

# COVER SHEET

for  
QUARTERLY FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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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
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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	,
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Form Type

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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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### 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 ..... March 31, 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
<b>Common Shares</b>	<b>3,429,375,000</b>

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 MARCH 31, 2018****(With Comparative Audited Figures as at December 31, 2017)**

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 3 and 21)	<b>₱2,577,459,582</b>	₱3,707,152,708
Short-term investments (Notes 4 and 21)	<b>755,204,271</b>	755,204,271
Receivables (Notes 5 and 21)	<b>1,432,314,810</b>	955,537,954
Merchandise inventories (Note 6)	<b>3,647,308,068</b>	4,002,495,549
Other current assets (Note 7)	<b>260,117,591</b>	185,494,287
<b>Total Current Assets</b>	<b>8,672,404,322</b>	9,605,884,769
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	<b>2,379,281,406</b>	2,370,402,358
Deferred tax assets (Note 18)	<b>153,314,221</b>	149,932,184
Other noncurrent assets (Note 9)	<b>601,983,385</b>	593,831,479
<b>Total Noncurrent Assets</b>	<b>3,134,579,012</b>	3,114,166,021
<b>TOTAL ASSETS</b>	<b>₱11,806,983,334</b>	₱12,720,050,790
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Notes 10 and 21)	<b>₱2,723,981,527</b>	₱3,773,383,677
Income tax payable	<b>219,974,014</b>	190,054,649
Dividends payables (Note 12)	<b>205,762,500</b>	-
Finance lease liability - current portion (Note 22)	<b>34,769,069</b>	28,661,059
<b>Total Current Liabilities</b>	<b>3,184,487,110</b>	3,992,099,385
<b>Noncurrent Liabilities</b>		
Retirement benefit obligation (Note 16)	<b>365,612,179</b>	353,707,351
Finance lease liability - net of current portion (Note 22)	<b>45,201,076</b>	50,609,267
Other noncurrent liabilities (Note 11)	<b>383,988,980</b>	380,370,371
<b>Total Noncurrent Liabilities</b>	<b>794,802,235</b>	784,686,989
<b>Total Liabilities</b>	<b>3,979,289,345</b>	4,776,786,374
<b>Equity</b>		
Capital stock (Note 12)	<b>3,429,375,000</b>	3,429,375,000
Additional paid-in capital (Note 12)	<b>2,455,542,149</b>	2,455,542,149
Retained earnings (Note 12)	<b>1,900,289,583</b>	2,015,860,010
Remeasurement losses on defined benefit obligation (Note 16)	<b>42,487,257</b>	42,487,257
<b>Total Equity</b>	<b>7,827,693,989</b>	7,943,264,416
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱11,806,983,334</b>	₱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 March 31	
	2018	2017
	(Unaudited)	
<b>REVENUE</b>		
Net sales	₱6,967,784,535	₱7,920,323,911
Rental (Note 22)	60,464,639	76,785,469
	<b>7,028,249,174</b>	<b>7,997,109,380</b>
<b>COSTS AND EXPENSES</b>		
Cost of sales (Note 13)	5,393,182,581	6,337,874,671
Operating expenses (Note 14)	1,534,029,622	1,552,719,456
	<b>6,927,212,203</b>	<b>7,890,594,127</b>
<b>OTHER INCOME (CHARGES)</b>		
Interest and other income (Note 15)	31,315,353	33,362,768
Finance costs (Notes 11 and 22)	(4,355,049)	(4,348,328)
	<b>127,997,275</b>	<b>135,529,693</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>127,997,275</b>	<b>135,529,693</b>
<b>PROVISION FOR (BENEFIT FROM)</b>		
<b>INCOME TAX</b> (Note 18)		
Current	41,187,239	42,683,048
Deferred	(3,382,037)	(3,083,826)
	<b>37,805,202</b>	<b>39,599,222</b>
<b>NET INCOME</b>	<b>90,192,073</b>	<b>95,930,471</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Not to be reclassified to profit or loss in subsequent periods</i>		
Remeasurement gains (losses) on defined benefit obligation	-	-
Income tax effect	-	-
	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱90,192,073</b>	<b>₱95,930,471</b>
<b>Basic/Diluted Earnings Per Share</b> (Note 19)	<b>₱0.03</b>	<b>₱0.03</b>

See accompanying Notes to Interim Condensed Financial Statements.

