,503 |
| Transportation and travel | 71,887,786 | 63,468,866 |
| Professional fees | 69,897,260 | 32,431,153 |
| Commission | 56,975,150 | 67,901,174 |
| Insurance | 38,377,827 | 23,765,671 |
| Subscriptions | 32,230,901 | 30,738,064 |
| Others | 20,920,069 | 20,662,800 |
| | ₱4,736,214,772 | ₱4,704,348,051 |

Others pertain to representation and entertainment, provision for impairment losses, and donations and contributions.

15. Interest and Other Income

| | September 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
|---------------------------------|---|--------------------------------------|
| Interest income (Notes 3 and 4) | ₱54,264,411 | ₱40,682,296 |
| Foreign currency exchange gains | 25,416,334 | 13,843,732 |
| Scrap sales | 8,348,464 | 8,541,320 |
| Others | 15,911,560 | 26,327,518 |
| | ₱103,940,769 | ₱89,394,866 |

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

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

16. Personnel Cost

| | September 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
|-------------------------|---|--------------------------------------|
| Salaries and wages | ₱1,299,113,571 | ₱1,274,618,970 |
| Retirement benefit cost | 34,249,480 | 31,882,604 |
| Other employee benefits | 257,955,036 | 234,193,552 |
| | ₱1,591,318,087 | ₱1,540,695,126 |

The salaries and wages that were recognized as cost of sales amounted to ₱20.61 million and ₱19.59 million in 2018 and 2017, respectively.

Other employee benefits consist of the monetized amounts of unused vacation and sick leaves, the required employer contributions to SSS, PHIC and HDMF, 13th month pay and other incentives.

As of September 30, 2018 the Company's retirement benefit obligation and remeasurement gains on the defined benefit obligation amounted to ₱387.38 million and ₱42.49 million, respectively. As of December 31, 2017, these amounted to ₱353.71 million and ₱42.49 million, respectively.

17. 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 may be individuals or corporate entities.

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured, noninterest-bearing. 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 at September 30, 2018 and December 31, 2017 are as follows:

September 30, 2018

| | Amount/Volume for the three-month period ended September 30, 2018 (Unaudited) | Outstanding Balance as of September 30, 2018 (Unaudited) | Terms and Conditions |
|--|---|---|--|
| <i>Parent Company (VDC)</i> | | | |
| Rental expense | (₱780,637,617) | (₱1,764,570) | Noninterest-bearing and due in 30 days, unsecured |
| Advances | 5,593,751 | 142,755 | Noninterest-bearing and due in 30 days, not impaired |
| Management fees | (40,834,042) | - | Noninterest-bearing and due in 30 days, not impaired |
| <i>Entities Under Common Control</i> | | | |
| Purchase, sale of goods and services and rental income | (1,267,804,449) | 482,731,085 | Noninterest-bearing and payable in 30 days, not impaired |
| Due from (to) related parties | | ₱481,109,270 | |

December 31, 2017

| | Amount/Volume for the year ended December 31, 2017 (Audited) | Outstanding Balance as of December 31, 2017 (Audited) | Terms and Conditions |
|--|---|--|--|
| <i>Parent Company (VDC)</i> | | | |
| Rental expense | (₱1,132,512,864) | (₱3,599,664) | Noninterest-bearing and due in 30 days, unsecured |
| Advances | 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 |
| <i>Entities Under Common Control</i> | | | |
| Purchase, sale of goods and services and rental income | (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 ₱1,201.10 million and ₱1,108.57 million as at September 30, 2018 and December 31, 2017, respectively, which earn interest based on prevailing market interest rates.

18. Income Tax

Provision for income tax consists of the following:

| | September 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
|----------|---|--------------------------------------|
| Current | ₱205,018,281 | ₱238,915,406 |
| Deferred | (10,101,255) | (9,844,450) |
| | ₱194,917,026 | ₱229,070,956 |

The current provision for income tax pertains to final and regular corporate income tax for the nine-month periods ended September 30, 2018 and 2017.

As of September 30, 2018 and December 31, 2017, the Company's deferred tax assets amounted to ₱160.03 million and ₱149.93 million, respectively, which pertains to income tax effect of retirement benefit obligation, provision for impairment of assets, deferred revenue from customer loyalty program, provisions and allowance for impairment of receivables.

