COVER SHEET

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S.E.C Registration Number

PHILIPPINE

SEVEN

CORPORATION

(Company's full Name)

7th Flr. The Columbia Tower

Ortigas Ave. Mandaluyong City

(Business Address: No. Street City / Town / Province)

Atty. Evelyn S. Enriquez
Corporate Secretary

Contact Person

724-44-41 to 53

Company Telephone Number

1 2 **3 1**
Month Day
Fiscal Year

FORM TYPE

0 7 **3rd Thursday**
Month Day
Annual Meeting

3RD QUARTER REPORT

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purpose

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended September 30, 2018

2. Commission identification number: 108476

3. BIR Tax Identification No : 000-390-189-000

4. Exact name of registrant as specified in its charter :

   PHILIPPINE SEVEN CORPORATION

5. Country of incorporation : **PHILIPPINES**

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of registrant's principal office : 7^{TH} Floor, The Columbia Tower
   Ortigas Avenue, Mandaluyong City
   1550

8. Telephone number : (632) 724-44-41 to 53

9. Former name, former address and former fiscal year, if changed since last report N/A

10. Securities registered pursuant to Section 8 and 12 of the Code, or Sections 4 and 8 of the RSA

		No. of Shares of Common Stock
Shares Outstanding - Common	:	756,418,283
Warrants	:	-0-

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

    Yes [**X**] No [ ]

Stock Exchange:		*Class/es of Securities listed*
Philippine Stock Exchange	-	Common

12. Indicate by check mark whether the registrant:

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

       Yes [**X**] No [ ]

b. Has been subject of such filing requirements for the past 90 days.

Yes [x] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

PART II - OTHER INFORMATION

N/A

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

Signature and Title: **JOSE VICTOR P. PATERNO**
President and CEO

Date: **November 12, 2018**

Signature and Title: **JUN-YA LIU**
Treasurer and CFO

Date: **November 12, 2018**

NOVEMBER 12, 2018

SECURITIES AND EXCHANGE COMMISSION
SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of September 30, 2018, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

1. We are responsible for the fair presentation of the financial statements in conformity with the generally accepted accounting principles.

2. There have been no:

   a. Irregularities involving management or employees who have significant roles in the system or internal accounting control.

   b. Irregularities involving other employees that could have a material effect on financial statements.

   c. Communication from regulatory agencies concerning non-compliance with or deficiencies in, financial reporting practices that could have a material effect on the financial statements.

3. There are no:

   a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

   b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.

4. The accounting records underlying the financial statements accurately and fairly reflect the transactions of the company.

5. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

6. Provision has been made for any material loss to be sustained.

7. We have complied with all respects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.

JUN-YA LIU
Treasurer and CFO

PHILIPPINE SEVEN CORPORATION
7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City 1550 Philippines
Telephone Nos. (632) 724-44-41 to 53 / 705-52-00
www.7-eleven.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended September 30, 2018. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

JOSE VICTOR P. PATERNO
President and CEO
TIN :

Date : November 12, 2018

JUN-YA LIU
Treasurer and CFO
TIN :

Date : November 12, 2018

LAWRENCE M. DE LEON
Head of Finance
TIN :

Date : November 12, 2018

SUBSCRIBES AND SWORN TO BEFORE ME
THIS NOV 12 2018 AT
MANDALUYONG CITY.
AFFIANT EXHIBITING
HIS/HER

DOC NO. 107
PAGE NO. 23;
BOOK NO. I;
SERIES OF 2018.

ATTY. ALMA ALYN O. ARIAS
Notary Public Appt. No. 0417-18-Mandaluyong City
Valid until 31 Dec. 2019
Roll No. 57951-Quezon City
IBP No. 021047671 04 Jan. 2018/Quezon City
PTR No. 3369302/04 Jan. 2018/Mandaluyong City
MCLE Compliance No. V-0014537/29 Feb. 2016
11/F The Columbia Tower, Ortigas Ave. Mandaluyong City

Part 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements accompany this form 17-Q and the following is the table of contents

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition (Pages i –ix)

SELECTED FINANCIAL DATA

	Three Months Ended September 30 (Unaudited)			Nine Months Ended September 30 (Unaudited)		
	2018	**2017**	**%**	**2018**	**2017**	**%**
SYSTEM WIDE SALES	**10,951,831**	9,108,821	20.2%	33,123,804	27,179,279	21.9%
Statement of Income Data:						
Revenues and other income						
Revenue from merchandise sales	**9,368,098**	7,749,456	20.9%	28,317,204	23,066,662	22.8%
Franchise revenue	**909,347**	771,243	17.9%	2,732,556	2,324,031	17.6%
Marketing income	**359,303**	193,154	86.0%	686,195	475,962	44.2%
Cost and expenses						
Cost of merchandise sales	**6,967,577**	5,693,136	22.4%	20,869,648	16,991,958	22.8%
Selling, general & administrative expenses	**3,511,689**	2,828,707	24.1%	10,172,820	8,234,885	23.5%
Interest expense	**13,551**	14,193	-4.5%	40,328	41,814	-3.6%
Net income	**202,164**	201,885	0.1%	735,319	648,312	13.4%
Earnings per share (EPS)	**0.27**	0.27	0.1%	0.97	0.86	13.4%
Cash Flow Data:						
Net cash from operating activities	**1,290,022**	746,744	72.8%	2,711,853	2,135,840	27.0%
Net cash used in investing activities	**-700,919**	-606,203	15.8%	-1,716,255	-1,596,561	7.5%
Net cash used in financing activities	**-266,298**	223,730	-219.0%	-497,109	-263,069	89.0%
Balance Sheet Data:				**As of September 30, 2018**	**As of December 31, 2017**	**%**
Total asset				**15,570,452**	14,386,313	8.2%
Total liabilities				**9,114,374**	8,340,294	9.3%
Total stockholders' equity				**6,456,078**	6,046,019	6.8%

**Amount in thousands of Pesos, except EPS*

OVERVIEW

We operate the largest convenience store network in the country. We acquired from Southland Corporation (now Seven Eleven Inc.) of Dallas, Texas the area license to operate 7-Eleven convenience stores in the Philippines in December 1982.

We opened our first store in February 1984 at the corner of Kamias Road and EDSA Quezon City, and grew slowly as the economy struggled. Expansion was stepped up in 1993, followed by an IPO in 1998. President Chain Store Corporation of Taiwan took a majority stake in 2000 at management's invitation, providing technology transfer from a more advanced market.

After a period of consolidation of organization and improvement of processes and systems, the rate of expansion was stepped up further in 2007 through the franchise business model and close collaboration with business partners. This was backed by a strong logistics and head office support.

It took us twenty-six long years from our first store in 1984 to reach the 500th store milestone in 2010. In contrast, it required only three years to double our store count as we surpassed the 1,000th store mark in 2013 and achieved the 2,000th store mark on January 2017. We believe that the market is ready and the organization is well structured to support the opening of at least 300 new stores yearly, moving forward.

At the end of September 30, 2018, we have 2,442 7-Eleven convenience stores, mainly in Metro Manila and in major towns and cities in Luzon. At the end of the third quarter, there were 1,898 stores in Luzon, 912 of which are in Metro Manila, 345 in the Visayas and 199 in Mindanao. Our market development plan shall continue in the different parts of the country as we recognize the growing customer preference towards innovation and convenience.

The rest of the country is relatively uncontested in comparison. We are virtually the only operator with the critical mass to build out proper supply chains in areas logistically unreachable from the greater Metro Manila area. Such supply chains come at a medium term cost in terms of underutilized warehouses. We expanded our existing distribution centers and opened new warehouses over the last four years. To put such costs in perspective, operators in contiguous territories typically serve 1,000 stores per distribution center. We wager that first movers, especially on islands that cannot sustain more than one or two warehouses, will be rewarded with unusually dominant share.

Our chain of stores is sustained by a manpower complement of 10,549 employees engaged in store operations and in support services. Despite of competition, we maintain our leadership in the industry.

We seek to meet the needs of our customers and maintain a leadership position in the C-store industry by taking advantage of economies of scale, technology, people and a widely recognized brand. Our vision is to be the best retailer of convenience for emerging markets.

Third Quarter Financial Condition and Results of Operations

Results of Operations

For the Third Quarter

Net income generated in the third quarter reached ₱ 202.2 million, almost unchanged from ₱ 201.9 million registered in the same period in 2017. The flattish earnings result can be attributed to the expenses incurred in building the online business. Excluding the impact of online, core earnings, which is measured by income from store operations surged 31.6 percent during the quarter.

System-wide sales, which represent sales of all corporate and franchise-operated stores, rose by 20.2 percent to almost ₱ 11.0 billion during the third quarter. This was driven mainly by the acceleration of same store sales growth rate to 7.7 percent from 6.6 percent the preceding quarter.

Revenue from merchandise sales, which pertains to retail sales of corporate stores and merchandise sold to franchised stores, grew by 20.9 percent compared with same quarter last year.

Further, discounts and marketing income recovered during the quarter to positively contribute to operating income, which stood at 3.2 percent of revenue from merchandise sales.

The quarter ended with 2,442 stores, up by 12.4 percent from 2,172 stores by the end of the third quarter of 2017. Total number of new stores that opened during the quarter reached 63 against 6 store closures.

Earnings per share (EPS) was likewise flat for the quarter at ₱ 0.27 per share.

For the Nine-Months Ended September 30

Net income at the end of the first nine months of the year increased by 13.4 percent to ₱ 735.3 million from ₱ 648.3 million the preceding year. The improved financial performance can be attributed to the increase in same-store sales brought about by the impact of the excise tax on sugar-sweetened beverages, which was imposed under the new the TRAIN law.

Same-store sales, which measure the sales of all stores operating for more than twelve months, grew by 8.1 percent year-to-date. In the first quarter, same-store sales went up by 12.9 percent, followed by a 6.3 percent growth during the second quarter and accelerated to 7.7 percent growth during the third quarter.

System-wide sales rose by 21.9 percent to ₱ 33.1 billion at the end of September. Revenue from merchandise sales, which pertains to retail sales of corporate stores and merchandise sold to franchised stores, grew by 22.8 percent compared with same period last year.

Jose Victor Paterno, President and CEO, said: “Income from store operations remains healthy at ~31% for both the quarter and YTD, due in large part to TRAIN effects on FMCG, which comprises ~75% of sales. We hope to decrease reliance on such tailwinds to grow this segment more steadily and sustainably in the near term. Our digital efforts have led to a more data-driven approach, incorporating incrementality and elasticity to assortment and pricing, respectively. We have spent the last quarter formulating and testing such initiatives, some of which have already entered the scaling phase. We expect them to contribute to sales and income growth next year, as well as to enhance our overall value proposition vis a vis the recent but fast growing minimart format, with its general merchandise focus.

Losses from our digital businesses peaked this quarter, but will be significantly reduced going forward due to efficiency gains in customer acquisition realized in the latter part of the quarter. While the latest indicators point to a business with potential returns superior to the core business (while deriving competitive barriers from it) on track to profitability in a couple of years, we remain cognizant of the inherent uncertainties of the digital space. Should those indicators change, an exit will not materially affect future earnings in the worst case, as digital has virtually zero capex because we utilize existing assets of the core business.

Even as we continue to grow our digital businesses in a controlled and efficient manner, we believe it is time to open up our infrastructure to 3rd party digital companies. We now provide a unique, compelling, and credible (thanks to several months of meaningful in-house ec and wallet transaction volume) value proposition to other digital entities looking to scale. Going forward, we estimate that fees from them for access to the infrastructure that has been built to support our loyalty, wallet, and ec businesses will exceed losses from digital to date. Our track record of accepting customer-presented barcodes as payment at our stores with our own wallet puts us in a favorable position as we open up to other wallets. Though it is the standard for all but informal retailers in China, we are currently the only retailer of scale with such capability locally. Likewise, our track record of customer pickup of our own e-commerce parcels delivered from our DC makes us an attractive logistics partner for other e-commerce companies – a large and profitable business for 7-Eleven Taiwan. We are currently in advanced discussions with leading players in both spaces.

Further, new operators boosted franchise store count to 1,309 franchisees from 1,167 a year ago. Marketing income continued to enhance the bottom-line by generating ₱ 686.2 million as 7-Eleven expanded brand-building opportunities for vendor partners. The increase in volume made it easier to secure more equitable treatment vis-à-vis other channels.

Moreover, commissions surged 86.6 percent due to the increase in volume of e-money cash-in transactions. Commissions reached 0.6 percent of sales and flows directly to the bottom-line because of low marginal cost associated with the services category where it is derived.