**METRO RETAIL STORES GROUP, INC.**

**UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 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)	<b>₱3,429,375,000</b>	<b>₱2,455,542,149</b>	<b>₱2,015,860,010</b>	<b>₱42,487,257</b>	<b>₱7,943,264,416</b>
Net income for the period	-	-	<b>90,192,073</b>	-	<b>90,192,073</b>
Other comprehensive income	-	-	-	-	-
Total Comprehensive Income	-	-	<b>90,192,073</b>	-	<b>90,192,073</b>
Declaration of dividends (Note 12)	-	-	<b>(205,762,500)</b>	-	<b>(205,762,500)</b>
Balances at March 31, 2108 (Unaudited)	<b>₱3,429,375,000</b>	<b>₱2,455,542,149</b>	<b>₱1,900,289,583</b>	<b>₱42,487,257</b>	<b>₱7,827,693,989</b>
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	-	-	95,930,471	-	95,930,471
Other comprehensive income	-	-	-	-	-
Total Comprehensive Income	-	-	95,930,471	-	95,930,471
Declaration of dividends (Note 12)	-	-	(171,468,750)	-	(171,468,750)
Balances at March 31, 2017 (Unaudited)	₱3,429,375,000	₱2,455,542,149	₱1,134,833,172	₱49,956,150	₱7,069,706,471

*See accompanying Notes to Interim Condensed Financial Statements.*

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

	<b>Three-Month Periods Ended March 31</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱127,997,275</b>	₱135,529,693
Adjustments for:		
Depreciation and amortization (Note 8)	<b>125,571,505</b>	128,057,594
Retirement benefits cost (Note 16)	<b>11,273,456</b>	10,279,419
Finance costs (Notes 11 and 22)	<b>4,355,049</b>	4,348,328
Interest income (Note 15)	<b>(18,183,495)</b>	(12,578,099)
Operating income before working capital changes	<b>251,013,790</b>	265,636,935
Decrease (Increase) in:		
Receivables	<b>(107,622,222)</b>	234,698,534
Merchandise inventories	<b>35,462,926</b>	50,098,771
Other current assets	<b>(82,433,697)</b>	(70,433,562)
Increase (decrease) in:		
Trade and other payables	<b>(1,045,664,386)</b>	(1,160,838,649)
Other noncurrent liabilities	<b>3,618,609</b>	1,438,928
Cash flows generated from operations	<b>(945,624,980)</b>	(679,399,043)
Interest received	<b>17,939,949</b>	13,389,718
Income tax paid	<b>(3,457,483)</b>	(211,184,250)
Interest paid	<b>(6,761,623)</b>	(7,506,332)
Net cash flows used in operating activities	<b>(937,904,137)</b>	(884,699,907)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment (Note 8)	<b>(183,637,085)</b>	(113,734,551)
Increase in:		
Short-term investments (Note 4)	-	(1,250,000,000)
Other noncurrent assets	<b>(8,151,904)</b>	(40,378,077)
Net cash flows used in investing activities	<b>(191,788,989)</b>	(1,404,112,628)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,129,693,126)</b>	(2,288,812,535)
<b>CASH AT BEGINNING OF PERIOD</b>	<b>3,707,152,708</b>	3,306,952,158
<b>CASH AT END OF PERIOD</b>	<b>₱2,577,459,582</b>	₱1,018,139,623

*See accompanying Notes to Interim Condensed Financial Statements.*

## **METRO RETAIL STORES GROUP, INC.**

### **NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**

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#### **1. Corporate Information and Approval of the Financial Statements**

##### Corporate Information

Metro Retail Stores Group, Inc. (formerly Valueshop Market Market, Inc.) (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003. The Company is 72.96 %-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 March 31, 2018 and for the three-month periods ended March 31, 2018 and 2017 were approved and authorized by the Board of Directors (BOD) on May 4, 2018.

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#### **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 March 31, 2018 and for the three-month periods ended March 31, 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.