19. Earnings Per Share

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

| | September 30, 2018 (Unaudited) | September 30, 2017 (Unaudited) |
|-------------------------|---|--------------------------------------|
| Net income | ₱454,934,678 | ₱550,069,604 |
| Number of common shares | 3,429,375,000 | 3,429,375,000 |
| | ₱0.13 | ₱0.16 |

EPS is calculated using the net income divided by the weighted average number of common shares.

The Company assessed that there were no potential dilutive common shares as of September 30, 2018 and 2017.

20. 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, *Operating Segments*.

The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker 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.

21. Financial Instruments

Financial Risk Management Objectives and Policies

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

Liquidity risk

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

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

The table below shows the maturity profile of the financial liabilities of the Company as of September 30, 2018 and December 31, 2017 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

September 30, 2018

| | On Demand | Within One (1) Year | More than One (1) Year | Total |
|-------------------------------|-----------|------------------------|---------------------------|-----------------------|
| Financial Liabilities: | | | | |
| Trade and other payables | | | | |
| Trade | ₱- | ₱2,074,472,667 | ₱- | ₱2,074,472,667 |
| Non-trade | | | | |
| Third parties | - | 726,576,348 | - | 726,576,348 |
| Related parties | - | 1,764,570 | - | 1,764,570 |
| Accrued expenses | - | 333,392,450 | - | 333,392,450 |
| Others* | - | 38,698,464 | - | 38,698,464 |
| Finance lease liability | - | 34,353,099 | 34,221,361 | 68,574,460 |
| Other noncurrent liabilities | - | - | 384,601,198 | 384,601,198 |
| | ₱- | ₱3,209,257,598 | ₱418,822,559 | ₱3,628,080,157 |

* 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 | ₱- | ₱2,802,050,389 | ₱- | ₱2,802,050,389 |
| Non-trade | | | | |
| Third parties | - | 198,960,416 | - | 198,960,416 |
| Related parties | - | 3,599,664 | - | 3,599,664 |
| Accrued expenses | - | 254,975,921 | - | 254,975,921 |
| Others* | - | 22,571,856 | - | 22,571,856 |
| Finance lease liability | - | 28,661,059 | 50,609,267 | 79,270,326 |
| Other noncurrent liabilities | - | - | 380,370,371 | 380,370,371 |
| | ₱- | ₱3,310,819,305 | ₱430,979,638 | ₱3,741,798,943 |

* 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 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.

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

| September 30, 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 | ₱623,885,034 | ₱333,491,346 | ₱290,393,688 | ₱333,491,346 |
| Related parties | 482,731,085 | - | 482,731,085 | - |
| Nontrade | | | | |
| Third parties | 613,970,041 | 51,109,852 | 562,860,189 | 51,109,852 |
| Related parties | 142,755 | - | 142,755 | - |
| | ₱1,720,728,915 | ₱384,601,198 | ₱1,336,127,717 | ₱384,601,198 |

| December 31, 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 | 89,607,005 | - | 89,607,005 | - |
| Nontrade | | | | |
| Third parties | 56,692,579 | 53,630,211 | 3,062,368 | 53,630,211 |
| Related parties | 10,240,181 | - | 10,240,181 | - |
| | ₱967,150,366 | ₱380,370,371 | ₱586,779,995 | ₱380,370,371 |

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

Credit quality per class of financial asset

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

September 30, 2018

| | Neither Past Due Nor Impaired | | Past Due But Not Impaired | Individually Impaired | Total |
|----------------------------|-------------------------------|-------------------|---------------------------------|--------------------------|-----------------------|
| | High Grade | Standard Grade | | | |
| Cash and cash equivalents* | ₱2,170,374,322 | ₱- | ₱- | ₱- | ₱2,170,374,322 |
| Short-term investments | 1,160,728,765 | - | - | - | 1,160,728,765 |
| Receivables | | | | | |
| Trade | | | | | |
| Third parties | 493,004,949 | - | 119,267,672 | 11,612,412 | 623,885,033 |
| Related parties | 482,731,085 | - | - | - | 482,731,085 |
| Nontrade | | | | | |
| Third parties | 613,970,041 | - | - | - | 613,970,041 |
| Related parties | 142,755 | - | - | - | 142,755 |
| | ₱4,920,951,917 | ₱- | ₱119,267,672 | ₱11,612,412 | ₱5,051,832,001 |

