METRO

RETAIL STORES GROUP, INC.

2017 ANNUAL REPORT

Building **stronger** teams

CONTENTS


METRO
DEPARTMENT STORE
SUPERMARKET
WELCOME TO METRO

MISSION - VALUES

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

Make our **CUSTOMERS** happy.
Engage with our **COMMUNITIES**.
Take care of our **ENVIRONMENT**.
Returns for our **SHAREHOLDERS**.
Our **PEOPLE** are our partners.

VISION STATEMENT

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

(L-R) Jack S. Gaisano, Edward S. Gaisano, Frank S. Gaisano, Margaret Gaisano Ang, (seated) Mrs. Sally Gaisano; (in frame) the late Mr. Victor Gaisano

HISTORY AND MILESTONES

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

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

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

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

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

STORE FORMATS

METRO
RETAIL STORES GROUP, INC.

YTD 2017

DEPARTMENT STORE	
NCR	5
Luzon	3
Visayas	4
TOTAL	12

SUPERMARKET	
NCR	7
Luzon	3
Visayas	16
TOTAL	26

HYPERMARKET	
NCR	2
Luzon	3
Visayas	9
TOTAL	14

METRO DEPARTMENT STORE

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

- Metro Alabang Town Center
- Metro Ayala Center Cebu
- Metro Colon
- Metro Fairview Terraces
- Metro Legazpi
- Metro Lucena
- Metro Mandaue
- Metro Market! Market!
- Metro Marquee Mall Angeles
- Metro The District Imus
- Metro Toledo
- Metro U.P. Town Center

METRO SUPERMARKET

Customers come regularly to Metro Supermarket for its wide range of products: from the freshest-of-the-fresh produce, meat, poultry, and seafood, to household supplies and its complete selection of international products. A world-class shopping experience is guaranteed in its 26 locations across the country that all adhere to global safety standards.

Metro Alabang Town Center
Metro Atria
Metro Ayala Center Cebu
Metro Binondo Lucky Chinatown
Metro Canduman
Metro Carmen
Metro Colon
Metro Legazpi

Metro Lucena
Metro Mandaluyong
Metro Mandaue
Metro Market! Market!
Metro Marquee Mall Angeles
Metro Plaza 66 Newport City
Metro The District Imus
Metro Toledo

Metro Fresh 'N Easy Banilad
Metro Fresh 'N Easy Basak
Metro Fresh 'N Easy Lawton
Metro Fresh 'N Easy Mactan
Metro Fresh 'N Easy Minglanilla

Metro Fresh 'N Easy Punta
Metro Fresh 'N Easy Tabok
Metro Fresh 'N Easy Tabunok
Metro Fresh 'N Easy Umapad
Metro Wholesale Mart

SUPER METRO HYPERMARKET

Packing ease and convenience into the shopping experience, Super Metro Hypermarket is the one-stop shop frequented by busy individuals searching for a wide variety of products. The expansive selection of general merchandise and food products in each of the 14 hypermarkets found across the country offers shoppers value for money.

Super Metro Anonas
Super Metro Antipolo
Super Metro Bogo
Super Metro Calamba
Super Metro Calbayog
Super Metro Carcar
Super Metro Colon
Super Metro Lapu-Lapu
Super Metro Maasin
Super Metro Mambaling
Super Metro Naga Camsur
Super Metro Naga
Super Metro North Point Tagaytay
Super Metro Talisay

ANCILLIARY BUSINESSES

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

Food Avenue showcases a wide selection of affordable yet delicious meals set in a modern food court ambience.

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

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

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

FRANK S. GAISANO
Chairman and Chief Executive Officer

MESSAGE FROM THE CHAIRMAN

To our dear shareholders,

The year 2017 was a special time for us at Metro Retail Stores Group, Inc., as it marked the 35th anniversary of our foundation. We happily celebrated it the best way we know how: by spreading the joy of Metro's great value, affordability and shopping convenience to our ever growing customer base.

I find it deeply gratifying to know that, as a publicly listed company, we have come a long way from our humble beginnings as a department store along the historical street of Colon in Cebu. And yet, at its heart, MRSGI beats with the same familial values imparted to us by our founders Victor and Sally Gaisano – trust and hard work, which have always underpinned our way of doing things.

Our people have been working hard to build a foundation for new growth. Enabled by proactive growth initiatives, we have expanded to 52 multi-format stores nationwide, consequently allowing our customer-centric brand of service to reach new markets.

To solidify MRSGI's dominance in the Visayas region, we opened our 51st store at the heart of Mandaue City in Cebu. This was then followed by the very first 24/7 Super Metro Hypermarket in Tagaytay City in Cavite, to give residents and tourists access to quality and affordable items, as a testament of our commitment to service innovation. In 2018, we look forward to adding more stores in Western and Eastern Visayas.

Always mindful of your interest as our shareholders, we have increased the profitability of the company in 2017. We were able to achieve this by properly executing our margin improvement, cost rationalization, and sales programs. These and other factors helped deliver over ₱35.0 billion in sales in 2017 and ₱977.0 million in profit. Buoyed by these successes, we shall continue our drive for long-term sustainable sales and earnings growth.

We are proud of – and determined to – maintain our stature as one of the top retailers in the Philippines. This position has given us many opportunities for even further growth.

Driving the growth of the Philippine economy

We are amidst a growing retail landscape. Driven by a demographic base with increasing levels of disposable income, retail developments are expected to grow in the coming years. Malls, hypermarkets, supermarkets and other modern retail formats are expected to grow. We anticipate such growth will be stronger in areas such as Cebu, Davao, Cavite and Pampanga – most of which are markets that we already have presence in.

We assure our shareholders that where there's great potential for growth, MRSGI will be present. We shall therefore continue to partner with the country's top developers, focusing on faster-growing spaces and building a high performance organization to deliver sales growth across our business channels.

We shall also continue breaking more ground in 2018, as we remain committed to our promise of doubling our 2015 gross floor area by 2020. By end of 2017, we have achieved 566,494 sqm. GFA or 70.8 percent of our target.

Teaming up for the future

I am proud to acknowledge the fact that our success is linked to the daily efforts of our employees across the business. From the beginning, MRSGI has recognized the importance of building the capabilities of its employees, and many of them have displayed unparalleled loyalty as they began their journey with us 35 years ago. Retaining and developing such talents has allowed the company to maintain the quality standards that our customers have always expected from us.

I am also proud of the ongoing efforts of our employees and customers to give back to our communities. In 2017, this commitment resulted in the provision of community initiatives that touch on education, livelihood, employment, environmental care, and emergency aid that we continue to this day.

As an organization, MRSGI still has a long way to go and more to do. We shall continue to expand, innovate, and delight our customers. We will continue to work hard and create value for all our stakeholders. We will continue creating a nurturing and enriching environment for our employees, and to work closely with our vendors and our developers, in building our shared businesses together.

Working together is critical to our continued success. To all of our people, and to all of our shareholders, I express to you my deepest pride and gratitude, for your patronage, for your dedication, and for your belief in our organization.

FRANK S. GAISANO
Chairman and CEO
Metro Retail Stores Group, Inc.

ARTHUR EMMANUEL
President and Chief Operating Officer

PRESIDENT'S REPORT

To our dear shareholders,

For the past three and a half decades, Metro Retail Stores Group, Inc. (MRSGI) has been a key player in the retail narrative of the country. Serving over 250,000 customers daily throughout Luzon and Visayas, the company provides a wide assortment of high quality products at affordable price points that are delivered by its true secret to success, our people.

Ending its 35th year strong and robust

MRSGI has stood the test of time. Though we had our fair share of challenges, we believe that the future is all about adapting to change, while adhering to our values of making our customers happy, caring for our environment and our communities, and creating better opportunities for our shareholders and partners. We are a strong and profitable business, with unique strengths, and a bright future ahead. We are very optimistic as we know that we are blessed with our people, from the rank and file to the executive, who continuously allow us to take advantage of every opportunity to win as an organization.

In fiscal 2017, I am pleased to report that our net sales grew to ₱35.0 billion, while our net income surged to ₱977.0 million, an increase of 23.7 percent compared to ₱789.5 million in 2016. Further underscoring our financial strength, we have declared dividends amounting to ₱205.8 million or 21 percent of our earnings for 2017.

We owe much of these accomplishments to the foundation on which Victor and Sally Gaisano built the company - good products, good services, hard work, and trust – and which the MRSGI brand has continued to uphold throughout its 35 years. We take pride in providing quality products in a friendly atmosphere and at prices that are highly competitive and reasonable. We have created one of the best multi-platform experiences in the retail industry and are excited about our plans to continue to improve in all facets of our operations.

MRSGI as a retail innovator

Adapting to change also means challenging ourselves to stay "ahead of the curve". As we continue to work toward operational excellence and improve overall shopping experience, we put our stores through rigorous inspections to ensure the variety and quality of our merchandise. Internally and through organizations like SGS, the world's leading inspection, verification, testing and certification company, we conscientiously work towards showing our commitment to producing and trading safe food products. Our Metro Alabang Supermarket has been touted as the first in the Philippines to be certified for Hazard Analysis and Critical Control Point (HACCP) and Good Manufacturing Practice (GMP), and we are working towards gaining accreditation for our other supermarkets as well – all in an effort to provide our customers throughout Luzon and Visayas with the highest quality products.

Our efforts toward increasing quality assurance continue on to our logistics and services, with the goal of increasing our speed, effectiveness, and productivity throughout the business. Our supply chain and inventory management are further bolstered by a fully integrated suite of Oracle software that supports the automation of retail operations and financial management. By employing advanced and integrated information systems, we are able to efficiently implement our outright sales model, provide support for our network expansion program, and manage inventory levels, among others. To better serve our customers, our in-house supply chain management system increases the efficiency and reliability of our supply operations. Bringing portions of our supply chain management in-house allows us greater flexibility in merchandising and shortening delivery times to our stores and ensuring availability of the products in our shelves.

Investing and trusting MRSGI's employees

Our business is centered on people. Beyond the innovations in our operations, an investment from which we continue to reap the most benefits lies in our highly efficient and motivated employees. Our competent workforce rounds out the shopping experience at every Metro store our customers visit. We continue to improve the training of our sales and merchandising staff to ensure that we provide our customers with a best-in-class shopping experience. Our skills training is focused on our four pillars: store excellence, professional excellence, leadership excellence and merchandising excellence. In addition, we have a store management training program and a management training program designed to help develop a pool of future store managers and other leaders within our organization.

Exploring partnerships both international and local

Our extensive experience in serving provincial markets is one of our drivers for expansion. Metro provides access to a variety of regional products, such as housewares, furniture and exportable handicraft from the Visayas. This opens up our local artisans to a wider market while distinguishing our product offerings from those of our competitors, much to our customers' delight. With the establishment of the ASEAN Economic Community and the ASEAN Free Trade Agreement, we have also been able to source an even wider variety of products at reduced prices. As a result, Metro Department Store was recognized as the Most Outstanding Full Line Department Store Category at the 20th Outstanding Filipino Retailers & Shopping Centers of the Year Awards.

Gratitude for support

To our dear stakeholders, we want to thank you for believing in us and for investing in our future. We are operating from a strong foundation built by Victor and Sally and take action aimed at furthering our business and presence this year and beyond. Our efficiency as a retailer relies on the harmonization of our different roles and strengths. We hope to continue the strong relationship we have built for more than three decades now and aim to enhance our stature as a responsible and reliable organization that will continue to be welcomed throughout the country.

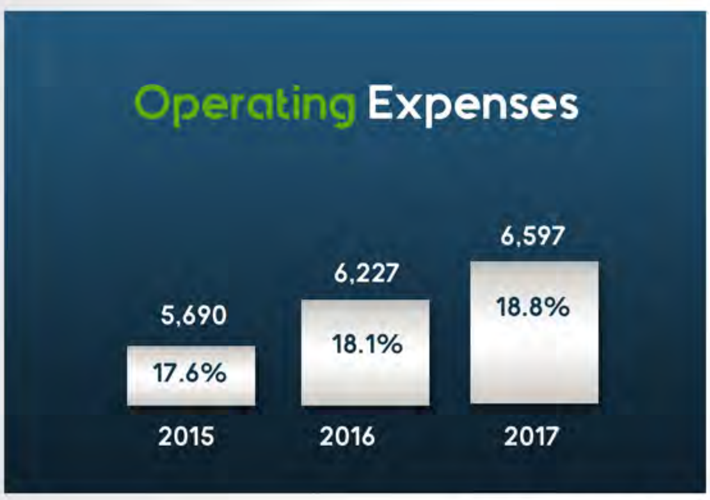
To our board, as our customers, old and new, choose to shop with us, let us continuously work behind the scenes to create shared value for all so that our customers and stakeholders' trust in us is well-placed. Your commitment and dedication to turning Metro Retail into a brand of the future is awe-inspiring and will surely drive the value of our business.

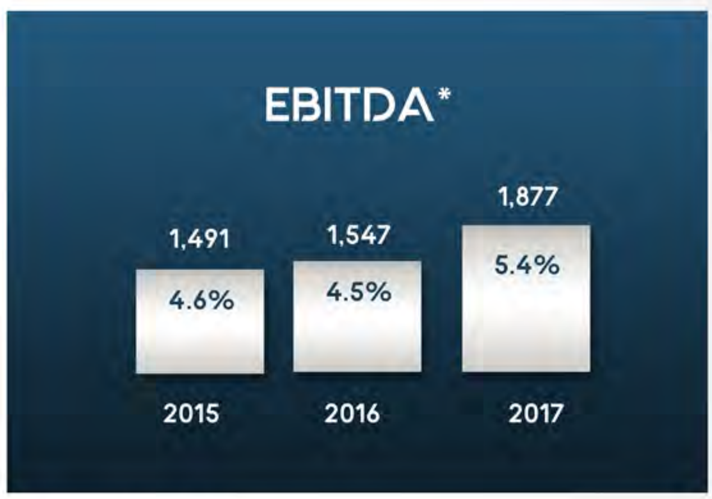
Metro Retail will continue to be a brand that grows, expands, innovates, and builds. We are committed to sharing our expertise in the retail sector to all parts of the country because we believe in our unique offerings anchored on the Metro shopping experience. The success we achieved in 2017 is an effort of all the members of the Metro Retail Stores Group and we owe it to them and our shoppers to continue our growth as a stronger Metro. Together, we will take Metro far in this journey to greater success.

ARTHUR EMMANUEL
President and COO
Metro Retail Stores Group, Inc.

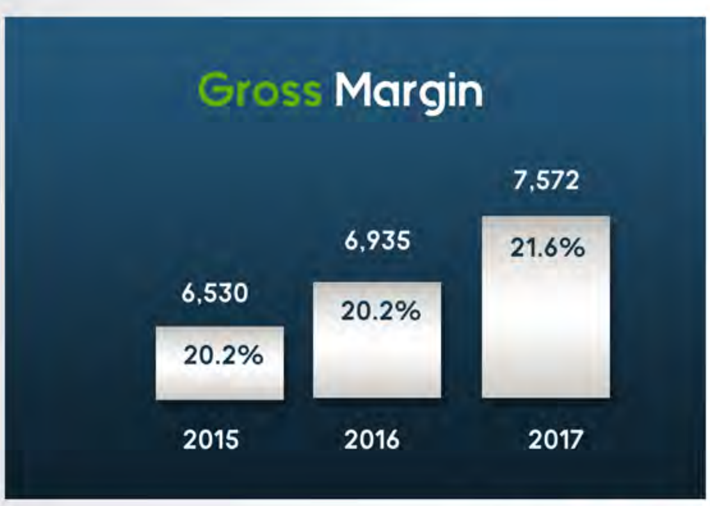
FINANCIAL AND OPERATING HIGHLIGHTS

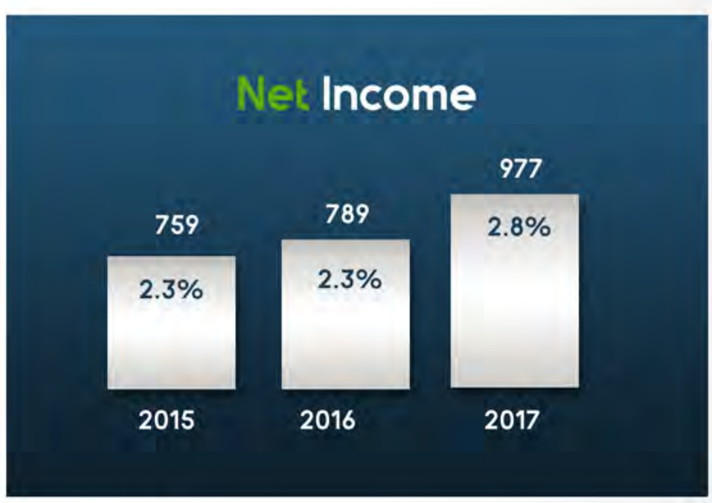
Note: Figures are in Php millions



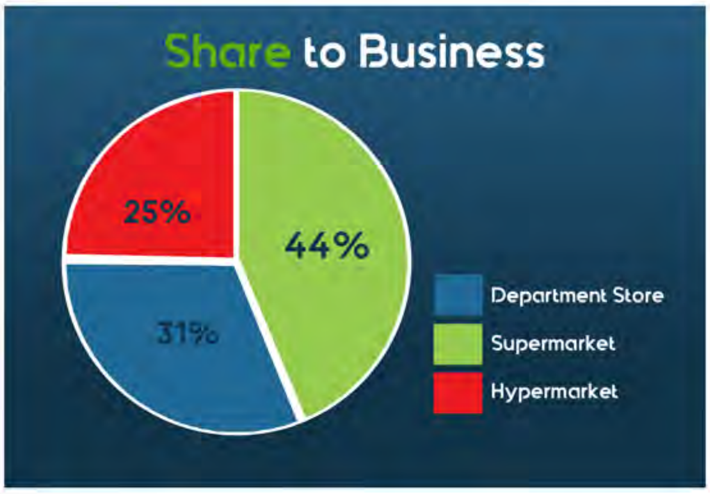


Note: Figures are in Php millions and percent to Net Sales
*Earnings Before Interest, Tax, Depreciation and Amortization





Note: Figures are in Php millions and percent to Net Sales



(In million pesos, except if indicated)

	2017	2016	2015
Income Statement			
Revenue	35,016	34,411	32,304
Gross Margin	7,572	6,935	6,530
EBITDA	1,877	1,547	1,491
Net Income	977	789	759
Balance Sheet			
Total Assets	12,720	12,072	11,672
Total Liabilities	4,777	4,927	5,226
Stockholder's Equity	7,943	7,145	6,445
Financial Ratios			
Current Ratio	2.41	2.14	2.12
Debt to Equity Ratio	-	-	0.15
Net Debt to Equity Ratio	(0.47)	(0.46)	(0.22)
Asset to Equity Ratio	1.60	1.69	1.81
Return on Total Assets	7.88%	6.65%	7.68%
Return on Equity	12.95%	11.62%	16.09%

*After an additional P3.36 billion added to equity post Initial Public Offering in 2015.