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### 3. Cash and Cash Equivalents

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Cash on hand	<b>₱112,612,925</b>	₱128,987,374
Cash in banks	<b>836,240,447</b>	1,902,103,372
Cash equivalents	<b>1,628,606,210</b>	1,676,061,962
	<b>₱2,577,459,582</b>	₱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 ₱5.16 million and ₱3.08 million for the three-month periods ended March 31, 2018 and 2017, respectively.

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### 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 2.75% to 3.00% and 2.00% to 2.75% in 2018 and 2017, respectively.

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

Interest income earned from short-term investments amounted to ₱13.02 million and ₱9.50 million for the three-month periods ended March 31, 2018 and 2017, respectively.

## 5. Receivables

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Trade		
Third parties	<b>₱619,398,385</b>	₱810,610,601
Related parties (Note 17)	<b>305,291,452</b>	89,607,005
Nontrade		
Third parties	<b>518,988,186</b>	56,692,579
Related parties (Note 17)	<b>249,199</b>	10,240,181
	<b>1,443,927,222</b>	967,150,366
Less allowance for impairment losses	<b>11,612,412</b>	11,612,412
	<b>₱1,432,314,810</b>	₱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 of insurance claims of the Company for the reimbursement of losses against insurance coverage for inventories, properties and other reimbursable costs, 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:

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

## 6. Merchandise Inventories

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Beginning inventory	<b>₱4,002,495,549</b>	₱4,014,727,305
Add purchases – net	<b>5,027,919,749</b>	27,391,644,395
Cost of goods available for sale	<b>9,030,415,298</b>	31,406,371,700
Less cost of merchandise sold (Note 13)	<b>(5,383,107,230)</b>	(27,403,876,151)
Ending inventory	<b>₱3,647,308,068</b>	₱4,002,495,549

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

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

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

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).

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## 7. Other Current Assets

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Prepayments	<b>₱79,510,569</b>	₱44,564,688
Supplies	<b>58,553,234</b>	56,708,234
Input tax - net	<b>51,857,709</b>	-
Deferred input VAT – current	<b>47,052,983</b>	44,114,542
Advances to trade suppliers	<b>12,203,076</b>	29,166,803
Others	<b>10,940,020</b>	10,940,020
	<b>₱260,117,591</b>	₱185,494,287

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.

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.

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

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## 8. Property and Equipment

For the three-month periods ended March 31, 2018 and 2017, total additions to property and equipment amounted to ₱183.64 million and ₱113.73 million, respectively, while depreciation and amortization amounted to ₱125.57 million and ₱128.06 million for the three-month periods ended March 31, 2018 and 2017, respectively.

There are no items of property and equipment that are pledged as security to liabilities as at March 31, 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).

As of March 31, 2018 and December 31, 2017, the Company's net book value of property and equipment amounted to ₱2,379.28 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 ₱1,233.70 million and ₱1,204.68 million as at March 31, 2018 and December 31, 2017, respectively.

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**9. Other Noncurrent Assets**

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Deposits	<b>₱465,098,692</b>	₱462,862,067
Deferred input VAT	<b>89,970,735</b>	94,425,786
Advances to nontrade suppliers	<b>75,082,782</b>	64,712,450
	<b>630,152,209</b>	622,000,303
Allowance for impairment losses	<b>(28,168,824)</b>	(28,168,824)
	<b>₱601,983,385</b>	₱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.

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**10. Trade and Other Payables**

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Trade payables	<b>₱1,823,267,126</b>	₱2,802,050,389
Nontrade		
Third parties	<b>337,729,201</b>	198,960,416
Related parties (Note 17)	<b>31,676,522</b>	3,599,664
Accrued expenses	<b>265,093,976</b>	254,975,921
Deferred revenue	<b>175,001,136</b>	204,896,051
<i>forward</i>		

Output VAT - net	–	237,340,635
Others	<b>91,213,566</b>	71,560,601
	<b>₱2,723,981,527</b>	<b>₱3,773,383,677</b>

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:

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Suppliers and contractors	<b>₱69,012,263</b>	₱71,767,386
Utilities	<b>52,480,253</b>	56,886,038
Rentals	<b>31,414,555</b>	28,585,246
Personnel cost	<b>32,146,190</b>	27,891,377
Marketing-related cost	<b>28,366,069</b>	15,353,296
Professional fees	<b>9,586,799</b>	10,210,811
Other accruals	<b>42,087,847</b>	44,281,767
	<b>₱265,093,976</b>	<b>₱254,975,921</b>

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

	<b>March 31, 2018 (Unaudited)</b>	December 31, 2017 (Audited)
Credit cash bonds	<b>₱329,096,501</b>	₱326,740,160
Deposits	<b>54,892,479</b>	53,630,211
	<b>₱383,988,980</b>	<b>₱380,370,371</b>

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 ₱3.66 million and ₱3.61 million for the three-month periods ended March 31, 2018 and 2017, respectively. These were settled through deduction in the credit account holders' receivable balance.

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## 12. Equity

### Capital Stock

The Company's authorized, issued and outstanding shares as of March 31, 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 March 31, 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.

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**13. Cost of sales**

	<b>March 31, 2018 (Unaudited)</b>	March 31, 2017 (Unaudited)
Cost of merchandise sold (Note 6)	<b>₱5,383,107,230</b>	₱6,327,318,787
Others	<b>10,075,351</b>	10,555,884
	<b>₱5,393,182,581</b>	₱6,337,874,671

Others pertain to the direct labor and other overhead costs.

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**14. Operating Expenses**

	<b>March 31, 2018 (Unaudited)</b>	March 31, 2017 (Unaudited)
Personnel cost (Note 16)	<b>₱518,435,285</b>	₱507,328,125
Rental (Note 22)	<b>355,395,993</b>	373,419,460
Light, water and communications	<b>184,009,579</b>	197,978,688
Depreciation and amortization (Note 8)	<b>125,003,358</b>	127,248,301
Taxes and licenses	<b>79,950,163</b>	79,258,148
Contracted services	<b>79,382,181</b>	92,861,993
Repairs and maintenance	<b>43,438,009</b>	49,415,472
Advertising	<b>41,153,800</b>	24,329,063
Supplies	<b>33,040,959</b>	37,770,291
Transportation and travel	<b>21,916,255</b>	19,065,492
Commission	<b>16,090,340</b>	21,874,385
Professional fees	<b>15,570,961</b>	3,872,882
Subscriptions	<b>8,144,706</b>	6,388,485
Insurance	<b>7,003,354</b>	7,287,855
Others	<b>5,494,680</b>	4,620,816
	<b>₱1,534,029,622</b>	₱1,552,719,456

Others pertain to representation and entertainment, donations and contributions.

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**15. Interest and Other Income**

	<b>March 31, 2018 (Unaudited)</b>	March 31, 2017 (Unaudited)
Interest income (Notes 3 and 4)	<b>₱18,183,495</b>	₱12,578,099
Scrap sales	<b>2,591,303</b>	2,758,433
Foreign currency exchange gains	<b>7,704,011</b>	6,495,929
Others	<b>2,836,544</b>	11,530,307
	<b>₱31,315,353</b>	₱33,362,768

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.

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**16. Personnel Cost**

	<b>March 31, 2018 (Unaudited)</b>	March 31, 2017 (Unaudited)
Salaries and wages	<b>₱432,678,285</b>	₱433,320,946
Retirement benefit cost	<b>11,273,456</b>	10,279,419
Other employee benefits	<b>81,421,337</b>	70,701,469
	<b>₱525,373,078</b>	₱514,301,834

The salaries and wages that were recognized as cost of sales amounted to ₱6.94 million and ₱6.97 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 March 31, 2018 the Company's retirement benefit obligation and remeasurement gains on the defined benefit obligation amounted to ₱365.61 million and ₱42.49 million, respectively. As of December 31, 2017, these amounted to ₱353.71 million and ₱42.49 million, respectively.