*Cash and cash equivalents excludes cash on hand

December 31, 2017

| | Neither Past Due Nor Impaired | | Past Due But Not Impaired | Individually Impaired | Total |
|----------------------------|-------------------------------|-------------------|---------------------------------|--------------------------|-----------------------|
| | High Grade | Standard Grade | | | |
| Cash and cash equivalents* | ₱3,578,165,334 | ₱- | ₱- | ₱- | ₱3,578,165,334 |
| Short-term investments | 755,204,271 | - | - | - | 755,204,271 |
| Receivables | | | | | |
| Trade | | | | | |
| Third parties | 709,275,066 | - | 89,723,123 | 11,612,412 | 810,610,601 |
| Related parties | 89,607,005 | - | - | - | 89,607,005 |
| Nontrade | | | | | |
| Third parties | 56,692,579 | - | - | - | 56,692,579 |
| Related parties | 10,240,181 | - | - | - | 10,240,181 |
| | ₱5,199,184,436 | ₱- | ₱89,723,123 | ₱11,612,412 | ₱5,300,519,971 |

*Cash and cash equivalents excludes cash on hand

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

September 30, 2018

| | Neither past due nor Impaired | Past due but not impaired | | | Individually Impaired | Total |
|----------------------------|-------------------------------------|---------------------------|-------------------|----------------------|--------------------------|-----------------------|
| | | Less than 30 days | 30 - 60 days | More than 60 days | | |
| Cash and cash equivalents* | ₱2,170,374,322 | ₱- | ₱- | ₱- | ₱- | ₱2,170,374,322 |
| Short-term investments | 1,160,728,765 | - | - | - | - | 1,160,728,765 |
| Receivables: | | | | | | |
| Trade | | | | | | |
| Third parties | 493,004,949 | 67,870,157 | 2,906,739 | 48,490,776 | 11,612,412 | 623,885,033 |
| Related parties | 482,731,085 | - | - | - | - | 482,731,085 |
| Nontrade | | | | | | |
| Third parties | 613,970,041 | - | - | - | - | 613,970,041 |
| Related parties | 142,755 | - | - | - | - | 142,755 |
| | ₱4,920,951,917 | ₱67,870,157 | ₱2,906,739 | ₱48,490,776 | ₱11,612,412 | ₱5,051,832,001 |

*Cash and cash equivalents excludes cash on hand

December 31, 2017

| | Neither past due nor Impaired | Past due but not impaired | | | Individually Impaired | Total |
|----------------------------|-------------------------------------|---------------------------|-----------------|----------------------|--------------------------|----------------|
| | | Less than 30 days | 30 - 60 days | More than 60 days | | |
| Cash and cash equivalents* | ₱3,578,165,334 | ₱- | ₱- | ₱- | ₱- | ₱3,578,165,334 |
| Short-term investments | 755,204,271 | - | - | - | - | 755,204,271 |
| Receivables | | | | | | |
| Trade | | | | | | |
| Third parties | 709,275,066 | 51,716,573 | 4,783,865 | 33,222,685 | 11,612,412 | 810,610,601 |
| Related parties | 89,607,005 | - | - | - | - | 89,607,005 |
| Nontrade | | | | | | |
| Third parties | 56,692,579 | - | - | - | - | 56,692,579 |
| Related parties | 10,240,181 | - | - | - | - | 10,240,181 |
| | ₱5,199,184,436 | ₱51,716,573 | ₱4,783,865 | ₱33,222,685 | ₱11,612,412 | ₱5,300,519,971 |

*Cash and cash equivalents excludes cash on hand

Fair Value of Financial Instruments

The fair value of the Company's financial instruments approximates the carrying amount as of September 30, 2018 and December 31, 2017.

Fair Value Hierarchy

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial Assets

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

Financial Liabilities

Due to the short-term nature of "Trade and other payables" (excluding "Deferred revenue and Payables to government") their carrying values approximate fair value.