CORPORATE GOVERNANCE

The MRSGI Board of Directors and management remains committed to good corporate governance (CG) practices. As in the previous years, the company's operations and decision-making were guided by its CG Policy Framework that covers the following:

- CG formalities;
- Rights and equitable treatment of shareholders;
- Stakeholder relations;
- Disclosure and transparency;
- Control environment and processes; and
- Board of Directors structure and effectiveness.

For 2017, the company endeavored to further strengthen its CG practices and align these with applicable international best practices. Significant efforts were undertaken not only to comply with the regulatory requirements but also adopt practices that are beyond what is mandated by the Philippine Stock Exchange (PSE) and the Securities and Exchange Commisison (SEC).

Corporate Governance Formalities

On May 5, 2017 the MRSGI Board approved and adopted the Ammended Manual on Corporate Governance. The revised version has since guided the company's CG-related activities, and served as the overarching policy framework that guided all initiatives, decisions and actions that have CG implications.

In addition to the Manual, MRSGI has put in place the following CG-related policies and processes which likewise governed the actions of the management and the Board in 2017:

- Independent Director selection process;
- Board of Directors performance evaluation system;
- Audit and Risk Committee charter;
- Investment Committee charter;
- Governance Committee charter;
- Nomination and Remuneration Committee charter;
- Guidelines on matters requiring Board of Directors, shareholders, and management approval;
- Whistleblower policy;
- Related-party transaction policy; and
- Code of Conduct for Directors and senior management.

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

Rights and equitable treatment of shareholders

The Board of Directors remained commited to its duty of promoting shareholder rights. Although there were no known impediments to the exercise of shareholders' rights in 2017, the Board nevertheless ensured that an adequate venue for them to seek timely redress for violation of their rights exists. The company's Investor Relations Department (IRD), the office of Chief Strategy and Governance Officer (CSGO), the office of the Chief Finance Officer (CFO) and the Legal Office were all actively engaged with the investing public and the regulators to make sure that shareholder matters and concerns were properly addressed.

Recognizing that all stockholders should be treated equally and without discrimination, MRSGI allowed minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the corporation. In 2017, no such requests or proposals were formally received by the company.

Annual Stockholders Meeting

Committed to transparency and fairness in the conduct of Annual and Special Stockholders' Meetings, the MRSGI Board, through its management, were encouraged to personally attend such affairs. They were likewise apprised beforehand of their right to appoint a proxy should they be unable to attend the company's Annual Shareholders Meeting which was conducted on May 5, 2017 at the Mandani Bay Showroom in Mandaue City, Cebu. Notices of the Annual General Meeting were sent to the shareholders either by personal delivery, e-mail, or electronic means at least two weeks prior to the date of the said meeting.

Related-party transaction

The Audit and Risk Committee (ARC), which is composed of a majority of independent directors, reviewed all related party transactions in 2017 and ensured that such transactions were done at arms length. These transactions were likewise reviewed by the external auditor and included in the financial statements to provide assurance as to the accuracy of the reported information.

The company's policy on related party transactions provides the overall guidance and framework for all such transactions in 2017 and no such violations of the policy were recorded or observed, thereby indicating that the mechanisms set in place to ensure that the interests of non-controlling shareholders are protected and are working.

Investor Relations

In 2017, the company engaged its shareholders primarily through the Investor Relations Officer (IRO), the CSGO, and the CFO. As a team, they ensured that relations with investors are maintained and nurtured. MRSGI's strategies and quarterly performance were communicated through a combination of one-on-one meetings with various investor groups and the quarterly earnings calls.

Below is a list of the IR-related activities that the company participated in 2017:

DATE	EVENT	VENUE
Jan 17-19, 2017	CIMB ASEAN Corporate Day	Bangkok, Thailand
Feb 20-21, 2017	MAYBANK ART Kim Eng Securities Inc. Corporate Day	Kuala Lumpur, Malaysia
May 5, 2017	MRSGI Investors' Day	Cebu, Philippines
May 6, 2017	MRSGI 2017 Annual Stockholders' Meeting	Cebu, Philippines
Nov 22, 2017	Deutsche Regis Year-end Briefing	Makati, Philippines

Stakeholder Relations

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

Suppliers and Contractors

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

Customers

Through various customer service programs such as "mystery shoppers", one-on-one and focus group dialogues, customer satisfaction surveys and technology-enabled customer analytics, the company continuously improved its customer oriented systems and processes to provide a pleasant and memorable customer experience that would make them return to our stores. These initiatives have resulted in having the freshest and widest assortment of products available on the shelves, faster checkouts, clean and comfortable stores, and other attributes that make the company's customers continue to patronize our stores.

Employees

Acknowledging the importance of human resources in the execution of the company's business strategies and consequent realization of its goals, various people-related initiatives were undertaken in 2017. Some of these are indicated below:

People development

The Metro Retail Academy (MRA), MRSGI's internal training arm, was able to provide various learning programs and courses under the management development program. Since its launching, the MRA was able to build relevant capabilities in our supervisors and managers.

- The ***Store Manager's Training Program (SMTP)***, an all-inclusive retail management course that develops talents to become full-pledged store managers, produced 37 graduates of whom 14 graduates hailed from Luzon area and 23 graduates from the Visayas area.
- The ***Management Training Program (MTP)*** developed a total of 29 Management Trainees of which 17 talents are undergoing immersions to date. Eight management trainees were already hired into permanent positions under Human Resources, Supply Chain, Merchandising, Marketing, Food and Beverage, Business Process Competency Group, and Site Analysis.

To sustain its core value on "Making our Customers Happy", all business units - most especially the Store Operations Department, regularly conducts trainings on *Cashier Certification, Meat Retailing, Fresh Excellence Training, Work Attitude and Values Enhancement (WAVE), and Customer Service* programs.

Engagement

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

Health and wellness

At Metro, we believe that our people are our partners. To uphold this core value, we promote work-life blending thru Employee Health Awareness Programs like "Health Talks", Annual Physical Examination, and enrollment to life, hospitalization, and accident insurance given to all regular full-time active employees.

Labor compliance

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

- Organization-wide cascade of the Updated Manual on Company Rules and Regulations Governing Employee Conduct and Discipline;
- Compliance to legitimate contractualization and orientation of line managers on how to manage and handle third party employees such as promodisers, agency workers, and the like.
- Compliance to DOLE policies on anti-sexual harassment, drug-free workplace, tuberculosis, and Hepatitis B prevention and DOLE Order No. 178 on Safety and Health Measures for Workers who by the Nature of their Work have to Stand at Work by allowing the use of more practical and comfortable footwear, providing more break periods for rest, and providing common rest areas.

Technology

The ***Human Resource Information System (HRIS)*** went through a technology upgrade to facilitate efficient delivery of HR services. The upgrades were focused on ensuring more efficient timekeeping and payroll processing through full automation. Data extraction and analytical tools are included in the upgrade and are scheduled for full roll out within the year.

Community

Through the company's Corporate Affairs Department led by Anna Marie Periquet, MRSGI implemented various community oriented programs such as the METRO CSR Employees Volunteer Program. This program encourages company employees to contribute their time and effort during relief operations, medical missions, and other CSR projects of the company. Further details on the 2017 community-related activities are elaborated under the Corporate Social Responsibility section of this annual report.

Transparency and disclosure

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

- ***External audit and Fees***

Name of Auditor	Audit Fee	Non-Audit Fee
SGV & Co.	PHP 1,890,000	PHP 0

- ***Ownership structure***

Indicated below is the ownership structure of MRSGI as of Dec 31, 2017:

Stockholder	Nationality	No. of Shares Subscribed	Amount Paid-Up (in Php)
Vicsal Development Corporation	Filipino	2,489,800,000	2,489,800,000
PCD Nominee Corp. (F)	Filipino	751,814,610	751,814,610
PCD Nominee Corp. (NF)	Foreign	162,789,412	162,789,412
Valueshop Stores, Inc.	Filipino	24,801,489	24,801,489
Juan G. Yu or John Peter C. Yu	Filipino	150,000	150,000
Stephen T. Teo &/or Teresita R. Teo	Filipino	10,000	10,000
Asuncion, Victor Jayo	Filipino	5,000	5,000
Legaspi, Virgilio C.	Filipino	1,000	1,000
Bagasin, Danilo G.	Filipino	1,000	1,000
Dungo, Elpidio S.	Filipino	1,000	1,000
Lampa, Arvic C.	Filipino	1,000	1,000
Valencia, Jesus San Luis	Filipino	300	300
Herrera, Joselito C.	Filipino	100	100
Au, Owen Nathaniel S. Au ITF: Li Marcus	Filipino	78	78
Frank S. Gaisano	Filipino	2	2
Edward S. Gaisano	Filipino	2	2
Margaret G. Ang	Filipino	2	2
Jack S. Gaisano	Filipino	2	2
Arthur Emmanuel	American	1	1
Guillermo L. Parayno Jr.	Filipino	1	1
Ricardo Nicanor N. Jacinto	Filipino	1	1
Total		3,429,375,000	3,429,375,000

CONTROL ENVIRONMENT AND PROCESSES

In 2017, the Board of Directors and management continued to improve on its internal control and audit system by making it more robust and effective to ensure efficiency of operations, ensuring reliability of financial reporting, safeguarding assets, and complying with laws and regulations.

Through the active leadership of the ARC, the company focused on risk management, internal audit, control, and compliance. The objective was to ensure that the risks associated with the company's rapid growth were effectively minimized and managed.

Risk Management

The ARC worked closely with management to ensure that all business risks were identified, evaluated, and appropriately managed and that management maintained a sound system of risk management that allows for a comprehensive and systemic approach in risk identification and assessment. This allows the company to respond to relevant and material risks as they arise and develop.

As a result, 40 store locations, all warehouses and majority of corporate departments have developed their own Risk Registers through the guidance of the Enterprise Risk Management (ERM) group under the General Loss Prevention (GLP) Department headed by Floradema Jayme. The risks previously identified were reassessed to check if these were reduced or minimized. The actions taken to reduce these risks were likewise validated for effectiveness. New or emerging risks were noted and included in the risk register of 2017 for proper management and monitoring at store level.

For critical risks beyond the control of the stores and departments, these were automatically escalated to the Risk Management Committee (RMC). The RMC is an executive-level committee composed of the heads of the Corporate IT, Finance, Legal, GLP, Engineering, Distribution, Store Operations and Strategy, and was organized to ensure the proper management of the most critical risk factors of the organization as collated and submitted to the RMC by the GLP – ERM team.

The RMC was able to have two meetings for the year 2017 to address all the risks raised to its level.

Internal Audit

The Internal Audit Group (IAG) at MRSGI operates on a risk-based approach that primarily focuses on risk-involved activities and ensures that these risks are being managed within controllable levels. Headed by Dione Derrick Kocencio, it is composed mainly of certified public accountants and industrial engineers. The group developed and implemented a flexible annual audit plan using appropriate risk-based methodology and is primarily responsible for providing independent and objective assurance and consulting services designed to:

- strengthen the organization's internal control structure;
- identify opportunities for process, policy and control improvements; and
- monitor compliance to government regulations and the company's internal policies and standard operating procedures.

To ensure its independence and integrity, the IAG reports functionally to the ARC and administratively to the President & COO.

In 2017, internal audit engagements related to the following were completed:

- Institutional Sales
- Special Purchase Discounts
- Ads and Promos
- Scrap Sales
- Sales Audit
- Gift Certificates/Cards
- Non-Trade Procurement
- Cold Storages
- Return-to-Vendor
- Open-to-Buy
- Warehouse Picking
- Transport

Internal Control

Internal Control System for MRSGI is largely driven by Standing Operating Procedures (SOP). In 2017, a number of these SOPs were developed and/or updated and incorporated in the company's existing policies and operating manual. Led by the company's Systems and Procedures Group, these operating standards have become the basis for the Internal Audit in checking the compliance with company policies and procedures.

With the Internal Audit group and the SOPs, there is an assurance in MRSGI that the policies, procedures, and activities are working within a controlled framework; thus risks are contained within tolerable levels.

Compliance Officer

To ensure adherence to corporate policies as well as external regulatory requirements, MRSGI's Compliance Officer, Atty. Karen Gaviola - Climaco, and later on succeeded by Atty. Tara Tsarina B. Perez - Retuya, ensured that the company remained compliant to all relevant laws, rules and regulations of regulatory agencies and MRSGI's Amended Manual on Corporate Governance. The Compliance Officer likewise advised and coordinated closely with the company officers and managers to ensure their compliance with their responsibilities to the shareholders and the general public.

Atty. Gaviola - Climaco also assisted in the development of MRSGI's CG related policies such as the Company's Amended Manual on Corporate Governance, the Guidelines on matters requiring Board of Directors, shareholders, and management approval, Whistleblower Policy, Related-party Transaction Policy, and Code of Conduct for Directors and Senior Management.

Board Structure and Effectiveness

Being primarily responsible for the governance of the company, and for fostering its long-term success, the MRSGI Board conducted itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities. Specifically, it ensured that management's actions were in line with the strategic direction that it had set in its five-year strategic roadmap.

To outline its directions for the year, the board conducted its "Annual Board Retreat" on February 8-9, 2017 at the Marco Polo Hotel in Cebu City. The retreat is an annual exercise by the MRSGI Board where they discuss and provide direction on key strategic areas that impact the company's growth and profitability. For the 2017 retreat, the MRSGI Board focused its discussions on the following topics:

- Strategic human resources
- Corporate governance
- Merchandising
- Network expansion
- Operational excellence
- Strategic partnerships
- Strengthening support functions

To further improve its overall function and effectiveness, the MRSGI Board and select executives, attended CG trainings conducted by the Institute of Corporate Directors. The first was a public session held at Sofitel Philippine Plaza, Manila last March, 2017 and the second was an in-house program held at the MRSGI Boardroom, Taguig City last November, 2017.

The in-house training program covered topics such as related party transactions, annual corporate governance scorecard, and effective decision making for boards.