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**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 March 31, 2018 and December 31, 2017 are as follows:

**March 31, 2018**

	Amount/Volume for the three-month period ended March 31, 2018 (Unaudited)	Outstanding Balance as of March 31, 2018 (Unaudited)	Terms and Conditions
<i>Parent Company (VDC)</i>			
Rental expense	(₱211,894,087)	(₱25,490,522)	Noninterest-bearing and due in 30 days, unsecured
Advances	(2,440,713)	249,199	Noninterest-bearing and due in 30 days, not impaired
Management fees	(6,186,000)	(6,186,000)	Noninterest-bearing and due in 30 days, not impaired
<i>Entities Under Common Control</i>			
Purchase, sale of goods and services and rental income	(491,846,527)	305,291,452	Noninterest-bearing and payable in 30 days, not impaired
<b>Due from (to) related parties</b>		<b>₱336,718,775</b>	

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
<b>Due from (to) related parties</b>		<b>₱96,247,522</b>	

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 ₱936.07 million and ₱1,108.57 million as at March 31, 2018 and December 31, 2017, respectively, which earn interest based on prevailing market interest rates.

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## 18. Income Tax

Provision for income tax consists of the following:

	<b>March 31, 2018 (Unaudited)</b>	March 31, 2017 (Unaudited)
Current	<b>₱41,187,239</b>	₱42,683,048
Deferred	<b>(3,382,037)</b>	(3,083,826)
	<b>₱37,805,202</b>	₱39,599,222

The current provision for income tax pertains to final and regular corporate income tax for the three-month periods ended March 31, 2018 and 2017.

As of March 31, 2018 and December 31, 2017, the Company's deferred tax assets amounted to ₱153.31 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.

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## 19. Earnings Per Share

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

	<b>March 31, 2018 (Unaudited)</b>	March 31, 2017 (Unaudited)
Net income	<b>₱90,192,073</b>	₱95,930,471
Number of common shares	<b>3,429,375,000</b>	3,429,375,000
	<b>₱0.03</b>	₱0.03

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 March 31, 2018 and 2017.

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## 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 may be 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.

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## 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

March 31, 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.

**March 31, 2018**

	On Demand	Within Three (3) Months	More than Three (3) Months	Total
Financial Liabilities:				
Trade and other payables				
Trade	₱-	₱1,823,267,126	₱-	₱1,823,267,126
Non-trade				
Third parties	-	337,729,201	-	337,729,201
Related parties	-	31,676,522	-	31,676,522
Accrued expenses	-	265,093,976	-	265,093,976
Others*	-	29,842,319	-	29,842,319
Finance lease liability	-	34,769,069	45,201,076	79,970,145
Other noncurrent liabilities	-	-	383,988,980	383,988,980
	₱-	₱2,522,378,213	₱429,190,056	₱2,951,568,269

\* Others excludes statutory payables

**December 31, 2017**

	On Demand	Within Three (3) Months	More than Three (3) Months	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:

March 31, 2018				
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
<b>Receivables:</b>				
Trade				
Third parties	₱619,398,385	₱329,096,500	₱290,301,885	₱329,096,500
Related parties	305,291,452	-	305,291,452	-
Nontrade				
Third parties	518,988,186	54,892,479	464,095,707	54,892,479
Related parties	249,199	-	249,199	-
	<b>₱1,443,927,222</b>	<b>₱383,988,979</b>	<b>₱1,059,938,243</b>	<b>₱383,988,979</b>

December 31, 2017				
	Maximum exposure to credit risk	Fair value of collaterals or credit enhancements	Net exposure	Financial effect of collaterals or credit enhancements
<b>Receivables:</b>				
Trade				
Third parties	₱810,610,601	₱326,740,16	₱483,870,441	₱326,740,160
Related parties	89,607,005	-	89,607,005	-
Nontrade				
Related parties	10,240,181	-	10,240,181	-
Third parties	47,189,751	53,630,211	-	47,189,751
	<b>₱957,647,538</b>	<b>₱380,370,371</b>	<b>₱583,717,627</b>	<b>₱373,929,911</b>

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:

**March 31, 2018**

	Neither Past Due Nor Impaired		Past Due But Not Impaired	Individually Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents*	₱2,464,846,657	₱-	₱-	₱-	₱2,464,846,657
Short-term investments	755,204,271	-	-	-	755,204,271
Receivables					
Trade					
Third parties	523,014,232	-	84,771,741	11,612,412	619,398,385
Related parties	305,291,452	-	-	-	305,291,452
Nontrade					
Third parties	518,988,186	-	-	-	518,988,186
Related parties	249,199	-	-	-	249,199
	<b>₱4,567,593,997</b>	<b>₱-</b>	<b>₱84,771,741</b>	<b>₱11,612,412</b>	<b>₱4,663,978,150</b>

\*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	47,189,751	-	-	-	47,189,751
Related parties	10,240,181	-	-	-	10,240,181
	<b>₱5,189,681,608</b>	<b>₱-</b>	<b>₱89,723,123</b>	<b>₱11,612,412</b>	<b>₱5,291,017,143</b>

\*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:

March 31, 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*	<b>₱2,464,846,657</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱2,464,846,657</b>
Short-term investments	755,204,271	-	-	-	-	755,204,271
Receivables:						
Trade						
Third parties	523,014,232	59,545,737	6,406,811	18,819,192	11,612,412	619,398,385
Related parties	305,291,452	-	-	-	-	305,291,452
Nontrade						
Third parties	518,988,186	-	-	-	-	518,988,186
Related parties	249,199	-	-	-	-	249,199
	<b>₱4,567,593,997</b>	<b>₱59,545,737</b>	<b>₱6,406,811</b>	<b>₱18,819,192</b>	<b>₱11,612,412</b>	<b>₱4,663,978,150</b>

\*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	47,189,751	-	-	-	-	47,189,751
Related parties	10,240,181	-	-	-	-	10,240,181
	<b>₱5,189,681,608</b>	<b>₱51,716,573</b>	<b>₱4,783,865</b>	<b>₱33,222,685</b>	<b>₱11,612,412</b>	<b>₱5,291,017,143</b>

\*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 March 31, 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 March 31, 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.

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## **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 ₱355.40 million and ₱373.42 million for the three-month periods ended March 31, 2018 and 2017, respectively (see Note 14).

Minimum lease payments amounted to ₱242.20 million and ₱280.59 million in 2018 and 2017, respectively.

Contingent rent payments amounted to ₱113.2 million and ₱92.83 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 ₱60.46 million and ₱76.79 million for the three-month periods ended

March 31, 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 ₱79.97 million and ₱79.27 million as of March 31, 2018 and December 31, 2017, respectively. The present value of minimum lease payments is as follows:

	<b>March 31, 2018 (Unaudited)</b>	December 31 2017 (Audited)
Gross finance lease obligation:		
Not later than one year	<b>₱34,769,069</b>	₱28,661,059
Later than one year but no later than five years	<b>45,201,076</b>	50,609,267
	<b>₱79,970,145</b>	₱79,270,326

The finance cost related to finance lease obligation amounted to ₱0.70 million and ₱0.74 million for the three-month periods ended March 31, 2018 and 2017, respectively.

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**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.

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**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 three-month period ended March 31, 2018 compared with the three-month period ended March 31, 2017 results of operations are as follows:

#### Revenue

##### *Net sales*

For the three-month period ended March 31, 2018, our net sales were ₱6,967.8 million, a decrease of 12.0% compared to ₱7,920.3 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 and the rationalization of sales to resellers which were not profitable.

##### *Rental Income*

For the three-month period ended March 31, 2018, our rental income was ₱60.5 million, a decrease of 21.2% compared to ₱76.8 million for the same period last year. This is due to a decrease in net leasable space resulting from a temporary closure of a supermarket and department store 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 three-month period ended March 31, 2018, our interest and other income was ₱31.3 million, a decrease of 6.3% compared to ₱33.4 million for the same period last year. Despite a notable increase in interest income, the decrease was primarily due to a one off adjustment of liabilities in 2017.

##### *Cost of sales*

For the three-month period ended March 31, 2018, our cost of sales was ₱5,393.2 million, a decrease of 14.9% compared to ₱6,337.9 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 sales to resellers.

##### *Operating expenses*

For the three-month period ended March 31, 2018, our operating expenses were ₱1,534.0 million, a decrease of 1.2% compared to ₱1,552.7 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. However, there were increases in personnel cost due to salary rate adjustments, promotions,

regularization of employees and opening of new stores and in advertising expense for an increase promotional activities.