Total selling, general and administrative expenses (SG & A) slightly increased as a percentage of revenues from 35.7 percent in 2017 to 35.9 percent this year. The rate of increase of SG & A is slower than the growth of revenue from merchandise sales. Although there were increases in personnel costs and advertising and promotion brought about by timing differences, the increase in SG & A was pegged at 23.5 percent year-on-year.

EBITDA (earnings before interest, taxes, depreciation and amortization) rose by 18.0 percent from ₱ 2.2 billion in 2017 to ₱ 2.5 billion in 2018. EBITDA margin has decreased to 9.0 as percentage of revenue from merchandise sales from 9.3 in 2017. Operating margin likewise decreased to 3.8 percent from 4.2 percent in 2017 partly caused by the expenditures made for the online business.

Earnings per share (EPS) increased by 13.4 percent to ₱ 0.97 per share at the end of September 2018.

Revenue and Gross Margin

The Company closed the nine-month period with total revenue from merchandise sales of ₱ 28.3 billion, an increase of 22.8 percent compared to ₱ 23.1 billion in 2017, whereas, cost of merchandise sold rose to ₱ 20.9 billion, an increase 22.8 percent compared to ₱ 17.0 billion in 2017.

Gross Profit stood at ₱ 7.4 billion, an increase of 22.6 percent from last year of ₱ 6.1 billion. Gross margin remain unchanged with 26.3 percent compared with same period last year.

Commission income significantly increased by 86.6 percent as a result of the surge in e-money cash-in transactions.

Revenue from merchandise sales is comprised of the retail sales of corporate stores plus the sales to franchisees valued at cost price. The merchandise sales of the new retail format, called Neighborhood Wholesale or NW stores reached ₱ 204.0 million and forms part of revenue from merchandise sales.

In comparison, system-wide sales pertain to retail sales of all stores regardless of ownership. The Company does not consolidate the retail sales of franchisees because these are established as separate and distinct entities from PSC. The sales of NW stores are excluded from system-wide sales.

Moreover, the cost of merchandise sales pertains to the cost of sales of corporate stores plus the cost of merchandise transferred to the franchisees. Hence, in the financial report, the sales to the franchisees shall yield zero gross profit since sales is matches costs. The Company then shares from the store level GP of the franchisees, which is calculated separately. The share of PSC is lodged under the franchise revenue account.

YTD	September 30, 2018	September 30, 2017	Increase	
			Value	Percentage
Revenue from merchandise sales	**28,317,204**	23,066,662	5,250,543	22.8%
Cost of merchandise sales	**20,869,648**	16,991,958	3,877,690	22.8%
Gross profit	**7,447,557**	6,074,703	1,372,853	22.6%
Commission income	**160,513**	86,022	74,491	86.6%

**amount in thousands of Pesos*

Other Income

Other income mainly consists of franchise revenues, marketing and rental income. The Company's total other income increased by ₱ 625.4 million or 20.4 percent to ₱ 3.7 billion as a result of the following:

Franchise revenues went up by 17.6 percent to ₱ 2.7 billion due to the increase in the number of franchisees from 1,167 in 2017 to 1,309 in 2018.

For financial reporting purposes, discounts and rebates were classified as reduction to cost of merchandise sales, while advertising and promotion support and new products listing fees were lodged under marketing income.

Moreover, total discounts and marketing income grew in absolute terms owing to the increase in sales volume and due to increased supplier-supported advertising and promotions spending.

The goal is to leverage the convenience of store locations and the interconnectedness of systems to become the preferred venue for manufacturer's brand building needs. Increased sales have also made it easier for PSC to seek a fairer share of manufacturer's trade spend vis-à-vis other more established channels such as supermarkets.

Rent income related to the stores' subleased spaces decreased by 5.4 percent to ₱ 50.6 million. Other income increased by 4.5 percent to ₱ 220.5 million partly due to penalties imposed on suppliers, which incurred low inbound fill rate and delayed deliveries.

No significant element of income came from sources other than the result of the Company's continuing operations.

YTD	September 30, 2018	September 30, 2017	Increase (Decrease)	
			Value	Percentage
Franchise revenue	**2,732,556**	2,324,031	408,524	17.6%
Marketing income	**686,195**	475,962	210,232	44.2%
Rental income	**50,603**	53,488	-2,885	-5.4%
Other income	**220,543**	211,041	9,502	4.5%
Total	**3,689,897**	3,064,523	625,374	20.4%

**amount in thousands of Pesos*

Selling, General and Administrative Expense

Selling, general and administrative (SG & A) expenses, which are comprised of store operating, and headquarters' expenses went up by 23.5 percent to ₽ 10.2 billion.

Rent went up by 19.7 percent to ₽1.7 billion year-to-date owing to the increase in store months and higher warehouse rent expense. As a percentage of sales, rent stood at about 6.0 percent.

Communication, light and water increased by 21.7 percent to ₽ 1.6 billion. The percentage to sales equivalent slightly decreased from 5.6 percent last year to 5.5 percent this year.

Outside services increased by 21.0 percent to ₽ 1.5 billion decreasing from 5.4 percent to 5.3 percent of sales.

Depreciation and amortization rose by 22.0 percent or ₽ 261.2 million from last year. As a percentage of sales, D & A decreased from 5.2 percent to 5.1 percent this year.

There were timing differences in personnel and advertising and promotion expenses that caused the high rate of increase during the period in comparison.

All other expenses went up over preceding year's level as a result of the increased number of stores. There are no significant nor unusual expense incurred during the period and is considered to be in the normal course of business.

YTD	September 30, 2018	September 30, 2017	Increase (Decrease)	
			Value	Percentage
Rent	**1,691,877**	1,413,299	278,577	19.7%
Communication, light and water	**1,571,240**	1,290,729	280,511	21.7%
Outside services	**1,494,793**	1,235,614	259,180	21.0%
Depreciation and amortization	**1,449,542**	1,188,303	261,239	22.0%
Personnel costs	**969,208**	720,368	248,840	34.5%
Trucking services	**497,553**	407,658	89,895	22.1%
Advertising and promotion	**442,298**	279,950	162,347	58.0%
Warehousing services	**369,134**	278,427	90,706	32.6%
Repairs and maintenance	**346,783**	291,020	55,762	19.2%
Royalties	**329,882**	274,438	55,443	20.2%
Supplies	**258,206**	206,953	51,253	24.8%
Taxes and licenses	**226,425**	189,864	36,560	19.3%
Inventory losses	**190,973**	194,097	-3,123	-1.6%
Others	**334,907**	264,163	70,744	26.8%
Total	**10,172,820**	8,234,885	1,937,935	23.5%

**amount in thousands of Pesos*

Interest Expense

Interest incurred to service debt decreased by 3.6 percent to ₽ 40.3 million. Outstanding loan balance at the end of the third quarter was pegged at ₽ 1.6 billion, lower by ₽ 131.5 million from the start of the year. Better than expected cash flows helped trim down the level of debt.

Net Income

Net income in the 3rd quarter was flat and can be partly attributed to the expenses incurred in building the online business, while for the 9-month period ending Sep. 30, net income rose 13.4% from 2017 level. However, core earnings or income from store operations (excluding G&A expenses) increased 31.6% for the quarter and 31.7% year-to-date.

Financial Condition

Total assets went up by ₽ 1.2 billion or 8.2 percent to ₽ 15.6 billion at the end September.

Cash and cash equivalents increased favorably by 25.3 percent to ₽ 2.5 billion owing to higher sales and cash receipts from services.

Further, receivables and prepayments went up by 31.7 percent and 26.6 percent, respectively, due to the increase in other income and advance rent paid for newly acquired sites.

Moreover, rental and utilities deposits made to acquire new sites increased by 9.6 percent and reached ₽ 913.8 million at the end of September 2018. Property and equipment, net of accumulated depreciation increased by 2.7 percent.

On the other hand, current liabilities went up by ₽ 857.9 million or 12.1 percent. Current loan balance is higher by 1.7 percent from last year.

PSC operates on a negative working capital position, which is manifested by a current ratio of 0.92:1 from 0.91:1 at the end of 2017. This is because cash proceeds from retail sales are invested in long-term assets.

Stockholders' equity at the end of third quarter stood at 41.5 percent of total assets, compared to 42.0 percent at the beginning of the year.

Liquidity and Capital Resources

The Company obtains majority of its working capital and capital expenditure requirements from cash generated by store operations and franchising activities.

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2018 as it continues to expand its store base. This will enable the Company to fund its capital expenditures, pay dividends and other general corporate purposes.

The following are the discussion of the sources and uses of cash at the end of the third quarter:

YTD	September 30, 2018	September 30, 2017	Increase (Decrease)	
			Value	Percentage
Income before income tax	**1,052,971**	925,677	127,294	13.8%
Depreciation and amortization	**1,449,542**	1,188,303	261,239	22.0%
Working capital changes and other non-cash items	**209,340**	21,860	187,480	857.6%
Net cash from operating activities	**2,711,853**	2,135,840	576,013	27.0%
Additions to property and equipment	**-1,626,054**	-1,545,726	-80,327	5.2%
Increase in other assets	**-90,202**	-50,834	-39,367	77.4%
Net cash used in investing activities	**-1,715,471**	-1,596,561	-119,695	7.5%
Net availment (repayment) of bank loan	**-131,522**	75,500	-207,022	-274.2%
Cash dividend paid	**-325,260**	-297,983	-27,277	9.2%
Interest paid	**-40,328**	-40,586	258	-0.6%
Net cash used financing activities	**-497,109**	-263,069	-234,041	89.0%
Effect of Change in Exchange Rate	**348**	103	244	236.3%
Net increase in cash	**498,836**	276,314	222,522	80.5%
Cash and cash equivalent, beginning	**1,968,959**	1,550,973	417,986	26.9%
Cash and cash equivalent, ending	**2,467,795**	1,827,287	640,508	35.1%

**amount in thousands of Pesos*

Cash Flows from Operating Activities

Net cash flow from operating activities at the end of the period totaled to ₱ 2.7 billion, a solid 27.0 percent increase compared with the same period last year. The increase can be attributed to improved profitability and better working capital position.

Cash Flows from Investing Activities

Net cash used in investing activities, primarily for capital expenditures, increased by 7.5 percent to ₱ 1.7 billion. There were 177 new stores opened for the first three quarters of the year compared to 199 stores opened last year.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ₱ 497.1 million. This is higher compared with the last year due to the net payment of short-term and medium-term loans amounting to ₱ 131.5 million. Cash dividends were also paid during the year totaling to ₱325.3 million.

We expect to take advantage of our working capital and utilize the credit line extended by leading local banks in funding our growth strategies.

<u>Discussion of the Company's Key Performance Indicators</u>

- ***System Wide Sales***
  System-wide sales represents the overall retail sales to customers of corporate and franchise-operated stores.

- ***Revenue from Merchandise Sales***
  Revenue from merchandise sales corresponds to the retail sales of corporate owned stores plus sales to franchised stores.

- ***Net Income Margin***
  Measures the level of recurring income generated by continuing operations relative to revenues and is calculated by dividing net income over revenue from merchandise sales.

- ***EBITDA Margin***
  The ratio of earnings before interest, taxes, depreciation and amortization over revenue from merchandise sales. This measures the level of free cash flow generated by retail operations and is a main indicator of profitability.

- ***Return on Equity (ROE)***
  The amount of net income returned as a percentage of equity. ROE measures profitability by revealing how much profit a company generates with the money shareholders have invested.

Financial Highlights *(Amount in Php millions except store count and EPS)*	**For the 3rd Quarter Ended September 30,**			**For the Nine Months Ended September 30,**		
	2018	2017	% Change	**2018**	2017	% Change
System-wide sales	**10,951.8**	9,108.8	20.2%	**33,123.8**	27,179.3	21.9%
Revenue from merchandise sales	**9,368.1**	7,749.5	20.9%	**28,317.2**	23,066.7	22.8%
Operating income	**302.2**	304.0	-0.6%	**1,087.3**	962.3	13.0%
EBITDA	**795.6**	715.1	11.2%	**2,536.9**	2,150.6	18.0%
Net income	**202.2**	201.9	0.1%	**735.3**	648.3	13.4%
EPS	**0.27**	0.27	0.1%	**0.97**	0.86	13.4%
EBIT % *	**3.2%**	3.9%		**3.8%**	4.2%	
EBITDA % *	**8.5%**	9.2%		**9.0%**	9.3%	
Net margin *	**2.2%**	2.6%		**2.6%**	2.8%	

**Margin is calculated based on revenue from merchandise sales*

- System wide sales generated by all 7-Eleven stores continued with its upward trend by posting growth of 21.9 percent to ₽ 33.1 billion at the end of the third quarter.