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

NAME	POSITION
Frank S. Gaisano	Chairman & Chief Executive Officer
Edward S. Gaisano	Non-executive Director
Margaret G. Ang	Non-executive Director
Jack S. Gaisano	Non-executive Director
Guillermo L. Parayno , Jr.	Independent Director
Ricardo Nicanor N. Jacinto	Independent Director
Arthur Emmanuel	Executive Director & President/COO
Joel G. Orense	Chief Finance Officer
Atty. Vince E. Tomaneng	Corporate Secretary and Chief Legal Officer
Jonathan Juan D.C Moreno	Chief Strategy and Governance Officer
Atty. Tara Tsarina B. Perez-Retuya	Assistant Corporate Secretary and Compliance Officer

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

Director's Name	Type [Executive (ED), Non Executive (NED) or Independent Director (ID)]	If Nominee, Identify the Principal	Nominator in the Last Election (if ID, state the relationship with the nominator)	Date First Elected	Date Last Elected (if ID, state the number of years served as ID)	Elected When (Annual /Special Meeting)	No. of Years Served as Director
Frank S. Gaisano	ED		Vicsal Development Corporation (VDC)	August 28, 2003	May 5, 2017	Annual	14
Edward S. Gaisano	NED		VDC	August 28 2003	May 5, 2017	Annual	14
Margaret G. Ang	NED		VDC	August 28, 2003	May 5, 2017	Annual	14
Jack S. Gaisano	NED		VDC	August 28, 2003	May 5, 2017	Annual	14
Arthur M. Emmanuel	ED	VDC	VDC	April 13, 2015	May 5, 2017	Annual	3
Guillermo L. Parayno, Jr.	ID	No relation	N/A	July 16, 2015	May 5, 2017 (2 yrs 8 mos.)	Annual	2 years 8 mos.
Ricardo Nicanor N. Jacinto	ID	No relation	N/A	July 27, 2015	May 5, 2017 (2 yrs 8 mos.)	Annual	2 years 8 mos.

Board Committees

MRSGI Board committees assist in carrying out specific board responsibilities. They function as part of and under the control of the Board of Directors and directly aid the Board in the performance of its functions. The Board of Directors has four board committees to help the body in the exercise of its governance function. These committees, together with a brief description of their respective mandates, are as follows:

Audit and Risk Committee (ARC)

The ARC assists the Board of Directors in fulfilling its oversight responsibilities on the management and financial reporting process, the system of internal control, the maintenance of an effective audit process, the process for monitoring compliance, and the overall risk management function and/or program.

In 2017, the discussion and resolutions in the ARC meetings included topics on strengthening MRSGI's internal control structure and system, identifying opportunities for processes, policy and control improvements, and monitoring compliance to government regulations, internal policies, and standard operating procedures. Specifically, the ARC covered findings in audit engagements on institutional sales, marketing, non-trade procurement, merchandising and supply chain operations, among others.

The ARC is composed of the following directors:

Guillermo L. Parayno, Jr - Chairman
Margaret G. Ang - Member
Ricardo Nicanor N. Jacinto - Member
Sherisa P. Nuesa - Adviser

Nomination and Remuneration Committee (NRC)

The Nomination and Remuneration Committee assists the Board of Directors in reviewing and evaluating the qualifications of all individuals nominated to the Board and other appointments that require Board approval. It likewise assesses the effectiveness of the Board's processes and procedures in the election or replacement of directors.

The NRC has established a formal and transparent procedure for developing a policy on remuneration.

In 2017, the discussions and resolutions in the NRC meetings included topics on top team development, the MRSGI retirement plan, compensation and benefits program design implementation, strategic HR programs, and company performance management systems.

The NRC is composed of the following directors:

Frank S. Gaisano - Chairman
Margaret G. Ang - Member
Ricardo Nicanor N. Jacinto - Member
Sherisa P. Nuesa - Adviser

Governance Committee (GC)

The Governance Committee assists the Board of Directors in ensuring its effectiveness and constant improvement. It also ensures that the Board of Directors conforms to all its legal, ethical, and functional obligations through adequate governance policy development, training programs, monitoring of Board activities, and evaluation of Board performance.

In 2017, the GC discussions covered, among others, topics on Board functioning and effectiveness, succession planning for senior executives, director training, and Board-management engagement.

The GC is composed of the following directors:

Edward S. Gaisano - Chairman
Margaret G. Ang - Member
Guillermo L. Parayno, Jr. - Member
Arthur M. Emmanuel - Member

Investment Committee (IC)

The Investment Committee assists the Board of Directors in the oversight of the company's major investment activities. It establishes, reviews, and recommends to the Board of Directors the policies and strategies to be adopted by the company regarding the investment activities and portfolios necessary to achieve its goals and objectives; evaluates and enhances the company's investment processes; and recommends the hiring and termination of investment managers.

In 2017, the discussions and resolutions in the IC meetings included topics on site selection, potential mergers and acquisitions projects, store formats and budgets, and strategic partnership opportunities.

The IC is composed of the following directors:

Jack S. Gaisano - Chairman
Frank S. Gaisano - Member
Ricardo Nicanor N. Jacinto - Member
Christopher P. Beshouri - Adviser

Board Meeting and Attendance

The Board of Directors meets at least once every two months. Meeting agenda and other necessary materials are given to the Board of Directors at least three days prior to the meeting. The minimum quorum requirement is determined by a simple majority or, in the case of MRSGI, at least four directors. For the year 2017, MRSGI conducted meetings as illustrated below:

Position	Name	No. of Meetings Held during the Year	No. of Meetings Attended	Attendance rate
Chairman	Frank S. Gaisano	5	5	100%
Member	Edward S. Gaisano	5	5	100%
Member	Jack S. Gaisano	5	4	80%
Member	Margaret G. Ang	5	5	100%
Member	Arthur Emmanuel	5	5	100%
Independent	Guillermo L. Parayno, Jr.	5	4	80%
Independent	Ricardo Nicanor N. Jacinto	5	5	100%

Board Remuneration

The by-laws of the company provide that the Board of Directors is authorized to fix and determine the compensation of the Directors and Officers in accordance with law.

By resolution of the Board of Directors, the per diem allowance of independent directors remained at P150,000.00 for attendance at each Board meeting and P45,000.00 for attendance in Committee meetings where a Director is a Committee chairman, or P40,000.00 where a Director is a Committee member. There are currently no standard arrangements pursuant to which Directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director. Executive Officers on the other hand are entitled to per diem allowance of P10,000.00 for every attendance in Board and Committee meetings. Directors representing Vicsal Development Corporation, Margaret G. Ang, Edward S. Gaisano, and Jack S. Gaisano, have also opted to receive P10,000.00 for every attendance in Board and Committee meetings.

Board Evaluation

The Board of Directors undergoes an evaluation of its performance at least annually. This is a short self-evaluation of the Board of Directors as a group to identify areas where they can function more effectively for continuous improvement. This is administered by the Corporate Secretary under the guidance of the Governance Committee.

More information on MRSGI's Corporate Governance

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

Implemented by the Office of Corporate Affairs, the following CSR programs are designed to enhance the company's long-term social value for its stakeholders, from the management and employees to its customers and host communities.

Volunteerism

The METRO CSR Employees Volunteerism Program: Making Efforts To Reach Out

The METRO CSR Employees Volunteerism Program encourages and supports employees who wish to contribute their time and assistance in relief operations, medical missions, and other CSR projects of the company.

Education

METRO Scholarship Program: Opening Doors to Deserving Students

Through Vicsal Foundation, the corporate foundation of Vicsal Holdings Company, MRSGI provided **scholarship grants** to underprivileged yet deserving high school graduates. To date, 178 grants have been awarded, 54 of whom are existing scholars and 124 of whom have completed graduation.

Scholar-Graduates are also given the opportunity to become management trainees for one-year through the **MRSGI Management Training Program**, after which they may apply for full-time employment. To date, 16 scholars are management trainees under the Management Training Program.

MRSGI also launched the Back-to-School program wherein Metro stores donated school supplies to public schools in the Visayas and Luzon regions.

METRO - YSLEP Scholarship Program

MRSGI has also strengthened its partnership with Caritas Manila, Inc. thru the **METRO Segunda Mana Donations-in-Kind** program wherein pre-loved items collected from SEGI boxes located at Metro stores are sold at Segunda Mana Charity Outlets and at the Buy & Give Expo. Proceeds of Segunda Mana help sustain the Caritas Manila flagship Youth Servant Leadership and Education Program (YSLEP), which focuses on education for the underprivileged youth nationwide. To date, 16 grants have been given to MRSGI's YSLEP scholars thru the Metro Segunda Mana program.

Livelihood

METRO Hanepbuhay Program: Empowering Through Micro-Entrepreneurship

Through the **METRO Hanepbuhay Program**, MRSGI worked with civil society organizations, NGOs and local business sectors to provide the marginalized sectors, cooperatives, farmers, fishermen, handicraft groups and persons with disability with booths to promote their products. Special **CSR Products Showcase** spaces were provided to highlight the flagship products of the company's CSR livelihood projects.

The Office of Corporate Affairs also provided these beneficiaries with entrepreneurial guidance and helped them promote their products in Metro stores by way of direct retailing or by hosting seasonal bazaars and product showcase kiosks.

METRO - Caritas Margins Livelihood Project

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

METRO - GreenEarth Program

In 2017, MRSGI launched its partnership with GreenEarth Heritage Foundation, enabling the non-government organization to distribute its Moringa Tea and Powder in Metro supermarkets across the country. The **METRO GreenEarth** program is a sustainable agricultural development project that aims to provide income to indigent farmers through livelihood centered organic agriculture.

METRO - Anihan Livelihood Project

MRSGI piloted the **METRO Anihan Livelihood** project, a social enterprise and resource mobilization program whose main thrusts are to support farmers, fisher folk and cooperatives from various communities in the Philippines, and to find channels to market their products. To date, METRO Anihan products such as Tsaa Laya Herbal Tea, Hiraya chocolates, Chichashroom, and Seachashroom, are being retailed in Metro stores.

Employment Opportunities

METRO Employment Generation: Promoting Productivity, Enhancing Capabilities

MRSGI implemented **METRO S.T.E.P. (Skills Training and Employment Program)** in various barangays through workshops on baking, bagging, cashiering, and butchering. Seminars for sales clerks were conducted as well. Qualified graduates were employed in Metro stores.

Likewise, the **METRO CareerFest** was hosted periodically within select Metro stores. A total of 35 employers in the communities were invited to showcase their job openings, and MRSGI facilitated the hiring of qualified individuals on the spot. MRSGI hired a total of 163 applicants while the participating employers hired a total of 310 applicants.

METRO Employment : METRO Project Inclusion

In 2017, MRSGI launched the **METRO Project Inclusion**, an employment program for Persons with Disability (PWD). It aims to build more inclusive workplaces, and change the narrative of PWD employment from a charity case to a business case. The METRO Project Inclusion believes that given the right condition and the proper support, PWDs can contribute to the workplace and the society.

Environmental Protection

Solid Waste Management: Giving Back Through Efficient Recycling

MRSGI partnered with local government units in the **Solid Waste Management for Sustainable Livelihood Program**. Plastics, soda bottles, used cooking oil, scrap cartons and cans are donated and converted into recyclable bricks that are mainly used for sidewalks located in the barangay.

Community Service

Humanitarian Partnerships: Extending the Reach of Our Helping Hands

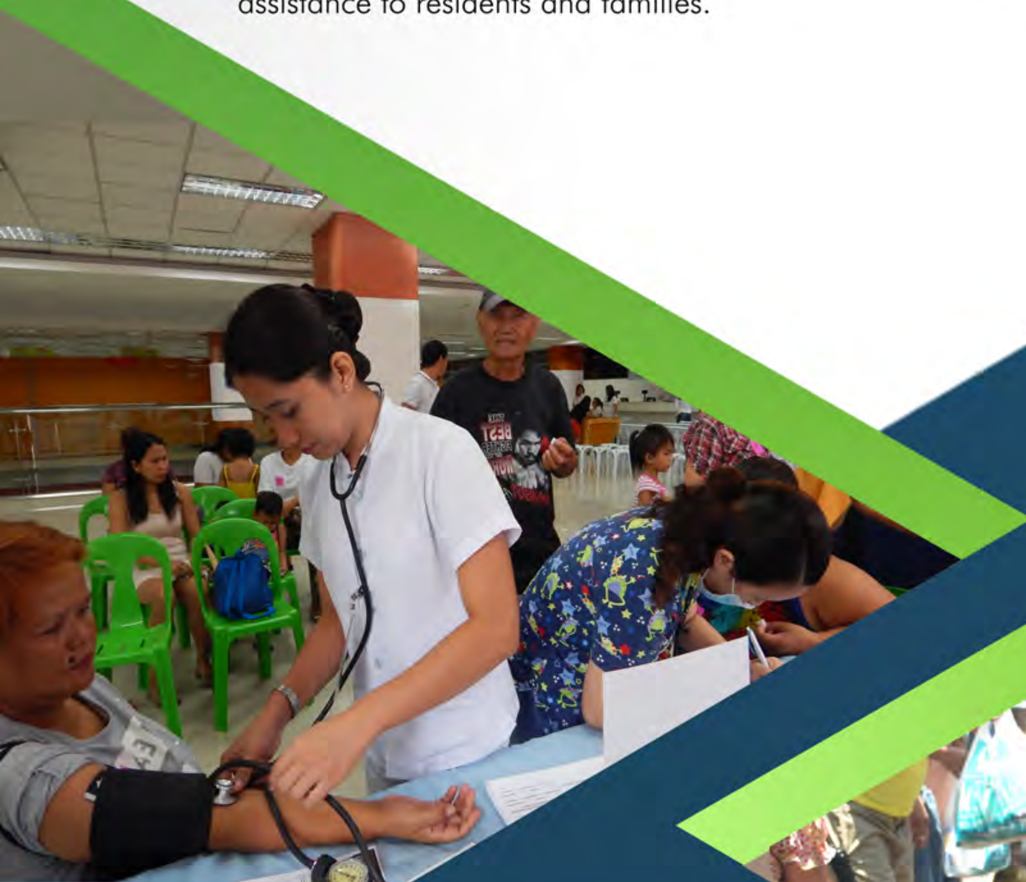
Corporate partnerships that promote humanitarian actions transform products and transform lives. These are the quality collaborations that MRSGI has engaged in with Caritas Manila Foundation, Habitat for Humanity Philippines through its Coin Bank program, GreenEarth Heritage Foundation, and Unilab Foundation, among others, to develop education, skills training and livelihood programs that further enrich Metro's communities.

Community Outreach

Community Assistance Programs: Uplifting Lives in Areas We Touch

The **METRO Cares, METRO Shares medical missions** reached out to disaster-hit areas affected by typhoons, earthquakes and other natural calamities.

The METRO Luzon Medical Mission Caravan was launched in communities wherein Metro stores operate. With the help of volunteers from Metro Department Store, Metro Supermarket, Metro Pharmacy, city health offices, the Department of Social Welfare and Development (DSWD), city officials, barangay volunteers, and Metro suppliers, MRSGI distributed medicines, set up soup kitchens, and provided basic medical assistance to residents and families.



METRO Relief Operations

Through Oplan Sagip **METRO Relief Operations**, MRSGI provided immediate relief and assistance to communities affected by natural disasters and calamities. MRSGI employee volunteers extended a helping hand by contributing and distributing relief goods to affected residents.

2017 HIGHLIGHTS

Store Opening

Metro Retail Stores Group opens 51st store in Mandaue City

Metro Retail Stores Group, Inc. solidified its leading presence in the Visayas region with the opening of its 51st store at the heart of Mandaue City in Cebu. Located at H. Abellana St. Barangay Canduman, Mandaue City, the new Metro Supermarket is a welcome development for residents looking forward to purchasing a variety of the freshest produce, dry goods, basic essentials and other quality merchandise at affordable prices in their own community. With a 2,544 square-meter store, Metro Supermarket Canduman also features its Metro Pharmacy to cater to the health and wellness needs of shoppers.

Present at the ribbon-cutting ceremony were (from left): Canduman Brgy. Captain Hon. Leo Jabos, MRSGI President and COO Arthur Emmanuel, Mandaue City Mayor's Office Chief of Staff Atty. Elaine Bathan, MRSGI Board Director Dr. Edward Gaisano, and site lessor Dr. Roland Lee.

Shown in photo are: (center) Tagaytay City Councilor Lorna Toledo flanked by (L-R) Metro Retail Stores Group, Inc. President and COO Arthur Emmanuel and Chairman and CEO Frank S. Gaisano.

Joining them are (from right) Jason Gaisano, Brgy. Silang Crossing East Chairman Bernardo Cabasi, Filinvest Group of Companies President Josephine Gotianun Yap, Filinvest Lifemalls SVP Jovita Polloso, and Filinvest Land Inc. SVP Francis Ceballos.

First 24/7 Super Metro Hypermarket opens in Tagaytay

Residents and tourists in Tagaytay can now shop for quality items at the lowest possible prices 24 hours a day all thanks to the recent opening of Super Metro Hypermarket.

Located at the Fora Tagaytay mall along Emilio Aguinaldo Highway, the new shopping destination provides round-the-clock convenience to customers looking for the freshest produce, affordable grocery items, homeware, electronics, ladies and men's apparel and accessories, and basic essentials. The new site also features ancillary establishments such as the Metro Suisse Cottage that offers freshly baked breads, cakes and pastries for all occasions, and Metro Pharmacy that caters to the health and wellness needs of shoppers.