As of September 30, 2018 and December 31, 2017, the Company has no financial asset and liability valued at fair value. There were no transfers among Levels 1, 2 and 3 in 2017 and 2016.

22. Lease Commitments

Operating leases - Company as lessee

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

Rent expense amounted to ₱1,056.79 million and ₱1,120.07 million for the nine-month periods ended September 30, 2018 and 2017, respectively (see Note 14).

The rent expense that were recognized as cost of sales amounted to ₱0.68 million and ₱0.37 million in 2018 and 2017, respectively (see Note 13).

Minimum lease payments amounted to ₱682.08 million and ₱667.11 million in 2018 and 2017, respectively.

Contingent rent payments amounted to ₱381.19 million and ₱452.96 million in 2018 and 2017, respectively.

Operating leases - Company as lessor

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

Rent income amounted to ₱175.74 million and ₱222.55 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

Finance lease - Company as lessee

The Company entered into finance lease arrangements covering various computer equipment used in the operations of the Company.

The finance lease obligation amounted to ₱68.57 million and ₱79.27 million as of September 30, 2018 and December 31, 2017, respectively. The present value of minimum lease payments is as follows:

| | September 30, 2018 (Unaudited) | December 31 2017 (Audited) |
|--|---|----------------------------------|
| Gross finance lease obligation: | | |
| Not later than one year | ₱34,353,099 | ₱28,661,059 |
| Later than one year but no later than five years | 34,221,361 | 50,609,267 |
| | ₱68,574,460 | ₱79,270,326 |

The finance cost related to finance lease obligation amounted to ₱2.15 million and ₱2.37 million for the nine-month periods ended September 30, 2018 and 2017, respectively.

23. Seasonality of Operations

The Company experiences seasonal fluctuations in supermarket, department store and hypermarket 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.

24. Reclassification of accounts

Certain prior period amounts have been reclassified to conform to the current year presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The nine-month period ended September 30, 2018 compared with the nine-month period ended September 30, 2017 results of operations are as follows:

Revenue

Net sales

For the nine-month period ended September 30, 2018, our net sales were ₱22,790.6 million, a decrease of 6.7% compared to ₱24,427.5 million for the same period last year. 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.

Rental income

For the nine-month period ended September 30, 2018, our rental income was ₱175.7 million, a decrease of 21.1% compared to ₱222.6 million for the same period last year. This is 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.

Interest and other income

For the nine-month period ended September 30, 2018, our interest and other income was ₱103.9 million, an increase of 16.2% compared to ₱89.4 million for the same period last year. This is due to increase in foreign currency exchange gains from our foreign-currency cash accounts and transactions propelled by the movements of the exchange rates in the market. Also, there was an increase in money market placements this year, as well as higher interest rates.

Cost of sales

For the nine-month period ended September 30, 2018, our cost of sales was ₱17,671.28 million, a decrease of 8.2% compared to ₱19,242.6 million for the same period last year. 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 nine-month period ended September 30, 2018, our operating expenses were ₱4,736.2 million, an increase of 0.68% compared to ₱4,704.3 million for the same period last year. In 2018, there were notable decreases in rental, contracted services, light, water and communication resulting primarily from a temporary closure of a supermarket and department store and

discontinuance of operation of a non-performing hypermarket. Despite the decrease in these expenses, there were increases in insurance, taxes and licenses, professional fees and personnel cost due to opening of new stores, salary rate adjustments, promotions, and regularization of employees.

Finance costs

For the nine-month period ended September 30, 2018, finance costs were ₱12.9 million, a decrease of 3.0% compared to ₱13.3 million for the same period last year.

Provision for income tax

For the nine-month period ended September 30, 2018, our provision for income tax was ₱194.9 million, a decrease of 14.9% compared to ₱229.1 million for the nine-month period ended September 30, 2017. The decrease in provision for income tax was primarily due to the decrease in income before tax.

Net income

As a result of the foregoing, for the nine-month period ended September 30, 2018, our net income was ₱454.9 million, a decrease of 17.3% compared to ₱550.1 million for the nine-month period ended September 30, 2017.