- The increase in total sales can be attributed to the opening of new stores and same store sales growth of 8.1 percent at the end of the third quarter of 2018.

- At the end of September 2018, the number of 7-Eleven stores in the Philippines totaled to 2,442, up by 270 stores or 12.4 percent from same period in 2017.

- Operating income or EBIT is at 3.8 percent of revenues from 4.2 percent in 2017.

- EBITDA margin declined to 9.0 percent of revenue from merchandise sales from 9.3 percent during the same period in 2017.

- Net income at the end of September increased by 13.4 percent to ₽ 735.3 million, translating into a net margin and EPS of 2.6 percent and ₽ 0.97, respectively.

Financial Soundness Indicator

	Formula	**2018**	**2017**
Liquidity Ratio			
Current ratio	Current Assets/Current Liabilities	**0.92**	0.91
Quick ratio	Cash + Receivables/Current Liabilities	**0.51**	0.44
Financial Leverage			
Debt ratio	Total Debt/Total Assets	**0.59**	0.58
Debt to equity ratio	Total Debt/Total Equity	**1.41**	1.38
Interest coverage	EBIT/Interest charges	**31.65**	26.30
Asset to equity ratio	Total Assets/Total Equity	**2.41**	2.38
Profitability Ratio			
Gross profit margin	Gross profit/Revenue from merchandise sales	**26.30%**	26.34%
Net profit margin	Net income/Revenue from merchandise sales	**2.60%**	2.81%
Return on assets	Net income/Total Assets	**4.72%**	4.51%
Return on equity (Annualized)	Net income/Average Equity	**25.62%**	23.77%

Discussion and Analysis of Material Events and Uncertainties

1. There are no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.

2. There are no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.

3. All of the Company's income was earned in the ordinary course of business.

4. There are no seasonal aspects that have a potentially material effect on the financial statements.

5. The Company's financial risk management objectives and policies are discussed in Note 29 of the September 30, 2018 Notes to Unaudited Consolidated Financial Statements.

SIGNATURE

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

JOSE VICTOR P. PATERNO
President and CEO

Date : November 12, 2018

JUN-YA LIU
Treasurer and CFO

Date : November 12, 2018

LAWRENCE M. DE LEON
Head of Finance

Date : November 12, 2018

Philippine Seven Corporation and Subsidiaries

Unaudited Consolidated Financial Statements
As at September 30, 2018 and December 31, 2017 (Audited)
and for the Quarters Ended September 30, 2018 and 2017

COVER SHEET

1 0 8 4 7 6

SEC Registration Number

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

(Company's Full Name)

7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City

(Business Address: No. Street City/Town/Province)

LEO LIU	705-5200
(Contact Person)	(Company Telephone Number)

0 9 / 3 0	A A C F S	
Month *Day* (Calendar Year)	(Form Type)	*Month* *Day* (Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

–	–
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

608	₱1.60B	–
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 28 and 29)	**₱2,467,795,178**	₱1,968,958,985
Short-term investment (Notes 4, 28 and 29)	**11,184,667**	11,184,667
Receivables (Notes 5, 24, 28 and 29)	**1,551,425,154**	1,178,381,987
Inventories (Note 6)	**2,649,860,557**	2,747,912,176
Prepayments and other current assets (Note 7, 28 and 29)	**686,383,756**	542,002,461
Total Current Assets	**7,366,649,312**	6,448,440,276
Noncurrent Assets		
Property and equipment (Note 8)	**6,665,442,309**	6,488,930,456
Deposits (Notes 9, 28 and 29)	**913,777,944**	833,756,292
Deferred income tax assets – net (Note 26)	**155,786,258**	155,785,924
Goodwill and other noncurrent assets (Note 10 and 29)	**468,796,181**	459,400,138
Total Noncurrent Assets	**8,203,802,692**	7,937,872,810
TOTAL ASSETS	**₱15,570,452,004**	₱14,386,313,086

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 11, 28 and 29)	**₱670,000,000**	₱660,000,000
Current portion of long term debt (Notes 11, 28 and 29)	**331,666,667**	325,000,000
Accounts payable and accrued expenses (Notes 12, 28 and 29)	**4,794,720,011**	4,181,184,416
Income tax payable	**96,726,131**	312,063,409
Other current liabilities (Note 13, 24, 28 and 29)	**2,075,302,641**	1,632,233,892
Total Current Liabilities	**7,968,415,450**	7,110,481,717
Noncurrent Liabilities		
Long term debt – net of current potions (Notes 11,18 and 29)	**597,644,928**	745,833,333
Deposits payable (Note 14)	**276,094,924**	261,749,827
Net retirement obligations (Note 23)	**182,536,319**	157,569,500
Deferred income tax liabilities (Note 26)	**7,936,841**	7,936,841
Cumulative redeemable preferred shares (Note 15, 28 and 29)	**6,000,000**	6,000,000
Deferred revenue - net of current portion (Note 16)	**75,745,824**	50,723,103
Total Noncurrent Liabilities	**1,145,958,836**	1,229,812,604
Total Liabilities	**₱9,114,374,286**	₱8,340,294,321

(Forward)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Equity		
Common stock (Notes 17 and 30) - ₱1 par value		
Authorized – 1,600,000,000 shares		
Issued 757,104,533 shares	**₱757,104,533**	₱757,104,533
Additional paid-in capital (Note 30)	**293,525,037**	293,525,037
Retained earnings (Notes 17 and 30)		
Appropriated	**4,350,000,000**	4,350,000,000
Unappropriated	**1,076,252,378**	666,193,426
Other comprehensive income (loss):		
Remeasurements loss on net retirement obligations - net of deferred income tax asset	**(36,400,280)**	(36,400,280)
Revaluation increment on land - net of deferred income tax liability (Note 8)	**18,519,295**	18,519,295
	6,459,000,964	6,048,942,011
Cost of 686,250 shares held in treasury (Note 17)	**(2,923,246)**	(2,923,246)
Total Equity	**6,456,077,718**	6,046,018,765
TOTAL LIABILITIES AND EQUITY	**₱15,570,452,004**	₱14,386,313,086

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30	
	2018	2017
REVENUES		
Revenue from merchandise sales	**₱9,368,097,584**	₱7,749,455,841
Franchise revenue (Note 31)	**909,346,914**	771,243,109
Marketing income (Note 20)	**359,302,511**	193,154,233
Commission income (Note 31)	**62,600,194**	31,507,537
Rental income	**19,345,398**	18,658,928
Interest income (Notes 4 and 22)	**2,040,241**	1,515,205
Other income	**72,831,111**	69,800,735
	10,793,563,953	8,835,335,588
EXPENSES		
Cost of merchandise sales (Note 18)	**6,967,576,700**	5,693,135,921
General and administrative expenses (Notes 19 and 31)	**3,511,689,144**	2,828,655,559
Interest expense (Notes 11, 15 and 21)	**13,551,262**	14,193,198
Other expenses	**10,039,083**	8,016,956
	10,502,856,189	8,544,001,634
INCOME BEFORE INCOME TAX	**290,707,763**	291,333,954
PROVISION FOR INCOME TAX	**88,543,525**	89,448,737
NET INCOME	**202,164,238**	201,885,217
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱202,164,238**	₱201,885,217
BASIC/DILUTED EARNINGS PER SHARE (Note 27)	**₱0.27**	₱0.27

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Nine Months Ended September 30	
	2018	2017
REVENUES		
Revenue from merchandise sales	**₱28,317,204,199**	₱23,066,661,536
Franchise revenue (Note 31)	**2,732,555,736**	2,324,031,463
Marketing income (Note 20)	**686,194,820**	475,962,353
Commission income (Note 31)	**160,513,068**	86,022,403
Rental income	**50,603,333**	53,488,013
Interest income (Notes 4 and 22)	**5,968,888**	5,224,773
Other income	**214,574,236**	205,816,358
	32,167,614,280	26,217,206,899
EXPENSES		
Cost of merchandise sales (Note 18)	**20,869,647,663**	16,991,958,140
General and administrative expenses (Notes 19 and 31)	**10,172,819,930**	8,234,885,172
Interest expense (Notes 11, 15 and 21)	**40,327,789**	41,813,590
Other expenses	**31,847,556**	22,872,988
	31,114,642,938	25,291,529,890
INCOME BEFORE INCOME TAX	**1,052,971,342**	925,677,009
PROVISION FOR INCOME TAX	**317,652,528**	277,365,172
NET INCOME	**735,318,814**	648,311,837
OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱735,318,814**	₱648,311,837
BASIC/DILUTED EARNINGS PER SHARE (Note 27)	**₱0.97**	₱0.86

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)

	Nine Months Ended September 30, 2018							
				Other Comprehensive Income (Loss)				
	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)	Remeasurements Loss on Net Retirement Obligations - Net of Tax	Revaluation Increment on Land - Net of Tax	Total	Treasury Stock (Note 17)	Total
At January 1, 2018	**₱757,104,533**	**₱293,525,037**	**₱5,016,193,426**	**(₱36,400,280)**	**₱18,519,295**	**₱6,048,942,011**	**(₱2,923,246)**	**₱6,046,018,765**
Net income for the period	**–**	**–**	**735,318,814**	**–**	**–**	**735,318,814**	**–**	**735,318,814**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income	**–**	**–**	**735,318,814**	**–**	**–**	**735,318,814**	**–**	**735,318,814**
Stock dividends (Note 17)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cash dividends (Note 17)	**–**	**–**	**(325,259,861)**	**–**	**–**	**(325,259,861)**	**–**	**(325,259,861)**
Balances at September 30, 2018	**₱757,104,533**	**₱293,525,037**	**₱5,426,252,379**	**(₱36,400,280)**	**₱18,519,295**	**₱6,459,000,964**	**(₱2,923,246)**	**₱6,456,077,718**

	Nine Months Ended September 30, 2017							
				Other Comprehensive Income (Loss)				
	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)	Remeasurements Loss on Net Retirement Obligations - Net of Tax	Revaluation Increment on Land - Net of Tax	Total	Treasury Stock (Note 17)	Total
At January 1, 2017	₱459,121,573	₱293,525,037	₱4,294,023,732	(₱20,899,518)	₱18,519,295	₱5,044,290,119	(₱2,923,246)	₱5,041,366,873
Net income during the Quarter	–	–	648,311,837	–	–	648,311,837	–	648,311,837
Other comprehensive income	–	–	–	–	–	–	–	–
Total comprehensive income	–	–	648,311,837	–	–	648,311,837	–	648,311,837
Stock dividends (Note 17)	–	–	–	–	–	–	–	–
Cash dividends (Note 17)	–	–	(297,982,960)	–	–	(297,982,960)	–	(297,982,960)
Balances at September 30, 2017	₱459,121,573	₱293,525,037	₱4,644,352,609	(₱20,899,518)	₱18,519,295	₱5,394,618,996	(₱2,923,246)	₱5,391,695,750

See accompanying Notes to Unaudited Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱290,707,763**	₱291,333,954
Adjustments for:		
Depreciation and amortization (Notes 8 and 19)	**493,337,081**	411,117,930
Net retirement benefits cost	**7,988,940**	697,981
Interest expense (Note 21)	**(20,834,922)**	14,193,198
Interest income (Note 22)	**(2,040,242)**	(1,515,204)
Amortization of:		
Software and other program costs	**167,391**	411,340
Unrealized foreign exchange gain	**(347,873)**	(36,812)
Operating income before working capital changes	**768,978,138**	716,202,387
Decrease (Increase) in:		
Receivables	**(229,545,412)**	109,080,168
Inventories	**130,333,794**	64,248,069
Prepayments and other current assets	**42,111,915**	44,665,216
Increase (decrease) in:		
Accounts payable and accrued expenses	**527,261,999**	232,271,798
Other current liabilities	**163,546,107**	(312,581,672)
Deposits payable	**4,454,224**	8,148,180
Deferred revenue	**25,638,155**	609,272
Cash generated from operations	**1,432,778,920**	862,643,418
Income taxes paid	**(144,360,582)**	(117,414,654)
Interest received	**2,040,241**	1,515,204
Net cash provided by operating activities	**1,290,458,579**	746,743,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 8)	**(665,135,284)**	(572,229,546)
Software and other program costs	**–**	(56,135)
Decrease (Increase) in:		
Deposits	**(30,187,991)**	(37,420,565)
Goodwill and other noncurrent assets	**(6,379,779)**	3,503,008
Net cash used in investing activities	**(701,703,054)**	(606,203,238)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Bank Loans (Note 11)	**225,000,000**	48,333,333
Long - term debt (Note 11)	**–**	316,666,667
Payments of:		
Bank Loans (Note 11)	**(70,000,000)**	(48,333,333)
Long – term debt (Note 11)	**(83,188,405)**	(83,333,334)
Cash dividends paid	**(325,259,862)**	–
Interest paid	**(12,850,199)**	(9,603,453)
Net cash used in /provided by financing activities	**(266,298,466)**	223,729,880
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**347,873**	36,812
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**322,804,932**	364,307,422
CASH AND CASHEQUIVALENTS AT BEGINNING OF THE QUARTER	**2,144,990,246**	1,462,979,612
CASH AND CASH EQUIVALENTS AT END OF QUARTER	**₱2,467,795,178**	₱1,827,287,034