Site groundbreaking in Danao City, Cebu. Photo shows from left: Danao City Mayor Ramon Durano; MRSGI President and COO Arthur Emmanuel; Marco Gaisano Ang; MRSGI VP for Store Operations Luz Bitang; and MRSGI Construction Group Head Bernard Loh

Site groundbreaking

Metro Retail Stores Group, Inc. breaks ground for new stores in Danao City, Cebu and in Tacloban City, Leyte

Maintaining its commitment to continuously expand to key areas of the country, Metro Retail Stores Group, Inc. (MRSGI) broke new ground in two sites, namely Danao City, Cebu and Tacloban City, Leyte for the eventual establishment of a two-storey Metro Department Store and Supermarket. The new sites are expected to further strengthen Metro's business foothold in the Visayas region. The Metro Department Store and Supermarket in Danao City and Tacloban City will be a welcome development for residents looking forward to purchasing the freshest produce, grocery items, basic essentials and other quality merchandise at very affordable prices.

Site groundbreaking in Tacloban City, Leyte. Photo shows from left: MRSGI BOD Representative Jason Gaisano; Tacloban City Vice Mayor Jerry Sambo Yaokasin; Tacloban City Administrator Atty. Irene Chu; MRSGI President and COO Arthur Emmanuel; MRSGI Deputy VP for Store Operations Emily Silverio; MRSGI Construction Group Head Bernard Loh; UCCP Tacloban President Mike Udtuhan; and UCCP Bishop Jaime Morelies.

Awards

Metro Colon bags 1st prize in Sinulog 2017 Visual Merchandising Competition

Metro Colon Department Store and Supermarket in Cebu City won first prize in the Visual Merchandising Competition of the 2017 Sinulog Festival. In line with the year's festival theme of "One Beat, One Dance, One Vision", Metro Colon brought to life the color, tradition and essence of giving homage to Sto. Niño through its creative and artistic in-store motifs of the annual celebration.

Photo shows (from left) Cebu City Councilor and Sinulog Foundation Chairman Nendell Hans Abella, Cebu City Mayor and Sinulog Foundation Inc. Board Chairman Tomas Osmeña, Metro South Cebu Stores Area Manager May Sasedor, Metro Colon Store Manager Diane Almagro. Cebu City Councilor Margot Osmeña, Metro Corporate Visual In-Charge Marissa Otadoy, Metro Visual Supervisor – Visayas Stores Sherwin Buca, Cebu City Sports Commission Chairman and Sinulog Foundation, Inc. member of the Board of Trustees Edward Hay Co.

Shown in photo are MRSGI Chairman and CEO Frank S. Gaisano with MRSGI Vice President for Corporate Affairs Anna Marie Periquet (2nd and 3rd from left, respectively) flanked by (from left) PRA Vice Chairman Mars C. Chua and PRA Vice President Rose B. Ong.

Metro cited as Most Outstanding Full Line Department Store

Metro Retail Stores Group, Inc. scored a big win in the 20th Outstanding Filipino Retailers & Shopping Centers of the Year Awards night, as the company's Metro Department Store was named winner of the Most Outstanding Full Line Department Store Category. Metro Department Store has been cited for providing consumers with a wide assortment of quality general merchandise at affordable prices. Held at the Solaire Resort and Casino, the awarding ceremony was conducted by the Philippine Retailers Association (PRA) and the Department of Trade and Industry.

Forging partnerships

Smart, Metro Retail Stores forge partnership.

Smart Communications, the mobile services unit of PLDT, Inc., has partnered with Metro Retail Stores Group, Inc. to make the telco's products and services more accessible to its customers. Smart, TNT and Sun eLoad, SIM Pack, and Bro devices will now be sold in select Metro stores across the country.

In photo during the signing of the Memorandum of Agreement are, from left, George Gordon, AVP and Head for Key Accounts at Smart; Precy O. Katigbak, Department Head for Distribution at Smart; Alex O. Caeg, Head of Consumer Wireless Division Sales and Distribution at Smart; and from Metro Retail Stores Group, Jonathan Juan Moreno, Chief Strategy Officer; Anna Marie Periquet, Vice President for Corporate Affairs; and Karan Malani, Deputy Chief Merchandising Officer.

BOARD OF DIRECTORS

Arthur Emmanuel and Frank S. Gaisano

BOARD OF DIRECTORS

FRANK S. GAISANO
Chairman and Chief Executive Officer

Frank S. Gaisano, Chairman and Chief Executive Officer of the Metro Retail Stores Group, Inc. (MRSGI), has nearly four decades of retailing experience and is widely recognized as one of the Philippine retail industry's innovative and forward-looking leaders. Working closely with his siblings Margaret, Jack, and Edward, Gaisano was instrumental in professionalizing the leadership and piloting the aggressive growth of MRSGI. Under his direction, MRSGI transformed to become one of the country's top four retail chains. Before his current appointment, Gaisano served as MRSGI's Director from 2003 to 2011. He also sits as Chairman of the Boards of AB Capital and Investment, Pacific Mall Corporation, and Vicsal Investment, Inc., as well as Director of Vicsal Development Corporation, Taft Property, Filipino Fund, Inc., Taft Punta Engaño Property, Inc., and Direct Model Holdings, Inc. He received his Bachelor of Science degree in Civil Engineering from the Cebu Institute of Technology and completed courses at the Institute of Corporate Directors.

ARTHUR EMMANUEL
President and Chief Operating Officer

Arthur Emmanuel is the President and Chief Operating Officer of MRSGI. He brings decades of retail experience honed at WalMart, where he held key global positions including Senior Vice President for Sourcing and Retail Import Development Organization, China; Senior Vice President for Shoes and Jewelry; Regional Vice President for Operations; Senior Vice President and Chief Operating Officer, South America; Vice President for International Operations for Mexico and Puerto Rico; Vice President for International Merchandise; Vice President and Divisional Merchandise Manager for Ladies Apparel; and Regional Vice President for Operations. He was also an Instructor at the WalMart University and a frequent keynote speaker on behalf of WalMart Stores, Inc. His contributions have earned him accolades, including the WalMart Hero, Al Johnson Buck at a Time, Jewelry Industry Achievement, and the WalMart International Awards, recognizing WalMart's growth in Argentina, Brazil, and Mexico. Prior to MRSGI, Emmanuel served as Consultant for Merchandising and Store Operations at Vicsal Development Corporation from 2010 to 2012. His other previous affiliations include chairmanship and directorship posts at Leadership in Education for Pacific Islanders (LEAP), American Heart Association Fundraiser, and United Way Fundraiser. He earned his Transition to Management MBA from Columbia University in 2006.

(L-R) Margaret Gaisano Ang, Jack S. Gaisano, Edward S. Gaisano

MARGARET GAISANO ANG

Director

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

JACK S. GAISANO

Director

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

EDWARD S. GAISANO

Director

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

Guillermo L. Parayno, Jr. and Ricardo Nicanor N. Jacinto

RICARDO NICANOR N. JACINTO

Independent Director

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

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

GUILLERMO L. PARAYNO, JR.

Independent Director

Guillermo L. Parayno, Jr. is an Independent Director of MRSGI. He has held various leadership positions in both the government and private sectors. His accomplishments in public service, as well as his expertise in information technology infrastructure, logistics, and supply chain, have gained him recognition from different institutions, including the PMA Alumni Association, the Asian Institute of Management, the Chamber of Customs Brokers of the Philippines, and the Professional Regulatory Commission of the Philippines.

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

Parayno also previously served as a Commissioner in the Bureaus of Internal Revenue and Customs, and as Regional Director for the Economic Intelligence and Investigation Bureau of the Department of Finance. He has also served as Assistant Chief of Staff for Plans and Programs of the Philippine Coast Guard, and taught at the Philippine Military Academy and the University of the Philippines. He has also worked for several development projects with the United Nations Development Program and the Asian Development Bank. He holds Master's degrees in Psychology from the University of the Philippines and Business Management from the Asian Institute of Management. He graduated magna cum laude from the Philippine Military Academy.

Christopher P. Beshouri and Sherisa P. Nuesa

SENIOR ADVISERS TO THE BOARD

CHRISTOPHER P. BESHOURI
Senior Adviser to the Board

Christopher P. Beshouri is a Senior Adviser to the Board of MRSGI. He previously held positions at McKinsey and Company Philippines as President and CEO, as well as Chief of Staff of Asia and Senior Consultant for more than 15 years. Beshouri also served the United States Treasury as a Senior Financial Economist and Director from 1989 to 1997, focusing on financial markets and banking regulations. He was also an Adjunct Professor at Georgetown University, College of Business; Consultant for the West Africa Country Operations of the World Bank; Financial Auditor of the Catholic Relief Services; and Analyst and Research Assistant for the Federal Reserve Bank of Atlanta. Beshouri earned his Bachelor of Arts degree (Dual Major in Economics and Public Policy) from the Michigan State University, and his Master's degree in Public Affairs from Princeton University.

SHERISA P. NUESA
Senior Adviser to the Board

Sherisa P. Nuesa is a Senior Adviser to the Board of MRSGI. Concurrently, she sits on the Board of Directors of Manila Water Company (MWC), the ALFM Mutual Funds Group, Far Eastern University, FERN Realty Corporation, and Actimed/Generika Group. She is also a Trustee and Director of the Institute of Corporate Directors (ICD), the Financial Executives Institute of the Philippines (FINEX) Foundation, and the Integrity Initiative, Inc.

Nuesa formerly served as Managing Director of the Ayala Corporation; Chief Finance Officer of MWC from 2000 to 2008 and Integrated Micro-Electronics, Inc. (IMI) from 2009 to 2010; Group Controller and Group Head for Commercial Centers of Ayala Land, Inc. (ALI); Board Member of various subsidiaries of ALI, MWC, and IMI; and Director of Blackhorse Emerging Enterprises Fund (Singapore), the state-owned Philippine Reclamation Authority, and PSi Technologies.

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

KEY EXECUTIVES AND SENIOR MANAGEMENT

BENEDICTO CLARK MIRANDA
Vice President for Land and Space

JOSELITO ORENSE
Chief Financial Officer and Treasurer

CHIT LAZARO
Chief Merchandising Officer for Food Retail

LUZ BITANG
Vice President for Operations

ARTHUR EMMANUEL
President and COO

FRANK GAISANO
Chairman and CEO

VINCENT TOMANENG
Corporate Secretary and Chief Legal Counsel

FILI MERCADO
Vice President for Merchandising and Operations Planning and Control

PILUT MONTES
Chief Marketing Officer

REX JUN CABANILLA
Chief Technology Officer

JONATHAN JUAN MORENO
Chief Strategy and Governance Officer

ANNA MARIE PERIQUET
Vice President for Corporate Affairs

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

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

REVENUE

Net sales

For the year ended December 31, 2017, our net sales were ₱35,015.7 million, an increase of 1.8% compared to ₱34,410.9 million for the year ended December 31, 2016. The increase in net sales was primarily due to the opening of a new hypermarket and a new supermarket. The Company has a total of 52 stores as of December 31, 2017 versus 50 stores as of December 31, 2016. Same store sales growth was -0.7% in 2017 as compared to 2.8% in 2016 due to lesser clearance sales events and rationalization of sales to resellers which were not profitable.

Rental Income

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

Interest and other income

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

COST OF SALES

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

OPERATING EXPENSES

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

FINANCE COSTS

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

PROVISION FOR INCOME TAX

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

NET INCOME

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

RESULTS OF OPERATIONS

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

REVENUE

Net sales

For the year ended December 31, 2016, our net sales were ₱34,410.9 million, an increase of 6.5% compared to ₱32,304.5 million for the year ended December 2015. The increase in net sales was largely a result of the opening of two new department stores, a new supermarket and a new hypermarket. The Company had a total of 50 stores as of December 31, 2016 versus 46 stores as of December 31, 2015." Same store sales growth was 2.8% in 2016 compared to 9.4% in 2015.

Rental Income

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

Interest and other income

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

COST OF SALES

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

OPERATING EXPENSES

For the year ended December 31, 2016, our operating expenses were ₱6,227.0 million, an increase of 9.4% compared to P5,689.6 million for the year ended December 31, 2015. The increase was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores.

FINANCE COSTS

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

PROVISION FOR INCOME TAX

For the year ended December 31, 2016, our provision for income tax was ₱331.0 million, an increase of 2.5% compared to ₱322.8 million for the year ended December 31, 2015. The increase in provision for income tax was primarily due to the increase in income before tax.

NET INCOME

As a result of the foregoing, for the year ended December 31, 2016, our net income was ₱789.5 million, an increase of 4.1% compared to ₱758.6 million for year ended December 31, 2015.

RESULTS OF OPERATIONS

The year ended December 31, 2015 compared with the year ended December 31, 2014

REVENUE

Net sales

For the year ended December 31, 2015, our net sales were ₱32,304.5 million, an increase of 13.9% compared to ₱28,356.9 million for the year ended December 31, 2014. The increase in net sales was primarily due to the increase of overall same store sales of 9.4% and the opening of two new hypermarkets and one new supermarket. The Company has a total of 46 stores as of December 31, 2015 versus 43 stores as of December 31, 2014. Same store sales growth was 9.4% in 2015 as compared to -1.2% in 2014.

Rental Income

For the year ended December 31, 2015, our rental income was ₱201.1 million, an increase of 125.7% compared to ₱89.1 million for the year ended December 31, 2014. The increase in rental income was primarily due to the opening of three new stores, which led to an increase in net leasable space, increase in rental fees due to escalation clauses in our existing lease agreements and the renegotiation of percentage of revenue to fixed rent leases.

Interest and other income

For the year ended December 31, 2015, our interest and other income was ₱76.1 million, a decrease of 20.4% compared to ₱95.6 million for the year ended December 31, 2014. Scrap sales in 2015 amounted to ₱14.6 million, representing a decrease of 64% compared to ₱40.6 million in 2014.

COST OF SALES

For the year ended December 31, 2015, our cost of sales was ₱25,774.5 million, an increase of 15.1% compared to ₱22,393.2 million for the year ended December 31, 2014, which was generally in line with the growth of net sales of 13.9%. Cost of sales grew slightly faster than net sales due to faster rate of growth of our supermarket and hypermarket formats, which typically have a higher cost of sales as compared to our department store format.

OPERATING EXPENSES

For the year ended December 31, 2015, our operating expenses were ₱5,689.6 million, an increase of 9.1% compared to ₱5,213.3 million for the year ended December 31, 2014. The increase in general and administrative expenses was primarily due to an increase in salaries and wages, rental expenses, overhead expenses and depreciation expenses resulting from the opening of new stores. The increase of 9.1% of operating expenses is lower than the increase in our net sales of 13.9% due to the economic benefits derived from increase in scale of our operations.

FINANCE COSTS

For the year ended December 31, 2015, our finance costs were ₱36.1 million, a decrease of 9.8% compared to ₱40.0 million for the year ended December 31, 2014. The decrease in finance costs was primarily due to the decrease in our average loans outstanding.

PROVISION FOR INCOME TAX

For the year ended December 31, 2015, our provision for income tax was ₱322.8 million, an increase of 21.3% compared to ₱266.2 million for the year ended December 31, 2014. The increase in provision for income tax was primarily due to the increase in income before tax and related adjustments of deferred tax assets.

NET INCOME

As a result of the foregoing, for the year ended December 31, 2015, our net income was ₱758.6 million, an increase of 20.6% compared to ₱628.9 million for the year ended December 31, 2014.

FINANCIAL POSITION

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

As of December 31, 2017 and December 31, 2016, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,613.8 million and ₱4,788.1 million respectively, representing a positive net working capital position.

CURRENT ASSETS

Our current assets consist of cash and cash equivalents, short-term investments, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2017 and December 31, 2016 were ₱9,605.9 million and ₱8,973.7 million, respectively. The increase of 7.0% of current assets is significantly due to the increase of cash and cash equivalents, short-term investments and receivables. As of December 31, 2017, short-term investment totaled ₱755.2 million, receivables totaled ₱955.5 million, merchandise inventories totaled ₱4,002.5 million and other current assets totaled ₱185.5 million. As of December 31, 2016, short-term investments totaled ₱525.0 million, receivables totaled ₱846.3 million, merchandise inventories totaled ₱4,014.7 million and other current assets totaled ₱280.7 million.

As of December 31, 2017, cash and cash equivalents amounted to ₱3,707.2 million, an increase of 12.1% from ₱3,307.0 million as of December 31, 2016. The increase could be attributed to ₱1,335.9 million generated from operation activities and were offset by the increase of short-term investments by ₱230.2 million, addition to property and equipment amounting to ₱446.3 million and dividends payment amounting to ₱171.5 million.