#### *Finance costs*

For the three-month period ended March 31, 2018, finance costs were ₱4.4 million, an increase of 2.3% compared to ₱4.3 million for the same period last year.

#### *Provision for income tax*

For the three-month period ended March 31, 2018, our provision for income tax was ₱37.8 million, a decrease of 4.3% compared to ₱39.6 million for the three-month period ended March 31, 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 three-month period ended March 31, 2018, our net income was ₱90.2 million, a decrease of 5.9% compared to ₱95.9 million for the three-month period ended March 31, 2017.

### **Financial Position**

As of March 31, 2018 and December 31, 2017, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,487.9 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 March 31, 2018 and December 31, 2017 were ₱8,672.4 million and ₱9,605.9 million, respectively. The decrease of 9.7% of current assets is significantly due to decrease of cash and cash equivalents and merchandise inventories. As of March 31, 2018, short-term investment totaled ₱755.2 million, receivables totaled ₱1,432.3 million, merchandise inventories totaled ₱3,647.3 million and other current assets totaled ₱260.1 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 March 31, 2018, cash and cash equivalents amounted to ₱2,577.5 million, a decrease of 30.5% from ₱3,707.2 million as of December 31, 2017. The decrease were mainly attributable to net cash flow used in operating activities amounting to ₱937.9 million and additions to property and equipment amounting to ₱183.6 million.

#### *Current Liabilities*

Total current liabilities as of March 31, 2018 and December 31, 2017 were ₱3,184.5 million and ₱3,992.1 million, respectively. As of March 31, 2018 and December 31, 2017, trade and other payables totaled ₱2,724.0 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.

	<b>For the three-month periods ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	(₱ million)	
Net cash flows used in operating activities	(937.9)	(884.7)
Net cash flows used in investing activities	(191.8)	(1,404.1)
Net decrease in cash	<u>(1,129.7)</u>	<u>(2,288.8)</u>

### *Net cash flows used in operating activities*

Our net cash flows used in operating activities for the three-month period ended March 31, 2018 was ₱937.9 million, which comprised operating income before working capital changes of ₱251.0 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 ₱1,045.7 million, increase in receivables of ₱107.6 million, increase in other current assets of ₱82.4 million, offset by the decrease in merchandise inventories of ₱35.5 million.

For the three-months period ended March 31, 2017, net cash flows generated from operating activities was ₱884.7 million, which comprised operating income before working capital changes of ₱265.6 million, adjusted 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 ₱1,160.8 million and offset by decrease in receivables of ₱234.7 million as well as decrease in merchandise inventory of ₱50.1 million and increase in other current assets of ₱70.4 million.

### *Net cash flows used in investing activities*

For the three-month period ended March 31, 2018, net cash flows used in investing activities was ₱191.8 million, which resulted from additions to property and equipment primarily resulting from fit outs of new stores amounting to ₱183.6 million and increase in other noncurrent assets amounting to ₱8.2 million. For the three-month period ended March 31, 2017, net cash flows used in investing activities was ₱1,404.1 million, which resulted from increase of ₱1,250.0 million short-term investments and additions to property and equipment resulting from acquisition of assets as well as fit outs of new stores amounting to ₱113.7 million.

### *Indebtedness*

We have no outstanding loans payable as of March 31, 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.

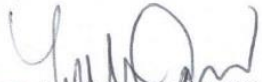
**SIGNATURES**

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 STORESGROUP, INC.

Issuer.....

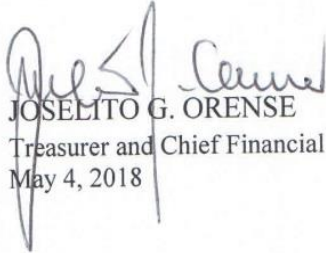
By:



FRANK S. GAISANO  
Chairman and Chief Executive Officer  
May 4, 2018



ARTHUR EMMANUEL  
President and Chief Operating Officer  
May 4, 2018



JOSELITO G. ORENSE  
Treasurer and Chief Financial Officer  
May 4, 2018