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,052,971,342**	₱925,677,009
Adjustments for:		
Depreciation and amortization (Notes 8 and 19)	**1,449,541,739**	1,188,303,221
Net retirement benefits cost	**24,966,819**	9,093,944
Interest expense (Note 21)	**5,941,605**	41,813,590
Interest income (Note 22)	**(5,968,888)**	(5,224,773)
Amortization of:		
Software and other program costs	**784,095**	988,681
Unrealized foreign exchange gain	**(347,873)**	(103,444)
Operating income before working capital changes	**2,527,888,839**	2,160,548,228
Decrease (Increase) in:		
Receivables	**(373,043,167)**	361,476,158
Inventories	**98,051,619**	257,321,270
Prepayments and other current assets	**(144,381,295)**	(93,737,737)
Increase (decrease) in:		
Accounts payable and accrued expenses	**647,921,446**	67,408,199
Other current liabilities	**443,068,749**	(219,928,595)
Deposits payable	**14,345,097**	19,889,389
Deferred revenue	**25,022,721**	587,701
Cash generated from operations	**3,238,874,009**	2,553,564,613
Income taxes paid	**(532,989,806)**	(422,948,969)
Interest received	**5,968,888**	5,224,773
Net cash provided by operating activities	**2,711,853,091**	2,135,840,417
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment (Note 8)	**(1,626,053,592)**	(1,545,726,230)
Software and other program costs	**–**	177,335
Decrease (Increase) in:		
Deposits	**(80,021,652)**	(104,616,644)
Goodwill and other noncurrent assets	**(10,180,138)**	53,604,833
Net cash used in investing activities	**(1,716,255,382)**	(1,596,560,706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of:		
Bank Loans (Note 11)	**363,333,333**	390,000,000
Long - term debt (Note 11)	**–**	316,666,667
Payments of:		
Bank Loans (Note 11)	**(353,333,333)**	(435,000,000)
Long – term debt (Note 11)	**(141,521,738)**	(196,166,667)
Cash dividends paid	**(325,259,862)**	(297,982,960)
Interest paid	**(40,327,789)**	(40,585,834)
Net cash used in financing activities	**(497,109,389)**	(263,068,794)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**347,873**	103,444
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**498,836,193**	276,314,361
CASH AND CASHEQUIVALENTS AT BEGINNING OF YEAR	**1,968,958,985**	1,550,972,673
CASH AND CASH EQUIVALENTS AT END OF QUARTER	**₱2,467,795,178**	₱1,827,287,034

1. **Corporate Information and Authorization for Issuance of the Consolidated Financial Statements**

Corporate Information
Philippine Seven Corporation (the Company or PSC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 24, 1982. The Company and its subsidiaries (collectively referred to as the "Group"), are primarily engaged in the business of retailing, merchandising, buying, selling, marketing, importing, exporting, franchising, acquiring, holding, distributing, warehousing, trading, exchanging or otherwise dealing in all kinds of grocery items, dry goods, food or foodstuff, beverages, drinks and all kinds of consumer needs or requirements and in connection therewith, operating or maintaining warehouses, storages, delivery vehicles and similar or incidental facilities. The Group is also engaged in the management, development, sale, exchange, and holding for investment or otherwise of real estate of all kinds, including buildings, houses and apartments and other structures.

The Company is controlled by President Chain Store (Labuan) Holdings, Ltd., an investment holding company incorporated in Malaysia, which owns 52.22% of the Company's outstanding shares. The remaining 47.78% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC), which is incorporated in Taiwan, Republic of China.

The Company has its primary listing on the Philippine Stock Exchange on February 4, 1968. As at September 30, 2018 and 2017, the Company has 608 and 615 equity holders, respectively.

The registered business address of the Company is 7th Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City.

2. **Summary of Significant Accounting Policies and Financial Reporting Practices**

Basis of Preparation
The consolidated financial statements are prepared under the historical cost basis, except for parcels of land, which are carried at revalued amount. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Group's functional currency and all amounts are rounded to the nearest Peso except when otherwise indicated.

Statement of Compliance
The consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- 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 Standards (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Group has provided the required information in Note 34 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2017.

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

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

Effective beginning on or after January 1, 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. 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 Group is assessing the impact of adopting PFRS 9.

- 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Group is assessing the impact of PFRS 15.

- 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 on the Group.

- 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.

These amendments are not expected to have any impact on the Group

- Philippine Interpretation International Financial Reporting Interpretations Committee (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. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity 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 Group is currently assessing the impact of adopting IFRIC 22

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9*, Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. 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 on the Group.

- PFRS 16, *L*eases

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

recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group 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 on the Group.

- 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
- 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 Group 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures..

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets or liabilities

The consolidated financial statements include the accounts of the Company and the following wholly owned subsidiaries:

	Country of Incorporation	Principal Activity	Percentage of Ownership

Convenience Distribution, Inc. (CDI)	Philippines	Warehousing and Distribution	100
Store Sites Holding, Inc. (SSHI)	Philippines	Holding	100

SSHI's capital stock, which is divided into 40% common shares and 60% preferred shares are owned by the Company and by Philippine Seven Corporation-Employees Retirement Plan (PSC-ERP) through its trustee, Bank of the Philippines Islands-Asset Management and Trust Group (BPI-AMTG), respectively. These preferred shares which accrue and pay guaranteed preferred dividends and are redeemable at the option of the holder are recognized as a financial liability in accordance with PFRS (see Note 15). The Company owns 100% of SSHI's common shares, which, together with common key management, gives the Company control over SSHI.

The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company, using uniform accounting policies. Intercompany transactions, balances and unrealized gains and losses are eliminated in full.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument.

Initial Recognition and Measurement
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date the Group commits to purchase or sell the financial asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation in the market place.

The Group classifies its financial assets as financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets or loans and receivables. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial assets and financial liabilities were acquired. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates classification at every balance sheet date.

As at September 30, 2018 and December 31, 2017, the Group's financial instruments include loans and receivables and other financial liabilities.

Loans and Receivables
Loans and receivables are non-derivative 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 classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment. The amortization is included as part of interest income in the consolidated statement of comprehensive income. Losses arising from impairment are recognized in the consolidated statement of comprehensive income. Loans and receivables are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables consists of cash and cash equivalents, short-term investment, receivables and deposits(excluding rent deposits) as at September 30, 2018 and December 31, 2017 (see Notes 4,5,9 and 10).

Other Financial Liabilities
This category pertains to financial liabilities that are neither held-for-trading nor designated as at FVPL upon the inception of the liability. Other financial liabilities are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Other financial liabilities are classified as current liabilities if maturity is within the normal operating cycle of the Company and it does not have unconditional right to defer settlement of the liability for at least 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities (excluding statutory liabilities), and cumulative redeemable preferred shares as at September 30, 2018 and December 31, 2017 (see Notes11, 12, 13 and 15).

Classification of Financial Instruments Between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares**.**

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements 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 the fair value of the liability component on the date of issue.

Determination of Fair Value
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 by the Group.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on lowest level of input that is significant to the fair value measurement as a whole:

- 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

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet 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.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

Financial Assets Carried at Amortized Cost
The Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually or collectively assessed financial asset, whether significant or not, the asset is included in the 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 continue to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.
If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected 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 is reduced by the impairment loss, which is recognized in profit or loss.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. 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.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial Assets
A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;

- the Group 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 Group has transferred its right 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 risks and rewards of the asset, but has transferred control of the asset.

Where the Group 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 Group'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 Group could be required to repay.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where 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 amounts is recognized in profit or loss.

<u>Inventories</u>
Inventories are stated at the lower of cost and net realizable value (NRV). Cost of inventories is determined using the first-in, first-out method. NRV is the selling price in the ordinary course of business, less the estimated cost of marketing and distribution.

<u>Prepayments and Other Current Assets</u>
Prepayments and other current assets are primarily comprised of advances to suppliers, deferred input value-added tax (VAT), prepaid rent and prepaid store expenses. Prepayments and other current assets that are expected to be realized for no more than 12 months after the balance sheet date are classified as current assets; otherwise, these are classified as other noncurrent assets. These are recorded as assets and expensed when utilized or expired.

Advances to suppliers are down payments for acquisitions of property and equipment not yet received. Once the property and equipment are received, the asset is recognized together with the corresponding liability. These are stated at cost less any impairment in value.

<u>Property and Equipment</u>
Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are recognized in profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the 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 an additional cost of the assets.

Construction in-progress includes cost of construction and other direct costs and is stated at cost less any impairment in value. Construction in-progress is not depreciated until such time the relevant assets are completed and put into operational use.

Depreciation and amortization commence once the assets are available for use. It ceases at the earlier of the date that it is classified as noncurrent asset held-for-sale and the date the asset is derecognized.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	10 to 12
Store furniture and equipment	5 to 10
Office furniture and equipment	3 to 5
Transportation equipment	3 to 5
Computer equipment	3

Leasehold improvements are amortized over the estimated useful life of the improvements, ranging from five to ten years, or the term of the lease, whichever is shorter.

The assets' estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment. When assets are retired or otherwise disposed of, the cost or revalued amount and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss. The revaluation increment in equity relating to the revalued asset sold is transferred to retained earnings.

Fully depreciated assets are retained in the books until disposed.

Land is carried at revalued amount less any impairment in value. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the financial reporting period. When the fair value of a revalued land differs materially from its carrying amount, a further revaluation is required.

A revaluation surplus is recorded in OCI and credited to the "Revaluation increment on land - net of deferred income tax liability" account in equity. However, to the extent that the Group reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in "Revaluation increment on land -net of deferred income tax liability" account in equity.

Deposits

Deposits are amounts paid as guarantee in relation to noncancelable lease agreements entered into by the Group. These deposits are recognized at cost and can be refunded or applied to future billings.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss, if any. Internally-generated intangible assets, if any, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level and are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Software and Program Cost
Software and program cost, which are not specifically identifiable and integral to a specific computer hardware, are shown under "Goodwill and other noncurrent assets" in the consolidated balance sheet. These are carried at cost, less accumulated amortization and any impairment in value. Amortization is computed on a straight-line method over their estimated useful life of five years.

Goodwill
Goodwill, included in "Goodwill and other noncurrent assets" account in the consolidated balance sheet, represents the excess of the cost of an acquisition over the fair value of the businesses acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

<u>Impairment of Non-financial Assets</u>
The Group assesses at each balance sheet date whether there is an indication that its non-financial assets such as property and equipment, rent deposits and intangible assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU'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. For land, the asset's recoverable amount is the higher of the land's net selling price, which may be obtained from its sale in an arm's-length transaction, and its value-in-use. For goodwill, the asset's recoverable amount is its value-in-use. 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 risks specific to the asset. Impairment losses, if any, are recognized in profit or loss, except for revalued land when revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For non-financial assets, excluding goodwill, an assessment is made at each balance sheet 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 and amortization, had no impairment loss been recognized for the asset in previous years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment, annually or more frequently if event or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Deposits Payable

Deposits payable are amounts received from franchisees, store operators and sublessees as guarantee in relation to various agreements entered into by the Group. These deposits are recognized at cost and payable or applied to future billings.

Cumulative Redeemable Preferred Shares

Cumulative redeemable preferred shares that exhibit characteristics of a liability is recognized as a financial liability in the consolidated balance sheet, net of transaction cost. The corresponding dividends on those shares are charged as interest expense in profit or loss.

Deferred Revenue

Deferred revenue is recognized for cash received for income not yet earned. Deferred revenue is recognized as revenue over the life of the revenue contract or upon delivery of goods or services.

Equity

Common Stock

Common stock is measured at par value for all shares issued and outstanding.

Additional Paid-in Capital

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss and changes in accounting policy. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Stock Dividends

Stock dividends are distribution of the earnings in the form of own shares. When stock dividends are declared, the amount of stock dividends is transferred from retained earnings to capital stock.

Treasury Stock

Treasury stock is stated at acquisition cost and is deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Group's own equity instruments.