CURRENT LIABILITIES

Total current liabilities as of December 31, 2017 and December 31, 2016 were ₱3,992.1 million and ₱4,185.6 million, respectively. As of December 31, 2017 and December 31, 2016, trade and other payables totaled ₱3,773.4 million and ₱3,940.9 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

FINANCIAL POSITION

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

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

CURRENT ASSETS

Our current assets consist of cash and cash equivalents, short-term investments, receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2016 and December 31, 2015 were ₱8,973.7 million and ₱9,576.5 million, respectively. The decrease of 6.3% of current assets was significantly due to the conversion of ₱1,700.0 million short-term investments to cash equivalent and the decrease in other current assets. As of December 31, 2016, short-term investment totaled ₱525.0 million, and other current assets totaled ₱280.7 million. As of December 31, 2015, short-term investments totaled ₱2,225.0 million, and other current assets totaled ₱481.6 million.

As of December 31, 2016, cash and cash equivalents amounted to ₱3,307.0 million, an increase of 40.7% from ₱2,351.0 million as of December 31, 2015. The increase was attributed to the conversion of ₱1,700.0 million short-term investments to cash equivalent and ₱1,459.8 million generated from operating activities and were offset by the payment of ₱950.0 million of the outstanding loans payable, acquisition of ₱831.7 million property and ₱154.3 million in equipment and dividend payments.

CURRENT LIABILITIES

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

FINANCIAL POSITION

The year ended December 31, 2015 compared with the year ended December 31, 2014

As of December 31, 2015 and 2014, our net current assets, or the difference between total current assets and total current liabilities, were ₱5,059.6 million and ₱1,832.3 million, respectively, representing a positive net working capital position.

CURRENT ASSETS

Our current assets consist of cash, short-term investments, trade and other receivables, merchandise inventories and other current assets. Total current assets as of December 31, 2015 and 2014 were ₱9,576.5 million and ₱6,288.0 million, respectively. The increase of 52.3% of current assets was significantly due to the increase in working capital arising from the proceeds of the initial public offering. As of December 31, 2015, merchandise inventories totaled ₱3,679.8 million, cash and cash equivalents totaled ₱2,351.0 million and short-term investments totaled ₱2,225.0 million. As of December 31, 2014, merchandise inventories comprised the bulk of our current assets, totaling ₱3,168.2 million, followed by cash, totaling ₱1,625.7 million.

As of December 31, 2015, the cash balance totaled to ₱2,351.0 million, an increase of 44.6% from ₱1,625.7 million. The increase was attributed to the issuance of capital stock by way of an initial public offering of ₱3,360.9 million and increase in trade and other payables of ₱43.1 million offset by the acquisition of ₱635.6 million property and equipment, net payment of ₱150.0 million of the outstanding loans payable as of December 31, 2014 and payment of cash dividends amounting to ₱650.0 million declared in 2015.

CURRENT LIABILITIES

Our current liabilities consist of trade and other payables, loans payable, and income tax payable. Total current liabilities as of December 31, 2015 and 2014 were ₱4,517.0 million and ₱4,455.7 million, respectively. As of December 31, 2015 and 2014, trade and other payables totaled ₱3,374.2 million and ₱3,284.0 million, respectively, and consisted primarily of trade payables to our suppliers for purchases of inventory.

Loans payable in short term working capital loans amounted to ₱950.0 million and ₱1,100.0 million as of December 31, 2015 and 2014, respectively. There were no long-term loans from financial institutions in 2015 and 2014.

CASH FLOWS

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

	For the years ended December 31		
	2017	2016	2015
	(₱ million)		
Net cash flows from operating activities	1,335.9	1,459.8	1,020.7
Net cash flows from (used in) investing activities	(749.4)	653.4	(2,864.4)
Net cash flows from (used in) financing activities	(202.6)	(1,172.5)	2,560.9
Net increase in cash	383.9	940.7	717.2

Net cash flows from operating activities

Our net cash flows generated from operating activities for the year ended December 31, 2017 was ₱1,335.9 million, which comprised operating income before working capital changes of ₱1,991.1 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributed to increase in receivables and decrease in trade and other payables.

Our net cash flows generated from operating activities for the year ended December 31, 2016 was ₱1,459.8 million, which comprised operating income before working capital changes of ₱1,580.1 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributed to increase in merchandise inventories of ₱334.9 million primarily due to the opening of new stores. The increase in trade and other payables of ₱441.6 million also significantly contributed to the change in working capital requirements.

Our net cash flows from operating activities for the year ended December 31, 2015 was ₱1,020.7 million, which is comprised of operating income before working capital changes of ₱1,529.7 million, adjusted for changes in working capital and interest received, partially offset by income tax and interest paid. The changes in working capital were mainly attributed to increase in merchandise inventories amounting to ₱511.6 million primarily due to opening of new stores and decrease in receivables of ₱32.2 million. The increase in trade and other payables of ₱43.1 million also significantly contributed to the change in working capital requirements.

Net cash flows from (used in) investing activities

For the year ended December 31, 2017, net cash flows used in investing activities was ₱749.4 million, which resulted from the increase in short-term investments by ₱230.2 million, additions to property and equipment primarily resulting from acquisition of assets as well as fit outs of new stores amounting to ₱446.3 million and increase in other non-current assets by ₱72.9 million.

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

For the year ended December 31, 2015, net cash flows used in investing activities was ₱2,864.4 million, which is significantly due to the proceeds of the initial public offering placed under short-term investments amounting ₱2,225.0 million and additions to property and equipment for fit outs of new stores amounting to ₱635.6 million.

Net cash flows from (used in) financing activities

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

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

Net cash flows from financing activities was ₱2,560.9 million for the year ended December 31, 2015, primarily due to net proceeds of ₱3,360.9 million from the issuance of capital stock by way of an initial public offering, bank loan payments of ₱1,600.0 million, offset by ₱1,450.0 million loan proceeds and payment of cash dividends amounting to ₱650.0 million declared in 2015.

Indebtedness

We have nil outstanding loans as of December 31, 2017 and December 31, 2016. Short-term loans payable were obtained to support working capital requirements.

KEY PERFORMANCE INDICATORS

	For the years ended December 31		
	2017	2016	2015
The Company			
Net Sales[1] (₱ millions)	35,015.7	34,410.9	32,304.5
Same store sales growth[2] (%)	(0.7)	2.8	9.4
Number of Stores	52	50	46
Net selling area[3] (sqm)	228,989	224,835	201,820

Notes:

(1) Net sales are gross sales, net of discounts and returns.

(2) Same store sales growth is the comparisons of net sales between two periods generated by the relevant stores. The stores that are included in comparisons are those that have operated for at least 12 months preceding the beginning of the last month of the reporting period. The comparison for each store takes into account net sales by that store during the same period it was in operation in both the reporting period and the period of comparison. The net sales of all the relevant stores in the relevant period are then aggregated and compared.

(3) Net selling space is the area of the store where items are displayed, excluding the backroom and warehouse.

Quantitative and qualitative disclosure of market risk

Our principal financial instruments consist of cash and receivables. The main purpose of our financial instruments is to fund our operations and capital expenditures. We do not actively engage in the trading of financial assets for speculative purposes nor do we write options. The main risks arising from our financial instruments are liquidity risk and credit risk. See Note 24 of the notes to our audited financial statements.

Liquidity risk

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

Credit Risk

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

TRENDS, EVENTS OR UNCERTAINTIES THAT HAVE HAD OR THAT ARE REASONABLY EXPECTED TO AFFECT REVENUES AND INCOME

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

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

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

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

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

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

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

METRO
RETAIL STORES GROUP, INC.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of Metro Retail Stores Group, Inc. is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

FRANK S. GAISANO
Chairman of the Board

FRANK S. GAISANO
Chief Executive Officer

JOSELITO G. ORENSE
Chief Financial Officer

March 16, 2018

SUBSCRIBED AND SWORN to before me this APR 04 2018 affiants exhibiting to me their respective Philippine passports as follows:

	Passport No.	Date of Issue	Place of Issue
Frank S. Gaisano	ED9732809	02 Dec 2013	DFA NCR South
Joselito G. Orense	EC0437549	28 Feb 2014	DFA Manila

Doc. No. 324
Page No. 65
Book No. XXX
Series of 2018

AILEEN P. LAZALA-GARROTE
Notarial Commission No. 048-12
Notary Public for Cebu City,
Carcar City and San Fernando, Cebu
Until December 31, 2019
Roll of Attorneys No. 46647
PTR No. 170811 / Cebu Province / Dec. 14, 2017
IBP O.R. No. 1065264 / Cebu Province / Nov. 3, 2017
MCLE Compliance No. V-0015079 / March 8, 2016
Rm. M03 Aniceta Bldg., Mezzanine
Osmeña Blvd., Capitol Site, Cebu City

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

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

FINANCIAL STATEMENTS

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	3	1	5	8	7	7

COMPANY NAME

METRO RETAIL STORES GROUP, INC.

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

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

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@metroretail.com.ph	**(032) 236-8390**	**N/A**
No. of Stockholders	**Annual Meeting (Month / Day)**	**Fiscal Year (Month / Day)**
20	**First Friday of May**	**December 31**

CONTACT PERSON INFORMATION

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

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

CONTACT PERSON's ADDRESS

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

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

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

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metro Retail Stores Group, Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Metro Retail Stores Group, Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matter

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

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

Existence and completeness of merchandise inventories

The Company operates 52 stores (consisting of department stores, supermarkets and hypermarkets) and 9 warehouses in Luzon and Visayas. Refer to Note 7 to the financial statements for the relevant disclosures on inventories. Total inventories of ₱4.00 billion represents 31% of total assets. We focused on this area since inventories are material to the financial statements and are located in various locations across the country.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

SGV

Building a better working world

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metro Retail Stores Group, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SGV
Building a better working world

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

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-A (Group A),
April 21, 2016, valid until April 21, 2019
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621303, January 9, 2018, Makati City

March 16, 2018

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱3,707,152,708**	₱3,306,952,158
Short-term investments (Notes 5 and 24)	**755,204,271**	525,000,000
Receivables (Notes 6 and 24)	**955,537,954**	846,291,020
Merchandise inventories (Note 7)	**4,002,495,549**	4,014,727,305
Other current assets (Note 8)	**185,494,287**	280,729,767
Total Current Assets	**9,605,884,769**	8,973,700,250
Noncurrent Assets		
Property and equipment (Note 9)	**2,370,402,358**	2,434,897,565
Deferred tax assets - net (Note 20)	**149,932,184**	114,489,387
Other noncurrent assets (Note 10)	**593,831,479**	549,086,284
Total Noncurrent Assets	**3,114,166,021**	3,098,473,236
TOTAL ASSETS	**₱12,720,050,790**	₱12,072,173,486
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 24)	**₱3,773,383,677**	₱3,940,896,922
Income tax payable	**190,054,649**	202,360,756
Finance lease liability - current portion (Note 21)	**28,661,059**	42,320,291
Total Current Liabilities	**3,992,099,385**	4,185,577,969
Noncurrent Liabilities		
Finance lease liability - net of current portion (Note 21)	**50,609,267**	68,083,736
Retirement benefit obligation (Note 18)	**353,707,351**	308,148,593
Other noncurrent liabilities (Note 12)	**380,370,371**	365,118,438
Total Noncurrent Liabilities	**784,686,989**	741,350,767
Total Liabilities	**4,776,786,374**	4,926,928,736
Equity		
Capital stock (Note 13)	**3,429,375,000**	3,429,375,000
Additional paid-in capital (Note 13)	**2,455,542,149**	2,455,542,149
Retained earnings (Note 13)	**2,015,860,010**	1,210,371,451
Remeasurement gains on defined benefit obligation (Note 18)	**42,487,257**	49,956,150
Total Equity	**7,943,264,416**	7,145,244,750
TOTAL LIABILITIES AND EQUITY	**₱12,720,050,790**	₱12,072,173,486

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Net sales	**₱35,015,740,598**	₱34,410,947,243	₱32,304,453,639
Rental (Notes 19 and 21)	**299,880,342**	298,394,972	201,076,713
Interest and other income (Notes 4, 5 and 14)	**138,020,790**	137,103,998	76,116,891
	35,453,641,730	34,846,446,213	32,581,647,243
COSTS AND EXPENSES			
Cost of sales (Note 15)	**27,443,433,483**	27,476,168,638	25,774,490,130
Operating expenses (Note 16)	**6,596,907,791**	6,227,008,098	5,689,640,802
Finance costs (Notes 12 and 21)	**17,576,617**	22,805,794	36,065,857
	34,057,917,891	33,725,982,530	31,500,196,789
INCOME BEFORE INCOME TAX	**1,395,723,839**	1,120,463,683	1,081,450,454
PROVISION FOR INCOME TAX (Note 20)			
Current	**451,008,374**	336,516,418	317,518,048
Deferred	**(32,241,844)**	(5,504,837)	5,331,817
	418,766,530	331,011,581	322,849,865
NET INCOME	**976,957,309**	789,452,102	758,600,589
OTHER COMPREHENSIVE INCOME (LOSS)			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit obligation (Note 18)	**(10,669,847)**	92,703,552	(15,711,516)
Income tax effect (Note 20)	**3,200,954**	(27,811,066)	4,713,455
	(7,468,893)	64,892,486	(10,998,061)
TOTAL COMPREHENSIVE INCOME	**₱969,488,416**	₱854,344,588	₱747,602,528
Basic/Diluted Earnings Per Share (Note 22)	**₱0.28**	₱0.23	₱0.29

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 13)	Additional Paid-in Capital (Note 13)	Retained Earnings (Note 13)	Remeasurement Gains (Losses) on Defined Benefit Obligation (Note 18)	Total
Balances at January 1, 2017	**₱3,429,375,000**	**₱2,455,542,149**	**₱1,210,371,451**	**₱49,956,150**	**₱7,145,244,750**
Net income for the year	**–**	**–**	**976,957,309**	**–**	**976,957,309**
Other comprehensive loss	**–**	**–**	**–**	**(7,468,893)**	**(7,468,893)**
Total comprehensive income	**–**	**–**	**976,957,309**	**(7,468,893)**	**969,488,416**
Declaration of dividends (Note 13)	**–**	**–**	**(171,468,750)**	**–**	**(171,468,750)**
Balances at December 31, 2017	**₱3,429,375,000**	**₱2,455,542,149**	**₱2,015,860,010**	**₱42,487,257**	**₱7,943,264,416**
Balances at January 1, 2016	₱3,429,375,000	₱2,455,542,149	₱575,241,224	(₱14,936,336)	₱6,445,222,037
Net income for the year	–	–	789,452,102	–	789,452,102
Other comprehensive income	–	–	–	64,892,486	64,892,486
Total comprehensive income	–	–	789,452,102	64,892,486	854,344,588
Declaration of dividends (Note 13)	–	–	(154,321,875)	–	(154,321,875)
Balances at December 31, 2016	₱3,429,375,000	₱2,455,542,149	₱1,210,371,451	₱49,956,150	₱7,145,244,750
Balances at January 1, 2015	₱2,524,000,000	₱–	₱466,640,635	(₱3,938,275)	₱2,986,702,360
Net income for the year	–	–	758,600,589	–	758,600,589
Other comprehensive loss	–	–	–	(10,998,061)	(10,998,061)
Total comprehensive income	–	–	758,600,589	(10,998,061)	747,602,528
Declaration of dividends (Note 13)	–	–	(650,000,000)	–	(650,000,000)
Issuance of shares (Note 13)	905,375,000	2,455,542,149	–	–	3,360,917,149
Balances at December 31, 2015	₱3,429,375,000	₱2,455,542,149	₱575,241,224	(₱14,936,336)	₱6,445,222,037

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,395,723,839**	₱1,120,463,683	₱1,081,450,454
Adjustments for:			
Depreciation and amortization (Note 9)	**519,524,410**	464,842,064	387,127,546
Provision for impairment of assets (Notes 9 and 10)	**64,977,300**	–	–
Retirement benefits costs (Note 18)	**34,888,911**	46,166,533	41,677,864
Provisions (Note 16)	**23,467,777**	–	–
Finance costs (Notes 12 and 21)	**17,576,617**	22,805,794	36,065,857
Provision for impairment of receivables (Note 6)	**6,853,766**	–	6,645,155
Loss on retirement of property and equipment (Note 9)	**31,618**	1,976,322	121,168
Interest income (Notes 4 and 5)	**(55,627,487)**	(60,878,058)	(13,915,394)
Foreign currency exchange gains (Note 14)	**(16,345,152)**	(15,245,103)	(8,043,618)
Reversal of impairment of receivables	**–**	–	(1,444,547)
Operating income before working capital changes	**1,991,071,599**	1,580,131,235	1,529,684,485
Decrease (increase) in:			
Receivables	**(119,949,109)**	(5,219,517)	32,178,696
Merchandise inventories	**12,231,756**	(334,911,810)	(511,583,106)
Other current assets	**49,656,775**	58,342,076	143,064,325
Increase (decrease) in:			
Trade and other payables	**(190,421,178)**	441,621,981	43,083,745
Other noncurrent liabilities	**15,251,932**	10,347,372	10,456,988
Cash flows generated from operations	**1,757,841,775**	1,750,311,337	1,246,885,133
Interest received	**55,609,537**	58,877,673	6,818,174
Income tax paid	**(463,314,481)**	(326,887,245)	(196,497,085)
Interest paid	**(14,270,100)**	(22,476,312)	(36,470,647)
Net cash provided by operating activities	**1,335,866,731**	1,459,825,453	1,020,735,575
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other noncurrent assets	**(72,914,019)**	(214,948,384)	(3,781,045)
Acquisition of property and equipment (Note 9)	**(446,290,592)**	(831,698,218)	(635,609,332)
Decrease (increase) in short-term investments	**(230,204,271)**	1,700,000,000	(2,225,000,000)
Net cash (used in) provided by investing activities	**(749,408,882)**	653,353,398	(2,864,390,377)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of:			
Cash dividends (Note 13)	**(171,468,750)**	(154,321,875)	(650,000,000)
Finance lease liability (Note 21)	**(31,133,701)**	(68,187,311)	–
Loans payable	**–**	(950,000,000)	(1,600,000,000)
IPO transaction costs (Note 13)	**–**	–	(251,529,101)
Proceeds from:			
Issuance of shares (Note 13)	**–**	–	3,612,446,250
Loans payable	**–**	–	1,450,000,000
Net cash (used in) provided by financing activities	**(202,602,451)**	(1,172,509,186)	2,560,917,149
NET INCREASE IN CASH AND CASH EQUIVALENTS	**383,855,398**	940,669,665	717,262,347
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE	**16,345,152**	15,245,103	8,043,618
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,306,952,158**	2,351,037,390	1,625,731,425
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,707,152,708**	₱3,306,952,158	₱2,351,037,390

See accompanying Notes to Financial Statements.