Financial Position

As of September 30, 2018 and December 31, 2017, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,308.9 million and ₱5,613.8 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 September 30, 2018 and December 31, 2017 were ₱8,760.0 million and ₱9,605.9 million, respectively. The decrease of 8.8% of current assets is significantly due to decrease of cash and cash equivalents and merchandise inventories. As of September 30, 2018, short-term investment totaled ₱1,160.7 million, receivables totaled ₱1,709.1 million, merchandise inventories totaled ₱3,332.7 million and other current assets totaled ₱279.9 million. As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱955.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱185.5 million.

As of September 30, 2018, cash and cash equivalents amounted to ₱2,277.6 million, a decrease of 38.6% from ₱3,707.2 million as of December 31, 2017. The decrease were mainly attributable to additions to property and equipment amounting to ₱885.8 million, increase in short-term investments amounting ₱405.5 million and payments of dividend amounting to ₱205.8 million.

Current Liabilities

Total current liabilities as of September 30, 2018 and December 31, 2017 were ₱3,451.1 million and ₱3,992.1 million, respectively. As of September 30, 2018 and December 31, 2017, trade and other payables totaled ₱3,379.9 million and ₱3,773.4 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Cash Flows

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

| | For the nine-month periods ended September 30, | |
|--|---|-----------------|
| | 2018 | 2017 |
| | (₱ million) | |
| Net cash flows generated from (used in) operating activities | 181.1 | (262.8) |
| Net cash flows used in investing activities | (1,394.3) | (690.6) |
| Net cash flows used in financing activities | (216.4) | (200.6) |
| Net decrease in cash | <u>(1,429.6)</u> | <u>(1154.0)</u> |

Net cash flows generated from (used in) operating activities

Our net cash flows provided by operating activities for the nine-month period ended September 30, 2018 was ₱181.1 million, which comprised operating income before working capital changes of ₱1,016.8 million, decreased by changes in working capital and income tax and interest paid and offset by interest received. The changes in working capital were mainly attributable to decrease in trade and other payables of ₱384.9 million, increase in receivables of ₱383.2 million, increase in other current assets of ₱120.6 million, offset by the decrease in merchandise inventories of ₱350.1 million.

For the nine-months period ended September 30, 2017, net cash flows used in operating activities was ₱262.8 million, which comprised operating income before working capital changes of ₱1,175.1 million, decreased by changes in working capital and income tax and interest paid and offset by interest received. The changes in working capital were mainly attributable to decrease in trade and other payables of ₱1,015.6 million, as well as increase in merchandise inventory of ₱139.4 million and offset by decrease in receivables of ₱53.2 million.

Net cash flows used in investing activities

For the nine-month period ended September 30, 2018, net cash flows used in investing activities was ₱1,394.3 million, which resulted from additions to property and equipment primarily resulting from the construction and fit outs of new stores amounting to ₱885.8 million, increase in short-term investments amounting to ₱405.5 million and increase in other noncurrent assets amounting to ₱103.0 million.

For the nine-month period ended September 30, 2017, net cash flows used in investing activities was ₱690.6 million, which resulted from increase of ₱325.0 million in short-term investments and additions to property and equipment primarily resulting from fit outs of new stores amounting to ₱331.8 million as well as increase in other noncurrent assets amounting to ₱33.8 million.

Net cash flows used in financing activities

Cash flows used in financing activities for the nine-month period ended September 30, 2018 resulted from the payment of cash dividends amounting to ₱205.8 million and payment of finance lease liability amounting to ₱10.7 million.

Net cash flows used in financing activities was ₱197.9 million for the nine month period ended September 30, 2017, as a result of payment of cash dividends amounting to ₱171.5 million and payment of finance lease liability amounting to ₱29.1 million.

Indebtedness

We have no outstanding loans payable as of September 30, 2018 and as of December 31, 2017.

PART II--OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METRO RETAIL STORES GROUP, INC.

Issuer.....

By:



FRANK S. GAISANO
Chairman and Chief Executive Officer
November 8, 2018



ARTHUR EMMANUEL
President and Chief Operating Officer
November 8, 2018



JOSELITO G. ORENSE
Treasurer and Chief Financial Officer
November 8, 2018