OCI

OCI comprises of items of income and expenses that are not recognized in profit or loss as required or permitted by other PFRS. The Group's OCI pertains to actuarial gains and losses from pension benefits and revaluation increment on land which are recognized in full in the period in which they occur.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group has assessed its revenue

arrangements against the criteria enumerated under PAS 18, *Revenue Recognition*, and concluded that it is acting as principal in all arrangements, except for its sale of consigned goods. The following specific recognition criteria must also be met before revenue is recognized:

Merchandise Sales

Revenue from merchandise sales is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue is measured at the fair value of the consideration received, excluding discounts, returns, rebates and sales taxes.

The Group operates a customer loyalty programme, Every Day! Rewards, which allows customers to accumulate points when they purchase products in the stores. The points can be redeemed for free products, subject to a minimum number of points being obtained.

Consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is equal to the retail value of the products that can be redeemed multiplied by the redemption rate. The fair value of the points issued is deferred (included as part of "Other current liabilities" account in the consolidated balance sheet) and recognized as revenue when the points are redeemed.

Franchise
Franchise fee is recognized upon execution of the franchise agreement and performance of initial services required under the franchise agreement. Franchise revenue is recognized in the period earned.

Marketing
Marketing income is recognized when service is rendered. In case of marketing support funds, revenue is recognized upon start of promotional activity for the suppliers.

Rental
Rental income is accounted for on a straight-line basis over the term of the lease.

Commission
Commission income is recognized upon the sale of consigned goods.

Interest
Interest income is recognized as it accrues based on the effective interest rate method.

Other Income
Other income is recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Group and can be measured reliably.

<u>Costs and Expenses Recognition</u>
Costs of merchandise sold are recognized in profit or loss at the point of sale. Expenses are recognized in profit or loss upon utilization of the services or when they are incurred.

<u>Retirement Benefits</u>
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the financial reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Net retirement benefits cost comprises the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Leases</u>
Finance leases, which transfer to the lessee substantially all the risks and rewards of ownership of the asset, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest income and reduction of the lease receivable so as to achieve a constant rate of interest on the remaining balance of the receivable. Interest income is recognized directly in profit or loss.

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating leases are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement; or
b. a renewal option is exercised or extension is granted, unless the term of the renewal or extension was initially included in the lease term; or
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstance gave rise to the reassessment for scenarios (a), (c) or (d) above, and the date of renewal or extension for scenario (b).

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency. All subsidiaries evaluate their primary economic and operating environment and determine their functional currency. Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Outstanding foreign currency-denominated monetary assets and liabilities are translated using the applicable exchange rate at balance sheet date. Exchange differences arising from translation of foreign currency monetary items at rates different from those at which they were originally recorded are recognized in profit or loss.

Taxes

Current Income Tax

Current income tax assets and 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 at the balance sheet date.

Deferred Income Tax

Deferred income tax is recognized for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to 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 balance sheet date.

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

VAT

Input VAT is the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services, including lease or use of property, from a VAT-registered entity. For acquisition of capital goods over ₱1,000,000, the related input taxes are deferred and amortized over the useful life of the asset or 60 months, whichever is shorter, commencing on the date of acquisition. Deferred input VAT which is expected to be utilized for more than 12 months after the balance sheet date is included under "Goodwill and other noncurrent assets" account in the consolidated balance sheet.

Output VAT pertains to the 12% tax due on the sale of merchandise and lease or exchange of taxable goods or properties or services by the Group.

If at the end of any taxable month the output VAT exceeds the input VAT, the excess shall be paid by the Group. Any outstanding balance is included under "Other current liabilities" account in the consolidated balance sheet. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding month or months. Excess input VAT is included under "Prepayments and other current assets" account in the consolidated balance sheet. Input VAT on capital goods may, at the option of the Group, be refunded or credited against other internal revenue taxes, subject to certain tax laws.

Revenue, expenses and assets are recognized net of the amount of VAT.

Earnings Per Share

Basic earnings per share is calculated by dividing the net income or for the year attributable to common shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares.

Diluted earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares and adjusted for the effects of all potential dilutive common shares, if any.

In determining both the basic and diluted earnings per share, the effect of stock dividends, if any, is accounted for retrospectively.

Segment Reporting

Operating segments are components of an entity for which separate financial information is available and evaluated regularly by management in deciding how to allocate resources and assessing performance. The Group considers the store operation as its primary activity and its only business segment. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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 interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated 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 consolidated financial statements.

Events after the Balance Sheet Date

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the consolidated financial statements when material.

3. Use of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at balance sheet date. Future events may occur which can cause the assumptions used in arriving at those judgments, estimates and assumptions to change. The effects of any changes will be reflected in the consolidated financial statements of the Group as they become reasonably determinable.

Judgments

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

Determination of Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine Peso.
The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the revenue, costs and expenses of the Group.

Classification of Financial Instruments

The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, liability or equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

Financial assets are classified as financial assets at FVPL, HTM investments, AFS financial assets and loans and receivables. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL and other financial liabilities.

The Group classifies the cumulative redeemable preferred shares as liability in accordance with the redemption features contained in the shareholders agreement (see Note 15). The cumulative redeemable preferred shares are redeemable at the option of the holder.

The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every balance sheet date.

The Group's financial instruments consist of loans and receivables and other financial liabilities (see Note 28).

Classification of Leases

a. Finance lease as lessor
   The Group entered into a sale and leaseback transaction with an armored car service provider where it has determined that the risks and rewards related to the armored vehicles leased out will be transferred to the lessee at the end of the lease term. As such, the lease agreement was accounted for as a finance lease (see Note 26).

b. Operating lease as lessee
   The Group entered into various property leases, where it has determined that the risks and rewards related to the properties are retained with the lessors. As such, the lease agreements were accounted for as operating leases (see Note 26).

c. Operating lease as lessor
   The Company entered into property subleases on its leased properties. The Company determined that it retains all the significant risks and rewards of these properties which are leased out on operating leases (see Note 26).

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities follow:

Determination of Fair Values
The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, options pricing models, and other relevant valuation models.

Note 28 presents the fair values of the financial instruments and the methods and assumptions used in estimating their fair values.

Impairment of Loans and Receivables
The Group reviews its loans and receivables at each balance sheet date to assess whether a provision for impairment should be recognized in profit or loss or loans and receivables balance should be written off. 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. Moreover, management evaluates the presence of objective evidence of impairment which includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization.

In addition to specific allowances against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration the credit risk characteristics such as customer type, payment history, past due status and term.

Decline in Inventory Value
Provisions are made for inventories whose NRV are lower than their carrying cost. This entails determination of replacement costs and costs necessary to make the sale. The estimates are based on a number of factors, such as but not limited to the age, status and recoverability of inventories.

Impairment of Non-financial Assets Other than Goodwill
The Group assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill, at each balance sheet date. These non-financial assets (property and equipment, rent deposits, and software and program cost) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business;
- significant negative industry or economic trends; and
- decline in appraised value.

The carrying values of these non-financial assets are as follows:

	Sept. 30, 2018	Dec. 31, 2017
Property and equipment (Note 8)	**₱6,665,442,309**	₱6,488,930,456
Rent deposits (Note 9)	**749,099,431**	557,108,620
Software and program cost (Note 10)	**1,478,154**	2,262,249

Estimation of Useful Lives of Property and Equipment and Software and Program Cost
The Group estimates the useful lives of its property and equipment and software and program cost based on a period over which the assets are expected to be available for use and on collective assessment of industry practices, internal evaluation and experience with similar arrangement. The estimated useful lives of property and equipment and software and program cost are revisited at the end of each financial reporting period and updated if expectations differ materially from previous estimates.

Revaluation of Land
The Group's parcels of land are carried at revalued amounts, which approximate its fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The valuations of land are performed by independent appraisers. Revaluations are made every three to five years or more frequently as necessary, to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at balance sheet date.

Impairment of Goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the CGUs to which the goodwill is allocated. Estimating the value-in-use amount requires management to make an estimate of the expected future cash flows from the CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Based on the assessment made by the Group, there is no impairment of goodwill as the recoverable amount of the CGUs exceeds the carrying amount of the unit, including goodwill as at September 30, 2018 and December 31, 2017.The carrying value of goodwill amounted to ₱65,567,524 as at September 30, 2018 and December 31,2017 (see Note 10). No impairment losses were recognized in 2018, 2017 and 2016.

Estimation of Retirement Benefits
The net retirement benefits cost and the present value of retirement obligations are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each financial reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Provisions and Contingencies
The Group has pending legal cases. The Group's estimate of the probable costs for the resolution of these legal cases has been developed in consultation with in-house and outside legal counsels and is based upon the analysis of the potential outcomes. It is possible, however, that future results of operations could be affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Realizability of Deferred Income Tax Assets
Deferred income tax assets are recognized for all temporary deductible differences to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized. Management has determined based on business forecast of succeeding years that there is enough taxable profits against which the recognized deferred income tax assets will be realized.

4. Cash and Cash Equivalents and Short-Term Investment

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash on hand and in banks	**₱2,467,795,178**	₱1,943,958,985
Cash equivalents	**–**	25,000,000
	₱2,467,795,178	₱1,968,958,985

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the respective cash equivalent rates.

5. Receivables

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Suppliers	**₱898,701,320**	₱325,092,244

Franchisees (Note 31)	**611,912,168**	822,737,369
Employees	**27,329,382**	30,471,022
Store operators	**18,225,649**	12,382,909
Rent	**4,219,800**	2,790,501
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	**211,864**	212,125
Current portion of:		
Insurance receivable	**2,814,556**	1,153,106
Others	**14,217,569**	9,749,865
	1,577,632,308	1,204,589,141
Less allowance for impairment	**(26,207,154)**	(26,207,154)
	₱1,551,425,154	₱1,178,381,987

Impairment on receivables is based on individual assessment of accounts. Movements in allowance for impairment as at September 30, 2018 and December 31, 2017 are as follows:

	Beginning balances	**Provision for the year (Note 19)**	**Write-off**	**Ending balances**
Suppliers	**₱18,372,891**	**₱–**	**₱–**	**₱18,372,891**
Franchisees	**4,135,792**	**–**	**–**	**4,135,792**
Employees	**1,325,583**	**–**	**–**	**1,325,583**
Store operators	**365,801**	**–**	**–**	**365,801**
Rent	**2,007,087**	**–**	**–**	**2,007,087**
Total	**₱26,207,154**	**₱–**	**₱–**	**₱26,207,154**

6. Inventories

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
At cost (Note 18):		
Warehouse merchandise	**₱1,524,160,130**	₱1,620,907,521
Store merchandise	**1,125,700,427**	1,127,004,655
	₱2,649,860,557	₱2,747,912,176

7. Prepayments and Other Current Assets

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Current portion of:		
Deferred input VAT	**₱247,354,646**	₱230,656,845
Deferred lease (Notes10 and 26)	**6,866,849**	6,866,849
Prepaid:		
Taxes	**118,774,260**	19,758,914
Rent	**89,155,065**	110,664,204
Store expenses	**15,081,618**	6,119,722
Uniform	**6,083,256**	2,830,377
Advances to suppliers	**81,084,728**	42,479,416
Advances for expenses	**88,034,889**	81,553,388
Insurance	**22,164,004**	4,310,487
Supplies	**12,678**	24,628,411
Others	**11,771,764**	12,133,848
	₱686,383,756	₱542,002,461

8. **Property and Equipment**

Movements in property and equipment are as follows:

	September 30, 2018 (Unaudited)								
	Land- at revalued Amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs/Revalued Amount									
Beginning balances	₱66,323,000	₱157,877,887	₱6,193,259,241	₱1,918,054,387	₱92,515,312	₱547,015,247	₱3,389,129,832	₱162,383,682	₱12,526,558,588
Additions	–	–	657,578,433	279,783,635	4,316,142	189,637,985	209,486,630	285,250,767	1,626,053,592
Retirements	–	(13,387,707)	(876,606,225)	(212,526,409)	(31,757,503)	(126,681,261)	(178,075,872)	–	(1,439,034,977)
Reclassifications	–	10,990,965	181,212,032	–	–	–	(30,711,281)	(161,491,716)	–
Ending balances	66,323,000	155,481,145	6,155,443,481	1,985,311,614	65,073,951	609,971,971	3,389,829,309	286,142,733	12,713,577,203
Accumulated Depreciation and Amortization									
Beginning balances	–	109,436,717	3,314,344,831	1,021,582,759	63,180,624	373,137,462	1,155,945,738	–	6,037,628,131
Depreciation and amortization (Note 19)	–	8,457,584	778,850,826	247,846,340	8,434,900	82,868,574	323,083,516	–	1,449,541,740
Retirements	–	(13,387,707)	(876,606,225)	(212,526,409)	(31,757,503)	(126,681,261)	(178,075,872)	–	(1,439,034,977)
Ending balances	–	104,506,594	3,216,589,432	1,056,902,690	39,858,021	329,324,775	1,300,953,382	–	6,048,134,894
Net Book Values	₱66,323,000	₱50,974,551	₱2,938,854,049	₱928,408,924	₱25,215,930	₱280,647,196	₱2,088,875,927	₱286,142,733	₱6,665,442,309