METRO RETAIL STORES GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

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

Corporate Information

Metro Retail Stores Group, Inc. (MRSGI; the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (the SEC) on August 28, 2003 in the Republic of the Philippines with a corporate life of 50 years. The Company is 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 13).

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

Approval of the Financial Statements

The financial statements of the Company as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were endorsed for approval by the Audit Risk Committee on March 9, 2018 and were approved and authorized for issue by the Board of Directors (BOD) on March 16, 2018.

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

Basis of Preparation

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

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Adoption of New and Amended Accounting Standards and Interpretations

The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS which became effective January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, Clarification of the Scope of the Standard (Part of *Annual Improvements* to PFRSs 2014–2016 Cycle)

- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows*, Disclosure Initiative

- Amendments to PAS 12, *Income Taxes*, Recognition of Deferred Tax Assets for Unrealized Losses

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

Effective beginning on or after January 1, 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 plans to adopt the new standard on the mandatory effective date and 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 plans to adopt the new standard on the mandatory effective date and 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.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases.* Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

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

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

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

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

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint

venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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

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

<u>Current and Noncurrent Classification</u>
The Company presents assets and liabilities in the statement of financial position based on current / noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

<u>Cash and Cash Equivalents</u>
Cash pertains to cash on hand and in banks. Cash in banks represents cash funds that are deposited in various bank accounts of the Company. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of changes in value.

Short-term Investments
Short-term investments are short-term, highly liquid investment with maturities of more than three (3) months but less than one year and are intended for short term cash requirement of the Company.

Financial Instruments
Date of Recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition and Classification of Financial Instruments
Financial assets and liabilities are recognized initially at fair value. The initial measurement of financial instruments includes transaction costs.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets, as appropriate. Financial liabilities, on the other hand, are classified as financial liability at FVPL and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2017 and 2016, the Company's financial assets and financial liabilities are in the form of loans and receivables and other financial liabilities.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in "Interest income" account in the statements of comprehensive income. The losses arising from impairment of such loans and receivables are recognized under "Operating expenses" account in the statements of comprehensive income.

Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2017 and 2016, the Company's loans and other receivables consist of "Cash and cash equivalents", "Short-term investments" and "Receivables" (excluding "Advances to employees and officers") in the statement of financial position.

Other financial liabilities
Other financial liabilities are financial liabilities not designated as at FVPL where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of own equity shares. The components of issued financial instrument that contain both liability and equity element are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The amortization is included in the "Finance cost" account in the statements of comprehensive income.

As of December 31, 2017 and 2016, other financial liabilities consist of "Trade and other payables" (excluding "Deferred revenue" and statutory payables) and "Finance lease liability".

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as disclosed in Note 24.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or

more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, credit history, past-due status and term

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Derecognition of Financial Instruments

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities

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

Offsetting of Financial Assets and Financial Liabilities

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

Merchandise Inventories

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

Other Assets

Advances to Suppliers

Advances to suppliers are down payments to the Company's suppliers for the acquisition of supplies, merchandise inventories, property and equipment and other services. These are recognized based on the amount paid at the transaction date and are applied when the goods are received or services are rendered.

Prepayments
Prepayments include advance payments for insurance and rentals which are amortized or consumed within the entity's normal operating cycle.

Supplies
Supplies pertain to office and store supplies purchased by the Company for general and administrative purposes. These are recorded at cost and taken to profit and loss upon issuance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

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

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

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

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

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

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

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

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

Retained Earnings
The amount included in retained earnings includes profit (loss) less dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company's BOD.

Interim dividends, if any, are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

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

Revenue Recognition

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

Net Sales

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

Rental

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

Interest Income

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

Other Income

Other operating income pertains to scrap sales from items such as non-reusable cartons, sacks, containers and other items from the Company's stores, and other miscellaneous income. Other income is recognized to the extent that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably.

Expenses

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

Cost of Sales

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

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

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

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

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

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

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

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

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

Deferred Revenue
Deferred revenue includes the Company's customer loyalty program, which is used to allow their customers to accumulate points when they purchase the Company's products. The points can then be redeemed or used to pay for the purchase of the Company's merchandise inventories, subject to a minimum number of points being obtained. The consideration received is allocated between the products sold and points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is the amount for which the award credits could be sold separately. The fair value of the points issued is deferred, presented as deferred revenue under trade and other payables in the statement of financial position and recognized as revenue when the points are redeemed. Deferred revenue also includes redeemable credit, gift checks and commission arising from concession agreements. These are deferred and recognized as revenue when the goods are delivered or services are rendered.

Segment Reporting
The Company's store operations is its only income generating activity and such is the measure used by the chief operating decision maker (CODM) in allocating resources. Information on reporting segment is represented in Note 23 to the financial statements.

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

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

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

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

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

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

Finance Lease - Company as a Lessee
The Company has entered into lease agreements as lessee. These agreements are accounted for as finance leases since the Company assumed substantially all the risks and rewards incidental to

ownership of the properties which are leased out under finance lease agreements due to the following:

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

Finance lease liabilities pertaining to leased computer equipment amounted to ₱79.27 million and ₱110.40 million as of December 31, 2017 and 2016, respectively (see Notes 9 and 21).

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

Accordingly, no provision for probable losses was recognized by the Company in 2017 and 2016.

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

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

Merchandise inventories amounted to ₱4,002.50 million and ₱4,014.73 million as of December 31, 2017 and 2016, respectively (see Note 7).

Assessing Impairment for Financial Assets
The Company provides allowance for losses on financial assets to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The Company recognized allowance for impairment losses pertaining to security deposits which may not be recoverable due to the acceleration of lease termination date from the planned closure of a non-performing store amounting to ₱28.17 million for the year ended December 31, 2017. As of December 31, 2017 the carrying amount of security deposit, net of impairment losses, amounted to ₱434.69 million (see Note 10).

Allowance for impairment losses of receivables amounted to ₱11.61 million and ₱9.49 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the carrying amount of receivables, net of valuation allowance, amounted to ₱955.54 million and ₱846.29 million, respectively (see Note 6).

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

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

As of December 31, 2017 and 2016, the carrying value of the Company's property and equipment amounted ₱2,370.40 million and ₱2,434.90 million, respectively (see Note 9).

In 2017, the Company recognized provision for impairment losses amounting to ₱36.81 million pertaining to leasehold improvements and store equipment which may not be recoverable due to planned closure of a non-performing store (see Note 9).

Deferred Revenue - Loyalty Program
The Company operates a customer loyalty program called Metro Rewards Card Program (MRC).

This allows customers to accumulate points when they purchase products from the Company's retail store. The points accumulated can be used as a form of payment on the customer's future purchases, subject to certain restrictions. Fair value of the points is determined by applying statistical analysis. At every reporting date, the Company estimates the fair value of the points that their customers will redeem. The fair value of points issued is deferred and recognized as revenue when the points are redeemed.

As of December 31, 2017 and 2016, deferred revenue arising from MRC amounted to ₱46.00 million and ₱63.99 million, respectively (see Note 11).

Estimating Retirement Benefits Obligation
The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions in calculating such amounts. Those assumptions are described in Note 18 of the financial statements and include, among others, discount rates and future salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's retirement benefits obligation.

The Company's retirement benefits costs amounted to ₱36.35 million, ₱47.24 million and ₱41.68 million in 2017, 2016 and 2015, respectively. Retirement benefits obligation amounted to ₱353.71 million and ₱308.15 million as of December 31, 2017 and 2016, respectively (see Note 18).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱128,987,374**	₱116,601,205
Cash in banks	**1,902,103,372**	1,600,350,953
Cash equivalents	**1,676,061,962**	1,590,000,000
	₱3,707,152,708	₱3,306,952,158

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months, depending on the immediate cash requirements of the Company, and earn annual interest at the respective short-term rates.

Interest income earned from cash and cash equivalents amounted to ₱40.77 million, ₱30.57 million and ₱8.15 million in 2017, 2016 and 2015, respectively (see Note 14).

5. Short-term Investments

These pertain to money market placements made for varying periods of up to one year depending on the immediate cash requirement of the Company and earn annual interest at the respective short-term investment rates that ranges from 2.00% to 3.00% and 2.00% and 2.75% in 2017 and 2016, respectively.

Short term investments as of December 31, 2017 and 2016 amounted to ₱755.20 million and ₱525.00 million, respectively.

Interest income earned from short-term investments amounted to ₱14.86 million, ₱30.31 million and ₱5.77 million in 2017, 2016 and 2015, respectively (see Note 14).

6. Receivables

This account consists of:

	2017	2016
Trade		
Third parties	**₱810,610,601**	₱771,559,360
Related parties (Note 19)	**89,607,005**	8,951,580
Nontrade		
Rentals	**23,190,823**	25,898,379
Related parties (Note 19)	**10,240,181**	4,913,913
Advances to employees and officers	**9,502,828**	13,260,336
Others	**23,998,928**	31,195,708
	967,150,366	855,779,276
Less allowance for impairment losses	**11,612,412**	9,488,256
	₱955,537,954	₱846,291,020

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

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

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

Other receivables pertain to accrued interest receivable and cash advances.

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

	2017	2016	2015
Beginning of year	**₱9,488,256**	₱9,488,256	₱10,932,803
Provision for impairment of receivables (Note 16)	**6,853,766**	–	6,645,155
Write-off	**(4,729,610)**	–	(6,645,155)
Reversal	**–**	–	(1,444,547)
End of year	**₱11,612,412**	₱9,488,256	₱9,488,256

7. Merchandise Inventories

The rollforward analysis of this account follows:

	2017	2016	2015
Beginning inventory	**₱4,014,727,305**	₱3,679,815,495	₱3,168,232,389
Add purchases - net	**27,391,644,395**	27,766,881,546	26,232,330,298
Cost of goods available for sale	**31,406,371,700**	31,446,697,041	29,400,562,687
Less cost of merchandise sold (Note 15)	**(27,403,876,151)**	(27,431,969,736)	(25,720,747,192)
Ending inventory	**₱4,002,495,549**	₱4,014,727,305	₱3,679,815,495

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

No inventories have been used or pledged as security for the Company's obligations in 2017 and 2016.

No allowance for obsolescence had been recognized in 2017, 2016 and 2015.

The Company does not have any purchase commitments as of December 31, 2017 and 2016.

8. Other Current Assets

This account consists of:

	2017	2016
Supplies	**₱56,708,234**	₱72,308,365
Prepayments	**44,564,688**	78,262,522
Deferred input VAT – current	**44,114,542**	–
Advances to trade suppliers	**29,166,803**	129,718,749
Others	**10,940,020**	440,131
	₱185,494,287	₱280,729,767

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

Prepayments consist of prepaid insurance and advance rental payments.

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

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

9. **Property and Equipment**

The rollforward analysis of this account follows:

<u>2017</u>

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱197,843,206	₱1,491,202,863	₱1,013,371,762	₱265,329,237	₱1,258,074,297	₱179,054,009	₱4,404,875,374
Additions	5,476,553	112,707,967	107,926,434	58,344,721	109,630,540	97,783,082	491,869,297
Retirements	–	(348,167)	(241,651)	–	–	–	(589,818)
Reclassifications	(28,829,096)	–	28,829,096	–	114,063,355	(114,063,355)	-
At end of year	174,490,663	1,603,562,663	1,149,885,641	323,673,958	1,481,768,192	162,773,736	4,896,154,853
Less Accumulated Depreciation and Amortization:							
At beginning of year	40,479,644	962,737,605	640,174,771	57,087,435	269,498,354	–	1,969,977,809
Depreciation and amortization (Notes 15 and 16)	18,319,230	193,866,801	143,672,109	50,672,130	112,994,140	–	519,524,410
Retirements	–	(345,956)	(212,244)	–	–	–	(558,200)
Reclassifications	(3,123,152)	–	3,123,152	–	–	–	-
At end of year	55,675,722	1,156,258,450	786,757,788	107,759,565	382,492,494	–	2,488,944,019
Less Allowance for impairment losses:							
Impairment losses (Note 16)	–	991,936	–	–	35,816,540	–	36,808,476
Net Book Value	₱118,814,941	₱446,312,277	₱363,127,853	₱215,914,393	₱1,063,459,158	₱162,773,736	₱2,370,402,358

2016

	Machinery and Equipment	Store and Office Equipment	Computer Equipment	Transportation Equipment	Leasehold Improvements	Construction-in-Progress	Total
Cost:							
At beginning of year	₱134,081,561	₱1,240,348,823	₱801,190,773	₱179,405,633	₱721,442,050	₱82,956,776	₱3,159,425,616
Additions	64,286,331	257,079,931	214,784,996	85,923,604	507,220,736	125,508,744	1,254,804,342
Retirements	(524,686)	(6,225,891)	(2,604,007)	–	–	–	(9,354,584)
Reclassifications	–	–	–	–	29,411,511	(29,411,511)	–
At end of year	197,843,206	1,491,202,863	1,013,371,762	265,329,237	1,258,074,297	179,054,009	4,404,875,374
Accumulated Depreciation and Amortization:							
At beginning of year	21,920,869	776,320,022	509,055,421	20,422,763	184,794,932	–	1,512,514,007
Depreciation and amortization (Notes 15 and 16)	18,665,989	191,595,740	133,212,241	36,664,672	84,703,422	–	464,842,064
Retirements	(107,214)	(5,178,157)	(2,092,891)	–	–	–	(7,378,262)
At end of year	40,479,644	962,737,605	640,174,771	57,087,435	269,498,354	–	1,969,977,809
Net Book Value	₱157,363,562	₱528,465,258	₱373,196,991	₱208,241,802	₱988,575,943	₱179,054,009	₱2,434,897,565

In 2016, the Company acquired the store assets of Specialty Retailers, Inc. (SIAL) amounting to ₱498.81 million.

The Company leases computer equipment which was accounted for as finance lease. The carrying amount of the computer equipment amounted to ₱143.26 million and ₱178.59 million as of December 31, 2017 and 2016, respectively.

There are no items of property and equipment that are pledged as security to liabilities as of December 31, 2017 and 2016.

Allowance for impairment losses pertain to the write-down of the carrying value of leasehold improvement and store equipment which may not be recoverable due to the planned closure of a non-performing store.

There are no contractual purchase commitments for property and equipment as of December 31, 2017 and 2016.

Fully depreciated property and equipment
The cost of fully depreciated property and equipment still in use amounted to ₱1,204.68 million and ₱907.73 million as of December 31, 2017 and 2016, respectively.

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

10. Other Noncurrent Assets

This account consists of:

	2017	2016
Deposits	**₱462,862,067**	₱415,378,119
Deferred input VAT	**94,425,786**	133,708,165
Advances to nontrade suppliers	**64,712,450**	–
	622,000,303	549,086,284
Allowance for impairment losses (Note 16)	**(28,168,824)**	–
	₱593,831,479	₱549,086,284

Deposits are payments to lessors and utility companies for rental and meter deposits. In 2017, the Company paid advance rentals pertaining to new lease contracts and existing contracts amounting to ₱7.03 million and ₱17.09 million, respectively. These will be offset 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 planned closure of a non-performing store.

11. Trade and Other Payables

This account consists of:

	2017	2016
Trade	**₱2,802,050,389**	₱3,097,831,679
Nontrade		
Third parties	**198,960,416**	300,207,618
Related parties (Note 19)	**3,599,664**	7,466,024
Accrued expenses	**254,975,921**	241,136,805
Output VAT - net	**237,340,635**	110,497,964
Deferred revenue	**204,896,051**	133,497,200
Others	**71,560,601**	50,259,632
	₱3,773,383,677	₱3,940,896,922

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. It also include retention payables to contractors for the Company's store equipment, leasehold improvements and other liabilities in line with the Company's operating expenses. These are normally settled within twelve months.

Accrued expenses consist of:

	2017	2016
Suppliers and contractors	**₱71,767,386**	₱67,469,119
Utilities	**56,886,038**	60,635,787
Rentals	**28,585,246**	11,066,656
Marketing-related cost	**15,353,296**	34,445,937
Professional fees	**10,210,811**	21,885,369
Other accruals	**72,173,144**	45,633,937
	₱254,975,921	₱241,136,805

Accrued expense others pertains to sick leave and vacation leave credits, management fee, and other operating related expenses.

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 planned store closure of non-performing store in 2018 (Note 16) 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.

12. Other Noncurrent Liabilities

	2017	2016
Credit cash bonds	**₱326,740,160**	₱316,956,963
Deposits	**53,630,211**	48,161,475
	₱380,370,371	₱365,118,438

Credit cash bonds pertain to cash bonds received by the Company as security for the unpaid balances of the receivables from credit account holders. This can also be applied against the account holder's remaining balance if the account holder no longer wants to avail of the Company's credit line. These bonds earn interest annually at a fixed rate ranging from 4% to 6% based on accumulated cash bond and purchases volume.

Finance cost included in profit or loss pertaining to cash bonds amounted to ₱14.68 million, ₱14.41 million and ₱13.82 million in 2017, 2016 and 2015, respectively. These were settled through deduction in the credit account holders' receivable balance.

Deposits pertain to security and customers' deposits. Security deposits to be applied to last term of the lease pertain to rental deposits from tenants that lease space from the Company's stores while customers' deposits pertain to payments from customers for installment sales.

13. Equity

Capital Stock

The Company's authorized, issued and outstanding shares as of December 31, 2017 and 2016 are as follows:

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

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

The Company has 151 and 169 existing shareholders as of December 31, 2017 and 2016, respectively.

Additional Paid-in Capital

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

Stock Option Plan

The BOD and stockholders of the Company have adopted resolutions on July 27, 2015 approving the establishment of a stock option plan to offer up to 103,320,000 shares out of its unissued capital stock to key personnel. However, the Company has not formalized the stock option plan, hence, no actual grant has been made as of December 31, 2017 and 2016.

Retained Earnings

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

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

On July 27, 2015, the BOD approved the declaration of cash dividends amounting to ₱650.00 million out of the Company's retained earnings as of June 30, 2015 to stockholders of record as of July 10, 2015 and was paid on September 18, 2015 and December 18, 2015.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Company's retained earnings available for dividend declaration as of December 31, 2017 amounted to ₱1,912.20 million.

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2017 and 2016. The Company considers equity as capital. The Company is not subject to externally imposed capital requirements.

The Company considers the following as capital:

	2017	2016
Capital stock	**₱3,429,375,000**	₱3,429,375,000
Additional paid-in capital	**2,455,542,149**	2,455,542,149
Retained earnings	**2,015,860,010**	1,210,371,451
	₱7,900,777,159	₱7,095,288,600

14. Interest and Other Income

	2017	2016	2015
Interest income (Notes 4 and 5)	**₱55,627,487**	₱60,878,058	₱13,915,394
Foreign currency exchange gains	**16,345,152**	15,245,103	8,043,618
Scrap sales	**12,018,292**	12,031,896	14,624,197
Others	**54,029,859**	48,948,941	39,533,682
	₱138,020,790	₱137,103,998	₱76,116,891

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

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

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

15. Cost of Sales

	2017	2016	2015
Cost of merchandise sold (Note 7)	**₱27,403,876,151**	₱27,431,969,736	₱25,720,747,192
Others (Notes 9 and 17)	**39,557,332**	44,198,902	53,742,938
	₱27,443,433,483	₱27,476,168,638	₱25,774,490,130

Others pertain to the direct labor and other overhead costs.

16. Operating Expenses

	2017	2016	2015
Personnel cost (Note 17)	**₱2,092,246,328**	₱2,069,207,942	₱1,947,090,049
Rental (Notes 19 and 21)	**1,546,596,778**	1,461,529,754	1,269,327,823
Light, water and communication	**775,924,103**	759,444,165	722,250,613
Depreciation and amortization (Note 9)	**516,456,796**	461,508,512	383,384,284
Contracted services	**346,710,142**	386,903,911	354,722,622
Taxes and licenses	**300,832,944**	282,775,382	250,390,498
Advertising	**204,941,649**	196,599,764	210,011,048
Repairs and maintenance	**198,983,414**	121,814,633	108,480,895
Supplies	**173,321,819**	167,452,430	160,234,884
Commission	**102,438,162**	103,282,917	99,828,222
Transportation and travel	**89,413,195**	84,457,256	73,054,221
Provisions			
Impairment of assets (Notes 9 and 10)	**64,977,300**	–	–
Impairment of receivables (Note 6)	**6,853,766**	–	6,645,155
Others (Note 11)	**23,467,777**	–	–
Professional fees	**48,941,711**	47,051,238	26,719,940
Subscriptions	**45,256,831**	23,391,097	38,111,704
Insurance	**31,557,777**	29,722,785	27,112,248
Others	**27,987,299**	31,866,312	12,276,596
	₱6,596,907,791	₱6,227,008,098	₱5,689,640,802

Provision for impairment of assets and other provisions are non-recurring expenses pertaining to the planned closure of a non-performing store in 2018.

Others pertain to representation, entertainment, donations and contributions.

17. Personnel Cost

	2017	2016	2015
Salaries and wages	**₱1,741,795,649**	₱1,762,420,237	₱1,666,424,782
Retirement benefits costs (Note 18)	**36,352,996**	47,239,708	41,677,864
Other employee benefits	**339,636,308**	288,117,067	273,424,379
	₱2,117,784,953	₱2,097,777,012	₱1,981,527,025

The salaries and wages that were recognized as cost of sales amounted to ₱25.54 million, ₱28.57 million and ₱34.44 million in 2017, 2016 and 2015, respectively.

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

18. Retirement Benefit Obligation

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

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

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

	2017	2016	2015
Current service cost	**₱17,564,470**	₱29,150,742	₱27,704,941
Interest cost	**18,788,526**	18,088,966	13,972,923
	₱36,352,996	₱47,239,708	₱41,677,864

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

	2017	2016	2015
Actuarial gain (loss) due to:			
Experience adjustments	**(₱25,521,310)**	₱24,277,645	(₱33,861,242)
Changes in financial assumptions	**14,851,463**	68,425,907	18,149,726
	(10,669,847)	₱92,703,552	(₱15,711,516)

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

	2017	2016
Balance at beginning of year	**₱308,148,593**	₱354,685,612
Current service cost	**17,564,470**	29,150,742
Interest cost	**18,788,526**	18,088,966
Benefits paid	**(1,464,085)**	(1,073,175)
Actuarial (gain) loss due to:		
Experience adjustments	**25,521,310**	(24,277,645)
Changes in financial assumptions	**(14,851,463)**	(68,425,907)
Balance at end of year	**₱353,707,351**	₱308,148,593

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

	2017	2016	2015
Salary increase rate	**3.00%**	3.00%	4.00%
Discount rate	**6.10%**	5.70%	5.10%

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

	2017		2016	
	Increase (decrease)	**Net Retirement benefit liability**	Increase (decrease)	Net Retirement benefit liability
Discount Rates	**+0.5%**	**(₱17,237,917)**	+0.5%	(₱18,032,656)
	-0.5%	**18,721,956**	-0.5%	19,692,742
Salary increase rate	**+0.5%**	**₱18,211,957**	+0.5%	₱19,692,742
	-0.5%	**(16,903,834)**	-0.5%	(18,032,656)

The Company does not maintain a fund for its retirement benefit obligation. Shown below is the maturity analysis of the benefit payments as of December 31:

	2017	2016
1 year and less	**₱–**	₱–
More than one year to 5 years	**118,731,248**	75,069,710
More than 5 years to 10 years	**155,341,926**	101,939,596
More than 10 years to 15 years	**286,927,254**	235,256,258
More than 15 years to 20 years	**2,075,649,192**	1,644,132,627
	₱2,636,649,620	₱2,056,398,191

The weighted average duration of the defined benefit obligation is 14 years in 2017 and 2016.

19. Related Party Transactions

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

Terms and Conditions of Transactions with Related Parties

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

The significant related party transactions and outstanding balances as of and for the years ended December 31, 2017 and 2016 are as follows:

December 31, 2017

	Amount/Volume for the year ended December 31, 2017	**Outstanding Balance as of December 31, 2017**	**Terms and Conditions**
Parent Company (VDC)			
Rental expense	**(₱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**
Entities Under Common Control			
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**	

December 31, 2016

	Amount/Volume for the year ended December 31, 2016	Outstanding Balance as of December 31, 2016	Terms and Conditions
Parent Company (VDC)			
Rental expense	(₱810,762,065)	(₱7,466,024)	Noninterest-bearing and due in 30 days, unsecured
Advances	6,258,686	4,913,913	Noninterest-bearing and due in 30 days, not impaired
Management fee	(21,838,200)	–	Noninterest-bearing and payable in 30 days, unsecured
Entities Under Common Control			
Purchase, sale of goods and services and rental income	(987,740,614)	8,951,580	Noninterest-bearing and payable in 30 days, not impaired
Due from (to) related parties	–	₱6,399,469	

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 ₱1,108.57 million and ₱972.20 million in 2017 and 2016, respectively, which earn interest based on prevailing market interest rates amounting to ₱2.18 million and ₱1.99 million in 2017 and 2016, respectively.

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

	2017	2016	2015
Short-term employee benefits	**₱135,149,156**	₱140,638,971	₱121,533,053
Post-employment benefits	**3,786,384**	5,344,303	5,376,444

There are no amounts due to or due from members of key management as of December 31, 2017 and 2016.

The Company has not recognized any impairment losses on amounts due from related parties in 2017 and 2016. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

20. **Income Taxes**

Provision for income tax consists of:

	2017	2016	2015
Current			
RCIT	**₱440,694,207**	₱325,487,583	₱315,719,159
Final	**10,314,167**	11,028,835	1,798,889
	451,008,374	336,516,418	317,518,048
Deferred	**(32,241,844)**	(5,504,837)	5,331,817
	₱418,766,530	₱331,011,581	₱322,849,865

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

	2017	2016
Retirement benefit obligation (Note 18)	**₱106,112,205**	₱92,444,578
Provision for impairment of assets (Note 16)	**19,493,190**	–
Deferred revenue - loyalty program	**13,802,732**	19,198,332
Provisions (Note 16)	**7,040,333**	–
Allowance for impairment of receivables (Note 6)	**3,483,724**	2,846,477
	₱149,932,184	₱114,489,387

The Company recognized deferred tax asset amounting to ₱3.20 million in 2017 and deferred tax liability amounting to ₱27.81 million in 2016 which pertains to income tax effect of the remeasurements of retirement benefits obligation recognized in OCI.

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

	2017	2016	2015
Tax at 30% on income before tax	**₱418,717,152**	₱336,139,105	₱324,435,136
Tax effects of:			
Nondeductible expenses	**5,742,448**	1,477,765	1,113,063
Income subjected to final tax	**(5,693,070)**	(6,605,289)	(2,698,334)
	₱418,766,530	₱331,011,581	₱322,849,865

21. 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 fixed or contingent rent.

Rental expense amounted to ₱1,546.97 million ₱1,461.85 million and ₱1,269.39 million in 2017, 2016 and 2015, respectively (see Note 16).

Rental expense that were recognized as cost of sales amounted to ₱0.38 million, ₱0.32 million and ₱0.05 million in 2017, 2016 and 2015, respectively.

Payments made for sublease rentals amounted to ₱724.85 million, ₱797.52 million and ₱709.33 million in 2017, 2016 and 2015, respectively.

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

Rental income amounted to ₱299.88 million, ₱298.39 million and ₱201.08 million in 2017, 2016 and 2015, respectively.

Finance lease - Company as lessee
The Company entered into finance lease arrangements covering various computer equipment used in the operations of the Company. As of December 31, 2017 and 2016, carrying amount of the leased computer equipment amounted to ₱143.26 million and ₱178.59 million, respectively (see Note 9).

The finance lease obligation amounted to ₱79.27 million and ₱110.40 million in 2017 and 2016, respectively. The components are as follows:

	2017	2016
Gross finance lease obligation:		
Not later than one year	**₱32,244,719**	₱45,946,764
Later than one year but no later than five years	**53,066,671**	73,025,485
	85,311,390	118,972,249
Future finance lease charges:		
Not later than one year	**3,583,660**	3,626,473
Later than one year but no later than five years	**2,457,404**	4,941,749
	6,041,064	8,568,222
	₱79,270,326	₱110,404,027

The present value of minimum lease payments as of December 31, 2017 is as follow:

	2017	2016
Gross finance lease obligation:		
Not later than one year	**₱28,661,059**	₱42,320,291
Later than one year but no later than five years	**50,609,267**	68,083,736
	₱79,270,326	₱110,404,027

The finance cost related to finance lease obligation amounted to ₱2.55 million and ₱3.50 million in 2017 and 2016, respectively.

22. Earnings Per Share

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

	2017	2016	2015
Net income	**₱976,957,309**	₱789,452,102	₱758,600,589
Weighted-average number of common shares	**3,429,375,000**	3,429,375,000	2,599,447,917
Basic/Diluted EPS	**₱0.28**	₱0.23	₱0.29

The Company also assessed that there were no potential dilutive common shares as of December 31, 2017, 2016 and 2015.

In line with the Company's IPO on November 24, 2015, the weighted-average number of shares in 2015 considered changes in the outstanding number of shares during that year.

23. Segment Reporting

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

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

The Company conducts its operations through the following store formats:

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

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

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

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

24. Financial Instruments

Fair Value of Financial Instruments
As of December 31, 2017 and 2016, the Company has no financial asset and liability carried at fair value.

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

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

		2017		2016
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Credit cash bonds (Note 12)	**₱326,740,160**	**₱259,202,789**	₱316,956,963	₱251,441,784
Finance lease liability (Note 21)	**79,270,326**	**82,908,212**	110,404,027	111,283,457
Deposits (Note 12)	**53,630,211**	**48,246,966**	48,161,475	43,327,166
	₱459,640,697	**₱390,357,967**	₱475,522,465	₱406,052,407

The fair value of credit cash bonds and security deposits were determined by discounting future cash flows using the applicable rates of similar types of instruments. The fair value of the long term portion of lease liabilities is based on the discounted value of future cash flow using applicable interest rates ranging from 4.00% to 5.00% for 2017 and 2016.

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

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

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

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

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

The table below shows the maturity profile of the financial liabilities of the Company as of December 31, 2017 and 2016 based on the remaining period at the reporting date to their contractual maturities and are also presented based on contractual undiscounted repayment obligations.