	December 31, 2017 (Audited)								
	Land- at revalued Amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs/Revalued Amount									
Beginning balances	₱66,323,000	₱157,877,887	₱5,150,726,038	₱1,603,580,034	₱72,350,575	₱402,702,929	₱2,706,367,613	₱267,637,611	₱10,427,565,687
Additions	–	–	1,130,871,134	371,875,368	20,164,737	402,702,929	691,106,118	38,753,522	2,400,793,097
Retirements	–	–	(88,337,931)	(57,401,016)	–	(3,709,900)	(152,351,350)	–	(301,800,197)
Reclassifications	–	–	–	–	–	–	144,007,451	(144,007,451)	–
Ending balances	66,323,000	157,877,887	6,193,259,241	1,918,054,386	92,515,312	547,015,247	3,389,129,832	162,383,682	12,526,558,587
Accumulated Depreciation and Amortization									
Beginning balances	–	95,513,557	2,510,678,266	789,300,012	44,295,881	295,190,489	980,916,066	–	4,715,894,271
Depreciation and amortization (Note 19)	–	13,923,160	892,004,496	289,140,164	18,884,743	81,656,873	327,381,022	–	1,622,990,458
Retirements	–	–	(88,337,931)	(56,857,417)	–	(3,709,900)	(152,351,350)	–	(301,256,598)
Ending balances	–	109,436,717	3,314,344,831	1,021,582,759	63,180,624	373,137,462	1,155,945,738	–	6,037,628,131
Net Book Values	₱66,323,000	₱48,441,170	₱2,878,914,410	₱896,471,627	₱29,334,688	₱173,877,785	₱2,233,184,094	₱162,383,682	₱6,488,930,456

9. **Deposits**

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Rent	**₱749,099,431**	₱557,108,620
Refundable (Notes 28 and 29)	**49,063,842**	165,419,915
Utilities (Notes 28 and 29)	**100,930,842**	96,864,220
Others (Notes 28 and 29)	**14,683,829**	14,363,537
	₱913,777,944	₱833,756,292

10. **Goodwill and Other Noncurrent Assets**

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Noncurrent portion of:		
Deferred input VAT	**₱296,370,265**	₱296,370,265
Prepaid rent	**63,926,339**	46,117,439
Deferred lease (Note 26)	**27,901,190**	27,901,190
Receivable from franchisees (Note 31)	**11,862,224**	19,130,591
Intangible assets:		
Goodwill	**65,567,524**	65,567,524
Software and program cost	**1,478,154**	2,262,249
Garnished accounts	**1,404,325**	1,669,333
Others	**286,160**	381,547
	₱468,796,181	₱459,400,138

Deferred Lease

Deferred lease pertains to Day 1 loss recognized on refundable deposits on rent, which is amortized on a straight-line basis over the term of the related leases.

Movements in deferred lease are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beginning balance	**₱34,768,039**	₱29,361,256
Additions	**–**	14,958,087
Less amortization	**–**	(9,551,304)
Ending balance	**34,768,039**	34,768,039
Less current portion (Note 7)	**6,866,849**	6,866,849
Noncurrent portion	**₱27,901,190**	₱27,901,190

Goodwill

On March 22, 2004, the Group purchased the leasehold rights and store assets of Jollimart Philippines Corporation (Jollimart) for a total consideration of ₱130,000,000. The excess of the acquisition cost over the fair value of the assets acquired was recorded as goodwill amounting to ₱70,178,892. In 2008, the Group recognized an impairment loss in goodwill amounting to ₱4,611,368.

Garnished Accounts

Garnished accounts pertain to the amount set aside by the Group, as required by the courts, in order to answer for litigation claims should the results be unfavorable to the Group.

11. **Bank Loans**

Bank Loans
Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2018 and 2017 with annual interest rates ranging from 2.65% to 3.00% as at September 30, 2018 and December 31, 2017, which are repriced monthly based on market conditions. The proceeds of these loans were used for the operations of the Group.

Movements in bank loans are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Beginning balance	**₱660,000,000**	₱1,220,000,000
Availments	**363,333,333**	425,000,000
Payments	**(353,333,333)**	(985,000,000)
Ending balance	**₱670,000,000**	₱660,000,000

Interest expense from these bank loans amounted to ₱36,303,843 and ₱56,333,205 in 2018 and 2017 respectively (see Note 21). Interest payable amounted to ₱5,941,605 and ₱6,844,709 as at September 30, 2018 and 2017, respectively (see Note 12).

Long-term Debt
Long-term debt availed in 2017 and 2016 represent unsecured Philippine Peso-denominated borrowings of the Group from various local banks, payable as follows:

Maturity Date	Payment Schedule	Principal	Interest Rate
December 9, 2019	36 monthly payments	₱200,000,000	3.10% in 2017 and 2016
March 30, 2021	20 quarterly payments	500,000,000	3.20% in 2017, 2.77% to 2.86 in 2016
November 24, 2020	12 quarterly payments	100,000,000	3.19% to 3.64% in 2017
August 1, 2022	20 quarterly payments	250,000,000	2.86% to 3.19% in 2017
November 16, 2022	20 quarterly payments	250,000,000	2.86% to 3.19% in 2017

The interest rates of the long-term debt are subject to quarterly and monthly repricing based on market conditions.

Movement in long-term debt in 2018 is as follows:

	2018	2017
Beginning Balance	**₱1,070,833,333**	₱650,000,000
Availments	**–**	600,000,000
Payments	**(141,521,738)**	(179,166,667)
	929,311,595	1,070,833,333
Less current portion	**331,666,667**	325,000,000
Noncurrent portion	**₱597,644,928**	₱745,833,333

Interest expense from long-term debt amounted to ₱36,303,843 in 2018. Interest payable amounted to ₱5,941,605 as at September 30, 2018 (see Note 13).

The proceeds of the bank loans and long-term debt were used for the operations of the Company.

12. **Accounts Payable and Accrued Expenses**

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trade payable	**₱3,878,126,390**	₱3,537,528,491
Rent (Note 26)	**169,258,984**	135,539,062
Utilities	**120,019,698**	112,604,014
Employee benefits	**102,408,476**	82,006,750
Outsourced services	**89,305,716**	76,008,203
Security services	**51,320,709**	36,363,734
Taxes and licenses	**52,096,730**	31,782,384
Bank charges	**27,703,216**	15,830,500
Advertising and promotion	**42,279,261**	8,684,931
Repairs and maintenance	**23,293,503**	–
Interest (Notes 11 and 15)	**5,941,605**	6,844,709
Others	**232,965,723**	137,991,638
	₱4,794,720,011	₱4,181,184,416

13. Other Current Liabilities

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Non-trade accounts payable	**₱1,058,576,694**	₱440,501,849
Due to Franchisees	**275,917,422**	627,697,648
Retention payable	**157,357,007**	148,238,717
Output VAT	**241,957,485**	95,548,295
Withholding taxes	**64,754,006**	69,172,789
Unearned rent	**51,138,712**	53,003,647
Unearned revenue	**35,090,976**	14,903,961
Royalty	**33,285,048**	36,000,390
Service fees payable	**13,054,975**	7,646,834
Current portion of deferred revenue on:		
Customer loyalty programme	**91,452,206**	77,996,205
Others	**52,718,111**	61,523,557
	₱2,075,302,642	₱1,632,233,892

Non-trade accounts payable pertains to payable to suppliers of goods or services that forms part of general and administrative expenses. These are noninterest-bearing and are due within one year.

14. Deposits Payable

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Franchisees	**₱166,915,404**	₱151,884,818
Service agreements	**91,133,431**	92,063,297
Rent	**18,046,089**	17,801,712
	₱276,094,924	₱261,749,827

15. Cumulative Redeemable Preferred Shares

Cumulative redeemable preferred shares, which are redeemable at the option of the holder, represent the share of PSC-ERP through its trustee, BPI-AMTG, in SSHI's net assets pertaining to preferred shares. PSC-ERP is entitled to an annual “Guaranteed Preferred Dividend” in the earnings of SSHI starting April 5, 2002, the date when the 25% of the subscription on preferred shares have been paid, in accordance with the Corporation Code.

16. **Deferred Revenue**

Deferred Revenue amounted to ₱75,745,824 and ₱50,723,103 as at September 30, 2018 and December 31, 2017 respectively.

17. **Equity**

Common Stock

The Group was listed with the Philippine Stock Exchange on February 4, 1998 with total listed shares of 71,382,000 common shares consisting of 47,000,000 shares for public offering and 24,382,000 shares for private placement. The Group offered the share at a price of ₱4.40. Below is the Company’s track record of the registration of securities:

Date of SEC order rendered effective or permit to sell/ Date of SEC approval	Event	Authorized Capital Stock	Issued shares	Issue price/ Par value
January 9, 1998	Outstanding commonshares	400,000,000	166,556,250	₱1.00
	Listed shares:			
February 4, 1998	Public offering	400,000,000	47,000,000	4.40
	Private placement	400,000,000	24,382,000	4.40
August 15, 2008	10% stock dividends	400,000,000	23,725,200	1.00
August 4, 2009	10% stock dividends	400,000,000	26,097,720	1.00
August 27, 2010	5% stock dividends	400,000,000	14,353,746	1.00
August 19, 2011	15% stock dividends	400,000,000	45,214,300	1.00
November 15, 2012	15% stock dividends	600,000,000	51,996,445	1.00
August 15, 2013	15% stock dividends	600,000,000	59,795,912	1.00
November 6, 2017	65% stock dividends	1,600,000,000	297,982,960	1.00
As at September 30,2018 and December 31,2017			757,104,533	

As at September 30, 2018 and December 31, 2017, the Company has a total of 608 and 612 shareholders on record. The Philippine SEC approved the Company’s application for the increase in its authorized capital stock on October 18, 2017.

Treasury Shares

There are 686,250 shares that are in the treasury amounting to ₱2,923,246 as at September 30, 2018 and December 31, 2017. There are no movement in the Group’s treasury shares for the three months ended September 30, 2018.

18. **Cost of Merchandise Sales**

	Nine Months Ended September (Unaudited)	
	2018	2017
Merchandise inventory, beginning	**₱2,747,912,176**	₱2,131,441,288
Net purchases	**20,771,596,044**	16,734,636,870
	23,519,508,220	18,866,078,158
Less merchandise inventory, ending	**2,649,860,557**	1,874,120,018
	₱20,869,647,663	₱16,991,958,140

19. General and Administrative Expenses

	Nine Months Ended June 30, (Unaudited)	
	2018	2017
Rent (Note 26)	**₱1,691,876,768**	₱1,413,299,330
Communication, light and water	**1,571,240,247**	1,290,728,973
Outside services (Note 31)	**1,494,793,389**	1,235,613,584
Depreciation and amortization (Note 8)	**1,449,541,739**	1,188,303,221
Personnel costs (Notes 23 and 24)	**969,207,789**	720,368,287
Advertising and promotion	**497,553,219**	279,950,245
Trucking services	**442,297,552**	407,658,481
Warehousing services	**369,133,719**	278,427,383
Repairs and maintenance	**346,782,533**	291,020,047
Royalties (Note 25)	**329,881,555**	274,438,482
Supplies	**258,206,304**	206,953,220
Taxes and licenses	**226,424,610**	189,864,248
Inventory losses	**190,973,436**	194,096,611
Transportation and travel	**77,998,455**	60,075,532
Entertainment and representation	**25,827,415**	8,246,230
Insurance	**31,862,991**	34,741,264
Dues and subscription	**29,730,611**	27,084,390
Amortization of software and program costs (Note 10)	**–**	933,795
Others	**169,487,598**	133,081,849
	₱10,172,819,930	₱8,234,885,172

20. Marketing Income

	Nine Months Ended September 30 (Unaudited)	
	2018	2017
Promotions	**₱686,194,820**	₱475,962,353
	₱686,194,820	₱475,962,353

21. Interest Expense

	Nine Months Ended September 30 (Unaudited)	
	2018	2017
Interest on bank loans (Note 11)	**₱36,303,843**	₱41,681,287
Guaranteed preferred dividends (Note 15)	**4,023,946**	132,303
	₱40,327,789	₱41,813,590

22. Interest Income

	Nine Months Ended September 30 (Unaudited)	
	2018	2017
Bank deposits (Note 4)	**₱5,877,030**	₱5,135,293
Short term investment	**91,858**	89,480
	₱5,968,888	₱5,224,773

23. Personnel Costs

	Nine Months Ended September 30 (Unaudited)	
	2018	2017
Salaries and wages	**₱493,281,493**	₱403,296,027
Employee benefits	**442,959,474**	296,978,315
Net retirement benefits cost (Note 24)	**32,966,822**	20,093,945
	₱969,207,789	₱720,368,287

24. Retirement Benefits

The Group maintains a trusteed, non-contributory defined benefit retirement plan covering all qualified employees administered by a trustee bank under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller of the fund is the one who oversees the entire investment process.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

25. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its stockholders.