December 31, 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**
Finance lease liability	**–**	**28,661,059**	**50,609,267**	**79,270,326**
Others*	**–**	**22,571,856**	**–**	**22,571,856**
Other noncurrent liabilities	**–**	**–**	**380,370,371**	**380,370,371**
	₱–	**₱3,310,819,305**	**₱430,979,638**	**₱3,741,798,943**

** Others excludes statutory payables*

December 31, 2016

	On Demand	Within One (1) Year	More than One (1) Year	Total
Financial Liabilities:				
Trade and other payables	₱–	₱3,097,831,679	₱–	₱3,097,831,679
Trade				
Non-trade				
Third party	–	300,207,618	–	300,207,618
Related parties	–	7,466,024	–	7,466,024
Accrued expenses	–	241,136,805	–	241,136,805
Finance Lease Liability	–	42,320,291	68,083,736	110,404,027
Others*	–	15,670,725	–	15,670,725
Other noncurrent liabilities	–	–	365,118,438	365,118,438
	₱–	₱3,704,633,142	₱433,202,174	₱4,137,835,316

** Others excludes statutory payables*

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

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

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

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

	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				
Rentals	**23,190,823**	**53,630,211**	**–**	**23,190,823**
Related parties	**10,240,181**	**–**	**10,240,181**	**–**
Others	**23,998,928**	**–**	**23,998,928**	**–**
	₱957,647,538	**₱380,370,371**	**₱607,716,555**	**₱349,930,983**

	2016			
	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	₱771,647,508	₱316,956,963	₱454,690,545	₱316,956,963
Related parties	8,951,580	–	8,951,580	–
Nontrade				
Rentals	25,898,379	48,161,475	–	25,898,379
Related parties	4,913,913	–	4,913,913	–
Others	31,195,708	–	31,195,708	–
	₱842,607,088	₱365,118,438	₱499,751,746	₱342,855,342

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

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 follow:

December 31, 2017

	Neither Past Due Nor Impaired		**Past Due But Not Impaired**		
	High Grade	**Standard Grade**		**Impaired**	**Total**
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					
Rentals	**23,190,823**	**–**	**–**	**–**	**23,190,823**
Related parties	**10,240,181**	**–**	**–**	**–**	**10,240,181**
Others	**23,998,928**	**–**	**–**	**–**	**23,998,928**
	₱5,189,681,608	**₱–**	**₱89,723,123**	**₱11,612,412**	**₱5,291,017,143**

**Cash and cash equivalents excludes cash on hand*

December 31, 2016

	Neither Past Due Nor Impaired: High Grade	Neither Past Due Nor Impaired: Standard Grade	Past Due But Not Impaired	Impaired	Total
Cash and cash equivalents*	₱3,190,350,953	₱–	₱–	₱–	₱3,190,350,953
Short-term investments	525,000,000	–	–	–	525,000,000
Receivables					
Trade					
Third parties	709,501,684	–	52,569,420	9,488,256	771,559,360
Related parties	8,951,580	–	–	–	8,951,580
Nontrade					
Rentals	25,898,379	–	–	–	25,898,379
Related parties	4,913,913	–	–	–	4,913,913
Others	31,195,708	–	–	–	31,195,708
	₱4,495,812,217	₱–	₱52,569,420	₱9,488,256	₱4,557,869,893

**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:

December 31, 2017

	Neither past due nor Impaired	**Past due but not impaired: Less than 30 days**	**30 - 60 days**	**More than 60 Days**	**Impaired**	**Total**
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						
Related parties	**10,240,181**	–	–	–	–	**10,240,181**
Rentals	**23,190,823**	–	–	–	–	**23,190,823**
Others	**23,998,928**	–	–	–	–	**23,998,928**
	₱5,189,681,608	**₱51,716,573**	**₱4,783,865**	**₱33,222,685**	**₱11,612,412**	**₱5,291,017,143**

**Cash and cash equivalents excludes cash on hand*

December 31, 2016

	Neither past due nor Impaired	Past due but not impaired: Less than 30 days	30 - 60 days	More than 60 Days	Impaired	Total
Cash and cash equivalents*	₱3,190,350,953	₱–	₱–	₱–	₱–	₱3,190,350,953
Short-term investments	525,000,000	–	–	–	–	525,000,000
Receivables:						
Trade						
Third parties	709,501,684	33,495,550	5,005,764	14,068,106	9,488,256	771,559,360
Related parties	8,951,580	–	–	–	–	8,951,580
Nontrade						
Related parties	4,913,913	–	–	–	–	4,913,913
Rentals	25,898,379	–	–	–	–	25,898,379
Others	31,195,708	–	–	–	–	31,195,708
	₱4,495,812,217	₱33,495,550	₱5,005,764	₱14,068,106	₱9,488,256	₱4,557,869,893

**Cash and cash equivalents excludes cash on hand*

25. Events after the Reporting Period

a. On January 5, 2018, one of the stores of the Company was seriously damaged by fire. The Company has obtained adequate insurance covers and expects to recover lost inventories and properties at selling price and replacement cost, respectively. As of the date of this report, the Company is still quantifying the financial impact of the said event on the results of its operations, for the year to substantiate its business interruption claim.

b. On March 16, 2018, the BOD approved the declaration of cash dividends amounting to ₱205,762,500 out of the Company's retained earnings as of December 31, 2017 to stockholders of record as of April 13, 2018 to be paid on May 2, 2018.

26. Reclassification of accounts

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

27. Notes to Statements of Cash Flows

The Company's noncash investing activities are as follows:

a) Advances to suppliers were reclassified from other current assets to other noncurrent assets amounting to ₱64.71 million and ₱123.56 million for 2017 and 2016, respectively.
b) Transfers from advances to suppliers to property and equipment amounted to ₱45.58 million and ₱119.81 million for 2017 and 2016, respectively.
c) In 2016, the Company leased computer equipment amounting to ₱178.59 million which were accounted for as finance lease. The carrying amount of the finance lease liability amounted to ₱110.40 million (see Note 21).
d) Purchases of property and equipment which remains unpaid amounted to ₱124.70 million for 2016.
e) Changes in finance lease liability for which cash flows have been classified as financing activity in the statement of cash flows follows:

	Finance leases due within 1 year	**Finance leases due after 1 year**
Net debt as at December 31, 2016	₱42,320,291	₱68,083,736
Cash flows	(31,133,701)	–
Reclassification from non-current to current	17,474,469	(17,474,469)
Net debt as at December 31, 2017	**₱28,661,059**	**₱50,609,267**

28. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following taxes for 2017:

Value added tax (VAT)
The National Internal Revenue Code (NIRC) of 1997, as amended, also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT.

The Company's vatable sales are based on actual collections received, hence may not be the same as amounts accrued in the statements of comprehensive income. The Company has zero-rated and exempt sales pursuant to Section 106(A)(2)(a)(5) of the Tax Code and Sections 109(A), 109(K) and 109 of the Tax Code, respectively.

The Company is a VAT-registered company with output VAT declaration of ₱3,796.80 million for the year based on the amount reflected in the Sales Account of ₱31,639.97 million. The Company paid net output VAT during the year amounting to ₱77.07 million.

The Company has zero-rated/exempt sales amounting to ₱4,043.90 million pursuant to the provisions of NIRC of 1997.

The amount of input VAT claimed are broken down into:

Beginning of the year	₱62,489
Input tax on purchases of goods exceeding ₱1 million deferred from prior period	133,708,165
Current year's domestic purchases of goods	3,466,383,089
Current year's capital goods purchases	48,946,705
Total available input VAT	**3,649,100,448**
Less: deductions from input VAT	
Input tax on purchases of goods exceeding ₱1 million deferred for the succeeding period	(138,540,327)
Input tax allocable to exempt sales	(27,666,371)
Input tax on sales to government closed to expense	(507,852)
Total allowable input VAT	**3,482,385,898**
Input VAT applied to Output VAT	3,482,385,898
Balance at December 31, 2017	**₱–**

Taxes and Licenses
The following are taxes, licenses, registration fees and permit fees lodged under "Taxes and Licenses" account under expenses for the year ended December 31, 2017.

Business tax	₱233,225,564
Real property tax	61,679,650
Motor vehicle tax	585,685
Others	5,342,045
Total	**₱300,832,944**

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

Expanded withholding taxes	₱410,749,647
Tax on compensation and benefits	156,210,208
Final withholding taxes	6,369,149
Total	**₱573,329,004**

Tax Assessment and Cases
The Company has no Final Assessment Notice and/or Formal Letter of Demand from the Bureau of Internal Revenue alleged deficiency income tax, VAT and withholding tax.

SGV
Building a better working world

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metro Retail Stores Group, Inc. (the Company) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in this Form 17-A, and have issued our report thereon dated March 16, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Dolmar C. Montañez

Dolmar C. Montañez
Partner
CPA Certificate No. 112004
SEC Accreditation No. 1561-A (Group A),
April 21, 2016, valid until April 21, 2019
Tax Identification No. 925-713-249
BIR Accreditation No. 08-001998-119-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621303, January 9, 2018, Makati City

March 16, 2018

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

SCHEDULE A

METRO RETAIL STORES GROUP, INC.
SUPPLEMENTARY SCHEDULE OF FINANCIAL ASSETS
DECEMBER 31, 2017

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received or accrued
Cash and cash equivalents			
Wealth Development Bank	₱953,365,050	₱953,365,050	
Philippine National Bank	730,430,702	730,430,702	
Security Bank	640,796,666	640,796,666	
Bank of the Philippine Islands	636,326,932	636,326,932	
Land Bank of the Philippines	180,568,655	180,568,655	
Others	436,677,329	436,677,329	
	3,578,165,334	3,578,165,334	40,769,330
Short-term investments			
Bank of the Philippine Islands	300,000,000	300,000,000	
China Bank Savings	300,000,000	300,000,000	
Wealth Development Bank	155,204,271	155,204,271	
	755,204,271	755,204,271	14,858,157
Receivables			
Third parties	810,610,601	810,610,601	
Related parties	99,847,186	99,847,186	
Rentals	23,190,823	23,190,823	
Others	23,998,928	23,998,928	
	957,647,538	957,647,538	
	₱5,291,017,143	₱5,291,017,143	₱55,627,487

SCHEDULE B

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2017

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

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS DECEMBER 31, 2017

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

SCHEDULE D

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF INTANGIBLE ASSETS - OTHER ASSETS
DECEMBER 31, 2017

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

SCHEDULE F

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2017

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

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

METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2017

Guarantees of Securities of Other Issuers

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

METRO RETAIL STORES GROUP, INC.
SUPPLEMENTARY SCHEDULE OF CAPITAL STOCK
DECEMBER 31, 2017

	Capital Stock					
Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares	10,000,000,000	3,429,375,000	103,320,000	2,499,801,489	4,505,011	–
Preferred Shares	–	–	–	–	–	–
	10,000,000,000	3,429,375,000	103,320,000	2,499,801,489	4,505,011	–

SCHEDULE I

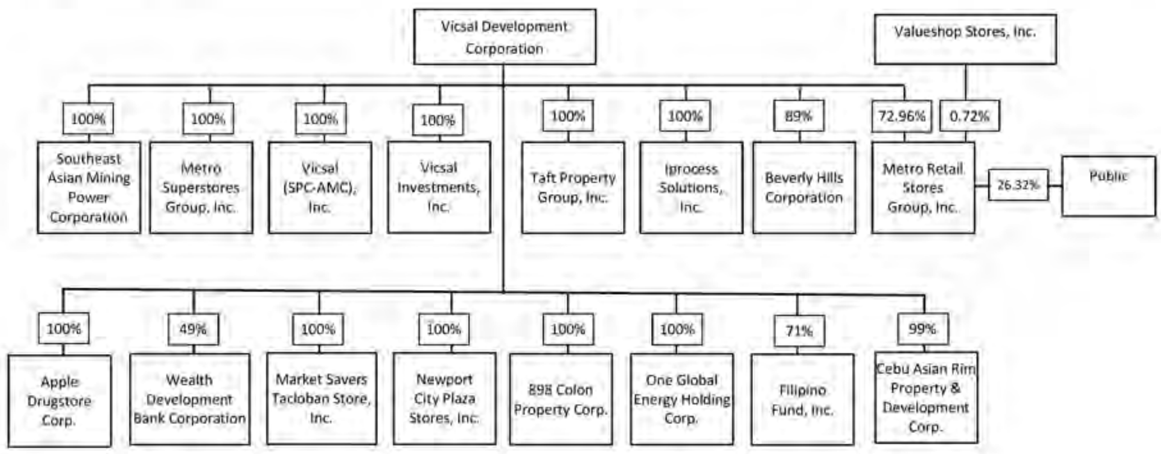
METRO RETAIL STORES GROUP, INC.

SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

DECEMBER 31, 2017

Unappropriated Retained Earnings, beginning	**₱1,210,371,451**
Less: Deferred tax assets that reduced the amount of income tax expense	**(135,899,166)**
Unappropriated Retained Earnings as adjusted, beginning	**1,074,472,285**
Net income based on the face of AFS	**976,957,309**
Add: Non-actual/unrealized income net of tax	
Amount of provisions for deferred tax during the year that reduced the amount of tax expense	**32,241,844**
Net Income Actual/Realized	**1,009,199,153**
Less: Dividend declarations during the period	**171,468,750**
Unappropriated Retained Earnings, as adjusted, ending	**₱1,912,202,688**

METRO RETAIL STORES GROUP, INC.
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND CO-SUBSIDIARIES
DECEMBER 31, 2017



METRO RETAIL STORES GROUP, INC.

LIST OF EFFECTIVE STANDARDS AND INTERPRETATIONS

DECEMBER 31, 2017

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

Below is the list of all effective PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements **Conceptual Framework Phase A: Objectives and qualitative characteristics**		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of 'Effective PFRSs'			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments, with PFRS 4, Insurance	Not early adopted		
	Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4	Not early adopted		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			
	Amendments to PFRS 7: Improving Disclosures about	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Financial Instruments			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts			✓
	Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement (2010 version)	Not early adopted		
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)	Not early adopted		
	Financial Instruments (2014 or final version)	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	Not early adopted		
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	PFRS 12, Clarification of the Scope of the Standard (Part			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	of Annual Improvements to PFRSs 2014-2016 Cycle)			
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	Not early adopted		
PFRS 16	Leases	Not early adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Presentation of Financial Statements – Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative			✓
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses			✓
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Classification of servicing equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendment to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Separate Financial Statements			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	the Consolidation Exception			
	Amendments to PAS 28, Sale or Contribution of Assets* between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014-2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Tax effect of Distribution to Holders of Equity Instruments			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Amendments to PAS 16 and PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendments to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40, Investment Property, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 8	*Scope of PFRS 2*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Not early adopted		
IFRIC 23	Uncertainty over Income Tax Treatment	Not early adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

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

METRO RETAIL STORES GROUP, INC.
FINANCIAL RATIOS
DECEMBER 31, 2017

	December 31 2017	2016
CURRENT / LIQUIDITY RATIOS		
Current assets	**₱9,605,884,769**	₱8,973,700,250
Current liabilities	**3,992,099,385**	4,185,577,969
Current Ratios	**2.41**	2.14
Current assets	**9,605,884,769**	8,973,700,250
Merchandise inventories	**4,002,495,549**	4,014,727,305
Other current assets	**185,494,287**	280,729,767
Quick assets	**5,417,894,933**	4,678,243,178
Current liabilities	**3,992,099,385**	4,185,577,969
Quick Ratios	**1.36**	1.12

	December 31 2017	2016
SOLVENCY / DEBT-TO-EQUITY RATIOS		
Debt	**₱–**	₱–
Less: Cash and cash equivalents	**3,707,152,708**	3,306,952,158
Net debt	**(3,707,152,708)**	(3,306,952,158)
Equity	**7,943,264,416**	7,145,244,750
Net Debt to Equity Ratio	**(0.47)**	(0.46)

	December 31 2017	2016
ASSET TO EQUITY RATIOS		
Total assets	**₱12,720,050,790**	₱12,072,173,486
Total equity	**7,943,264,416**	7,145,244,750
Asset to Equity Ratios	**1.60**	1.69

	December 31 2017	2016	2015
INTEREST RATE COVERAGE RATIO			
Net income	**₱976,957,309**	₱789,452,102	₱758,600,589
Add:			
Provision for income tax	**418,766,530**	331,011,581	322,849,865
Interest and other financing charges	**17,576,617**	22,805,794	36,065,857
	1,413,300,456	1,143,269,477	1,117,516,311
Less:			
Interest income	**55,627,487**	60,878,058	13,915,394
EBIT	**1,357,672,969**	1,082,391,419	1,103,600,917
Depreciation and amortization	**519,524,410**	464,842,064	387,127,546
EBITDA	**1,877,197,379**	1,547,233,483	1,490,728,463
Finance costs	**17,576,617**	22,805,794	36,065,857
Finance Costs Coverage Ratio	**106.80**	67.84	41.33

	December 31 2017	2016	2015
PROFITABILITY RATIOS			
Net income	**₱976,957,309**	₱789,452,102	₱758,600,589
Revenue	**35,015,740,598**	34,410,947,243	32,304,453,639
Net Income Margin	**2.79%**	2.29%	2.35%
Net Income	**₱976,957,309**	₱789,452,102	₱758,600,589
Total assets CY	**12,720,050,790**	12,072,173,486	11,671,653,258
Total assets PY	**12,072,173,486**	11,671,653,258	8,084,008,438
Average total assets	**12,396,112,138**	11,871,913,372	9,877,830,848
Return on Total Assets	**7.88%**	6.65%	7.68%
Net Income	**₱976,957,309**	₱789,452,102	₱758,600,589
Total equity CY	**7,943,264,416**	7,145,244,750	6,445,222,037
Total equity PY	**7,145,244,750**	6,445,222,037	2,986,702,360
Average total equity	**7,544,254,583**	6,795,233,394	4,715,962,199
Return on Equity	**12.95%**	11.62%	16.09%


METRO

OUR METRO STORES

METRO SUPERMARKET

METRO DEPARTMENT STORE

SUPER METRO

CONTACT DETAILS

CEBU PRINCIPAL OFFICE
Vicsal Building corner of C.D. Seno and W.O. Seno Streets,
Barangay Guizo, North Reclamation Area, Mandaue City,
Cebu City, Philippines 6014
Tel. No. (+63 32) 236-8390
Fax No. (+63 32) 236-9516

MANILA CORPORATE OFFICE
6F Metro Market! Market!, McKinley Parkway,
Bonifacio Global City, Taguig City,
Metro Manila, Philippines 1634
Tel. No. +632 843-0099 ; +632 843-0032
Telefax +632 836-8172