Transactions with related parties consist of:

a. PSC and CDI have transactions with PFI, a foundation with common key management of the Group, consisting of donations and noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Donations payable to PFI is presented under "Others" in the "Other current liabilities" in the consolidated balance sheets (see Note 13).

b. As at September 30, 2018 and December 31, 2017, the Group's defined benefit retirement fund has investments in shares of stock of the Parent Company with a cost of ₱122,417.

26. **Leases**

Operating Lease as Lessee

a. PSC has various lease agreements with third parties relating to its store operations. Certain agreements provide for the payment of rentals based on various schemes such as an agreed percentage of net sales for the month and fixed monthly rate.

b. In 2012, CDI entered into a 2-year lease contract for the lease of a warehouse in Cebu commencing in April 2012 until April 2014. The lease has a renewal option and is subject to an annual escalation rate of 5%. Upon expiration in April 2014, CDI renewed the lease contract for another eight months from May to December 2014. On January 1, 2015, CDI again renewed the lease contract for one year from January to December 2015.

   In 2011, CDI entered into a 10-year lease contract for the lease of its warehouse extension effective March 2011. The lease is subject to an annual escalation rate of 4.0% starting on the second year of the lease. The lease contract was transferred to PSC on January 1, 2014 and rent expenses for this lease agreement were recorded by PSC.

   In 2005, CDI entered into a 15-year operating lease contract for the lease of its warehouse effective November 1, 2005.

   On June 30, 2007, PSC has assumed the lease agreement for the warehouse and subleased the warehouse back to CDI. The lease has a renewal option and is subject to an escalation rate of 7.0% every after two years starting on the third year of the lease. In February 2013, CDI transferred the lease contract to PSC and the sublease was terminated. Rent expense related to the lease agreement was recorded by PSC.

27. **Basic/Diluted Earnings Per Share**

		Nine Months Ended September 30 (Unaudited)	
		2018	2017
a.	Net income	**₱735,318,814**	₱ 648,311,837
b.	Weighted average number of shares issued	**757,104,533**	757,104,533
c.	Less weighted average number of shares held in treasury	**686,250**	686,250
d.	Weighted average number of shares outstanding **(b-c)**	**756,418,283**	756,418,283
e.	Basic/diluted earnings per share **(a/d)**	**₱0.97**	₱0.86

The Group does not have potentially dilutive common shares as at September 30, 2018 and December 31, 2017. Thus, the basic earnings per share is equal to the diluted earnings per share as at those dates.

28. **Financial Instruments**

The comparison of the carrying value and fair value of all of the Company's financial instruments (those with carrying amounts that are not equal to their fair values) as at March 31, 2016 and December 31, 2015 are as follows:

	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Deposits				
Refundable	**50,681,361**	**50,681,361**	168,885,446	166,815,290
	₱50,681,361	**₱50,681,361**	₱168,885,446	₱166,815,290

Refundable deposits are categorized under level 3 in the fair value hierarchy.

Fair Value Information

Current Financial Assets and Financial Liabilities

Due to the short-term nature of the related transactions, the fair values of cash and cash equivalents, short-term investment, receivables (except for lease receivables), accounts payable and accrued expenses and other current liabilities approximates their carrying values as at balance sheet date.

Lease Receivable

There were no collections of lease receivable in 2017 and 2016. In 2016, the Company recorded a provision for impairment for the lease receivable amounting to ₱3,747,773. In 2017, the Company has written off the lease receivable balance as approved by the BOD.

Utility and Other Deposits

The fair value of utility and other deposits approximates its carrying value as it earns interest based on repriced market conditions.

Refundable Deposits

The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as at September 30, 2018 and December 31, 2017 ranging from 1.85% to 5.70%.

Bank Loans

The carrying value approximates fair value because of recent and monthly repricing of related interest based on market conditions.

Cumulative Redeemable Preferred Shares

The carrying value approximates fair value because corresponding dividends on these shares that are charged as interest expense in profit or loss are based on recent treasury bill rates repriced annually at year end.

Fair Value Hierarchy

The Group 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

As at June 30, 2018 and December 31, 2017, the Group has no financial instruments measured at fair value.

29. **Financial Risk Management Objectives and Policies**

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk. The BOD reviews and approves policies for managing each of these risks. The BOD also created a separate board-level entity, which is the Audit Committee, with explicit authority and responsibility in managing and monitoring risks. The Audit Committee, which ensures the integrity of internal control activities throughout the Group, develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

Listed below are the summarized risk identified by the BOD.

Credit Risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to impairment is managed to a not significant level. The Group deals only with counterparty duly approved by the BOD.

The following tables provide information regarding the maximum credit risk exposure of the Group as at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
	(Unaudited)	(Audited)
Cash and cash equivalents (excluding cash on hand)		
Cash in bank	**₱1,977,560,726**	₱1,456,726,222
Cash equivalents	**–**	25,000,000
	1,977,560,726	1,481,726,222
Short-term investment	**11,184,667**	11,184,667
Receivables		
Suppliers	**880,328,429**	306,719,353
Franchisees	**607,776,376**	818,601,577
Employees	**26,003,799**	29,145,439
Store operators	**17,859,848**	12,017,108
Rent	**2,212,713**	783,414
Due from PFI	**211,864**	212,125
Insurance receivable	**2,814,556**	1,153,106
Others	**14,217,569**	9,749,865
	1,551,425,154	1,178,381,987
Deposits (Note 9)		
Utilities	**100,930,842**	96,864,220
Refundable Deposits	**50,681,361**	168,885,446
Others	**14,683,829**	14,363,537
	166,296,032	280,113,203
Other noncurrent assets		
Noncurrent portion of:		
Due from franchisees	**11,862,224**	19,130,591
	₱3,718,328,803	₱2,970,536,670

The following tables provide information regarding the credit risk exposure of the Group by classifying assets according to the Group's credit ratings of debtors:

	September 30, 2018 (Unaudited)			
	Neither Past Due nor Impaired			
		Standard	**Past Due**	
	High Grade	**Grade**	**Or Impaired**	**Total**
Cash and cash equivalents				
Cash in bank	**₱1,977,560,726**	**₱–**	**₱–**	**₱1,977,560,726**
Cash equivalents	**–**	**–**	**–**	**–**
	1,977,560,726	**–**	**–**	**1,977,560,726**
Short-term investment	**11,184,667**	**–**	**–**	**11,184,667**
Receivables				

	September 30, 2018 (Unaudited)			
	Neither Past Due nor Impaired			
		Standard	Past Due	
	High Grade	Grade	Or Impaired	Total
Suppliers	–	683,401,368	215,299,952	898,701,320
Franchisees	–	606,646,879	5,265,289	611,912,168
Employees	–	16,154,197	11,175,185	27,329,382
Store operators	–	8,455,574	9,770,075	18,225,649
Rent	–	475,777	3,744,023	4,219,800
Due from PFI	–	211,864	–	211,864
Insurance receivable	–	2,814,556	–	2,814,556
Others	–	14,217,569	–	14,217,569
	–	1,332,377,784	245,254,523	1,577,632,308
Deposits				
Utilities	–	100,930,842	–	100,930,842
Refundable	–	50,681,361	–	50,681,361
Others	–	14,683,829	–	14,683,829
	–	166,296,032	–	166,296,032
Other noncurrent asset				
Noncurrent portion of Due From Franchisees	–	11,862,224	–	11,862,224
	₱1,988,745,393	₱1,510,536,040	₱245,254,523	₱3,744,535,957

	December 31, 2017 (Audited)			
	Neither Past Due nor Impaired		Past Due	
		Standard	Or	
	High Grade	Grade	Impaired	Total
Cash and Cash Equivalents				
Cash in banks	₱1,137,432,406	₱–	₱–	₱ 1,137,432,406
Cash equivalents	100,000,000	–	–	100,000,000
	1,237,432,406	–	–	1,237,432,406
Short-term investment	11,083,577			11,083,577
Receivables				
Franchisees	–	508,456,603	22,647,772	531,104,375
• Suppliers	–	459,424,848	130,366,374	589,791,222
• Employees	–	21,364,281	1,325,583	22,689,864
• Store operators	–	15,239,454	496,254	15,735,708
Rent	–	970,310	2,007,087	2,977,397
Due from PFI	–	4,725,698		4,725,698
Current portion of:				
Lease receivable	–	–	3,747,773	3,747,773
• Note receivable	–	–	990,917	990,917
• Insurance	–	3,749,206	–	3,749,206
• Others	–	8,242,118	–	8,242,118
	–	1,022,172,518	161,581,760	1,183,754,278
Deposits				
Refundable	–	125,904,503	–	125,904,503
Utilities	–	93,131,856	–	93,131,856
Others	–	10,344,774	–	10,344,774
	–	229,381,133	–	229,381,133
Other Noncurrent Asset				
Noncurrent portion of Due from Franchisees	–	32,751,738	–	32,751,738
	–	32,751,738	–	32,751,738
	₱1,248,515,983	₱1,284,305,389	₱161,581,760	₱2,694,403,132

The Group uses the following criteria to rate credit quality:

Class	Description
High Grade	Financial assets that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Financial assets of companies that have the apparent ability to satisfy its obligations in full.

The credit qualities of the financial assets were determined as follow:

Cash in banks and cash equivalents and short-term investment are classified as high grade, since these are deposited or transacted with reputable banks which have low probability of insolvency.

Receivables, deposits and other noncurrent asset are classified as standard grade, since these pertain to receivables considered as unsecured from third parties with good paying habits.

The following tables provide the analysis of financial assets that are past due but not impaired and past due and impaired:

	September 30, 2018 (Unaudited)					
	Aging analysis of financial assets past due but not impaired				**Past due and**	
	31 to 60 days	**61 to 90 days**	**>90 days**	**Total**	**Impaired**	**Total**
Receivables:						
Suppliers	**₱20,638,239**	**₱55,878,304**	**₱120,410,518**	**₱196,927,061**	**₱18,372,891**	**₱215,299,952**
Employees	**924,503**	**19,760**	**8,905,339**	**9,849,602**	**1,325,583**	**11,175,185**
Store operators	**699,489**	**3,481,914**	**5,222,872**	**9,404,274**	**365,801**	**9,770,075**
Franchisees	**11,916**	**25,137**	**1,092,444**	**1,129,497**	**4,135,792**	**5,265,289**
Rent	**461,628**	**140,600**	**1,134,707**	**1,736,936**	**2,007,087**	**3,744,023**
	₱22,735,775	**₱59,545,714**	**₱136,765,880**	**₱219,047,369**	**₱26,207,154**	**₱245,254,523**

	December 31, 2017 (Audited)					
	Aging analysis of financial assets past due but not impaired				Past due and	
	31 to 60 days	61 to 90 days	> 90 days	Total	Impaired	Total
Receivables:						
Franchisees	₱35,140	₱16,500	₱19,361,001	₱19,412,641	₱4,135,792	₱23,548,433
Suppliers	20,112,617	11,397,089	67,742,267	99,251,973	18,372,891	117,624,864
Store operators	1,662	–	9,800,482	9,802,144	365,801	10,167,945
Employees	408,725	383,898	7,837,408	8,630,031	1,325,583	9,955,614
Rent	202,158	271,367	309,889	783,414	2,007,087	2,790,501
	₱20,760,302	₱12,068,854	₱105,051,047	₱137,880,203	₱26,207,154	₱164,087,357

Receivables from suppliers are noninterest-bearing and are generally on 30 day to 90 day terms. There are no significant concentrations of credit risk within the Group.

Liquidity Risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. The Group seeks to manage its liquidity profile to be able to finance its capital expenditures and service its maturing debts. To cover for its financing requirements, the Group intends to use internally generated funds and sales of certain assets.

As part of its liquidity risk management program, the Group regularly evaluates projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund raising initiatives. The Group uses historical figures and experiences and forecasts of collections and disbursements.

These initiatives may include drawing of loans from the approved credit line intended for working capital and capital expenditures purposes and equity market issues.

The tables below summarize the maturity profile of the financial assets of the Group:

	September 30, 2018 (Unaudited)				
	Three months or less	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Total**
Cash and cash equivalents					
Cash on hand and in banks	**₱2,467,795,178**	**₱–**	**₱–**	**₱–**	**₱2,467,795,178**
Cash equivalents	**–**	**–**	**–**	**–**	**–**
	2,467,795,178	**–**	**–**	**–**	**2,467,795,178**
Short-term investment	**11,184,667**	**–**	**–**	**–**	**11,184,667**
Receivables:					
Suppliers	**683,401,368**	**196,927,061**	**–**	**–**	**880,328,429**
Franchisees	**606,646,879**	**1,129,497**	**–**	**–**	**607,776,376**
Employees	**16,154,197**	**9,849,602**	**–**	**–**	**26,003,799**
Store operators	**8,455,574**	**9,404,274**	**–**	**–**	**17,859,848**
Rent	**475,777**	**1,736,936**	**–**	**–**	**2,212,713**
Due from PFI	**211,864**	**–**	**–**	**–**	**211,864**
Insurance receivable	**–**	**2,814,556**	**–**	**–**	**2,814,556**
Others	**14,217,569**	**–**	**–**	**–**	**14,217,569**
	1,329,563,228	**221,861,925**	**–**	**–**	**1,551,425,154**
Deposits					
Utilities	**–**	**–**	**100,930,842**	**–**	**100,930,842**
Refundable	**–**	**1,617,519**	**49,063,842**	**–**	**50,681,361**
Others	**–**	**–**	**14,683,829**	**–**	**14,683,829**
	–	**1,617,519**	**164,678,513**	**–**	**166,296,032**
Other noncurrent asset					
Noncurrent portion of Due from Franchisees	**–**	**–**	**11,862,224**	**–**	**11,862,224**
	–	**–**	**11,862,224**	**–**	**11,862,224**
	₱3,808,543,073	**₱223,479,444**	**₱176,540,737**	**₱–**	**₱4,208,563,255**

	December 31, 2017 (Audited)				
	Three Months or Less	More than Three Months to One Year	More than One Year to Five Years	More than Five Years	Total
Cash and Cash Equivalents					
Cash on hand and in banks	₱1,943,958,985	₱–	₱–	₱–	₱1,943,958,985
Cash equivalents	25,000,000				25,000,000
	1,968,958,985	–	–	–	1,968,958,985
Short-term investment	11,184,667	–	–	–	11,184,667
Receivables					
Franchisees	799,188,936	19,412,641	–	–	818,601,577
Suppliers	207,467,380	99,251,973	–	–	306,719,353
Employees	20,515,408	8,630,031	–	–	29,145,439
Store operators	2,214,964	9,802,144	–	–	12,017,108
Rent	–	783,414	–	–	783,414
Due from PFI	212,125	–	–	–	212,125
Insurance	–	1,153,106	–	–	1,153,106
Others	6,986,198	2,763,667	–	–	9,749,865
	1,036,585,011	141,796,976	–	–	1,178,381,987
Deposits					

Refundable	–	3,465,531	165,419,915	–	168,885,446
Utilities	–	–	96,864,220	–	96,864,220
Others	–	–	14,363,537	–	14,363,537
	–	3,465,531	276,647,672	–	280,113,203
Other Noncurrent Asset					
Noncurrent portion of Due from Franchisees	–	–	19,130,591	–	19,130,591
	–	–	19,130,591	–	19,130,591
	₱3,016,728,663	₱145,262,507	₱295,778,263	₱–	₱3,457,769,433

The tables below summarize the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations:

	September 30, 2018 (Unaudited)			
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱670,000,000	₱–	₱–	₱670,000,000
Accounts payable and accrued expenses				
Trade payable	₱3,878,126,390	–	–	₱3,878,126,390
Rent	169,258,984	–	–	169,258,984
Utilities	120,019,698	–	–	120,019,698
Employee benefits	102,408,476	–	–	102,408,476
Outsourced services	89,305,716	–	–	89,305,716
Taxes and licenses	52,096,730	–	–	52,096,730
Security services	51,320,709	–	–	51,320,709
Bank charges	27,703,216	–	–	27,703,216
Repairs and maintenance	23,293,503	–	–	23,293,503
Advertising and promotion	42,279,261	–	–	42,279,261
Interest	5,941,605	–	–	5,941,605
Others	232,965,723	–	–	232,965,723
	₱4,794,720,011	–	–	₱4,794,720,011
Other current liabilities				
Non-trade accounts payable	723,264,274	335,312,420	–	1,058,576,694
Due to Franchisees	275,917,422	–	–	275,917,422
Retention payable	–	157,357,007	–	157,357,007
Royalty	33,285,048	–	–	33,285,048
Service fees payable	–	13,054,975	–	13,054,975
Others	–	52,718,111	–	52,718,111
	1,032,466,744	558,442,513	–	1,590,909,257
Long-term debt	–	331,666,667	597,644,928	860,833,334
Cumulative redeemable preferred shares	6,000,000	–	–	6,000,000
	₱6,503,186,755	₱890,109,180	₱597,644,928	₱7,990,940,863

	December 31, 2017 (Audited)			
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱662,575,861	₱–	₱–	₱662,575,861
Accounts payable and accrued expenses				
Trade payable	3,537,528,491	–	–	3,537,528,491
Utilities	112,604,014	–	–	112,604,014
Rent	135,539,062	–	–	135,539,062
Employee benefits	82,006,750	–	–	82,006,750
Advertising and promotion	8,684,931	–	–	8,684,931
Outsourced services	76,008,203	–	–	76,008,203
Bank charges	15,830,500	–	–	15,830,500
Security services	36,363,734	–	–	36,363,734
Interest	258,750	–	–	258,750

Others	169,774,022	–	–	169,774,022
	4,174,598,457	–	–	4,174,598,457
Other current liabilities		–	–	
Non-trade accounts payable	265,484,888	175,016,961		440,501,849
Retention payable	–	148,238,717	–	148,238,717
Due to Franchisees	627,697,648	–		627,697,648
Royalty	36,000,390	–	–	36,000,390
Service fees payable	–	7,646,834	–	7,646,834
Others	–	61,523,557	–	61,523,557
	929,182,926	392,426,069	–	1,321,608,995
Long-term debt	112,337,108	244,350,370	776,324,732	1,133,012,210
Cumulative redeemable preferred shares	6,000,000	–	–	6,000,000
	₱5,884,694,352	₱636,776,439	₱776,324,732	₱7,297,795,523

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's fair value and cash flows interest rate risk mainly arise from bank loans with floating interest rates. The Group is expecting to substantially reduce the level of bank loans over time. Internally generated funds coming from its cash generating units and from its franchising business will be used to pay off outstanding debts and consequently reduce the interest rate exposure.

The maturity profile of financial instruments that are exposed to interest rate risk are as follows:

	September 30,2018 (Unaudited)	December 31, 2017 (Audited)
Due in less than one year	**₱1,007,666,667**	₱991,000,000
Due in more than one year	**597,644,928**	745,833,333
Rate	**2.65%-3.64%**	2.65%-3.64%

Interest of financial instruments classified as floating rate is repriced at intervals of 30 days.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings):

	September 30, 2018 (Audited)		December 31, 2017 (Audited)	
	Increase/ Decrease in Basis Points	**Effect on Income Before Income Tax**	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans - floating interest rate	**+100**	**(₱15,993,116)**	+100	(₱17,308,333)
	-100	**15,993,116**	-100	17,308,333

There is no other impact on the Group's equity other than those already affecting profit or loss.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group's foreign exchange exposure arises from holding foreign currency denominated rates, cash and cash equivalents, loans and receivables and merchandise sale to foreign entity. In order to balance this exposure, the Group has some sales denominated in foreign currency and maintains a foreign currency accounts in a reputable commercial bank. The Group does not enter into derivatives to hedge the exposure.

30. **Capital Management**

The primary objective of the Group'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. In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks.

The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% to 50% in relation to its total assets. The Group's net worth ratio is 42% and 43% as at September 30, 2018 and 2017, respectively. No changes were made in the objectives, policies and processes during the year.

	September 30 (Unaudited)	
	2018	2017
Common stock	**₱757,104,533**	₱459,121,573
Additional paid-in capital	**293,525,037**	293,525,037
Retained earnings	**5,426,252,378**	4,644,352,609
	6,476,881,948	5,396,999,219
Less cost of shares held in treasury	**2,923,246**	2,923,246
	6,473,958,702	5,394,075,973
Total assets	**₱15,570,452,004**	₱12,509,779,212
Net worth	**42%**	43%

31. **Significant Agreements**

a. Franchise Agreements

The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Details follow:

	Nine Months Ended September 30 (Unaudited)	
	2018	2017
Share in gross profit of franchisees	**₱1,913,817,781**	₱1,620,521,813
Rent, utilities and other expenses	**705,149,788**	608,107,812
Franchise fee	**113,588,167**	95,401,838
	₱2,732,555,736	₱2,324,031,463

b. Service Agreements

The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services shown as part of "Outside services" in "General and administrative expenses" account.

c. Commission Income

The Group has entered into agreements with a phone card supplier and various third parties. Under the arrangements, the Group earns commission on the sale of phone cards and collection of bills payments based on a certain percentage of net sales and collections for the month and a fixed monthly rate. Commission income amounted to ₱11 million, and ₱8.9 million for the three months ended March 31, 2015 and 2014respectively.

d. 2014 Exclusivity Contract
In 2014, the Group has entered into a 3-year exclusivity contract with a third party ice cream distributor in the Philippines effective January 2014 to December 2016. The contract indicates that the third party ice cream distributor will exclusively supply all ice cream products of 7-Eleven stores. The Group received a one-time signing bonus amounting to ₱75,000,000 upon the effectivity of the exclusivity supply contract amortized over three years.

e. Memorandum of Agreement (MOA) with Chevron Philippines, Inc.
The Group has entered into MOA with Chevron Philippines, Inc. (CPI) on August 6, 2009, wherein CPI has granted the Group as authorized co-locator for a full term of three-years to establish operate and/or franchise its 7-Eleven stores in CPI service stations. Both parties have identified 22 CPI service stations, wherein the Group will give the Retailers of these service stations a Letter Offer to Franchise (LOF) 7-Eleven stores. Upon acceptance of the Retailers of the LOF, the Retailers will sign a Store Franchise Agreement (SFA) with the Group. If LOF is not accepted by one of the 22 original service stations identified, that service station will be replaced with another mutually acceptable service station site.

Upon signing of the MOA, CPI executed a Caltex Retail Agreement with each of the 22 service station Retailers, which shall have a full term of three years and which will be co-terminus with the SFA.

32. Segment Reporting

The Group considers the store operations as its only business segment based on its primary business activity. Franchising, renting of properties and commissioning on bills payment services are considered an integral part of the store operations. The Group's identified operating segments below are consistent with the segments reported to the BOD, which is the Chief Operating Decision Maker of the Group.

The products and services from which the store operations derive its revenues from are as follows:
- Merchandise sales
- Franchise revenue
- Marketing income
- Rental income
- Commission income
- Interest income

The aforementioned revenues are all revenues from external customers.

The segment's relevant financial information is as follows:

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
Revenue		
Revenue from merchandise sales	**₱28,317,204,199**	₱23,066,661,536
Franchise revenue	**2,732,555,736**	2,324,031,463
Marketing income	**686,194,820**	475,962,353
Commission income	**160,513,068**	86,022,403
Rental income	**50,603,333**	53,488,013
Interest income	**5,968,888**	5,224,773
Other income	**214,574,236**	205,816,358
	32,167,614,280	26,217,206,899

	Nine Months Ended September 30, (Unaudited)	
	2018	2017
Expenses		
Cost of merchandise sales	**20,869,647,663**	16,991,958,140
General and administrative expenses:		
Depreciation and amortization	**1,449,541,739**	1,188,303,221
Others	**8,723,278,191**	7,046,581,951
Interest expense	**40,327,789**	41,813,590
Other expenses	**31,847,556**	22,872,988
	31,114,642,938	25,291,529,890
Income Before Income Tax	**1,052,971,342**	925,677,009
Provision for Income Tax	**317,652,528**	277,365,172
Segment Profit	**735,318,814**	648,311,837
Segment Assets	**₱15,570,452,004**	₱12,509,779,212
Segment Liabilities	**₱9,114,374,286**	₱8,403,175,446

33. Provisions and Contingencies

The Group is a party to various litigations and claims. All cases are in the normal course of business and are not deemed to be considered as material legal proceedings. Further, the cases are either pending in courts or under protest, the outcome of which are not presently determinable. Management and its legal counsel believe that the liability, if any, that may result from the outcome of these litigations and claims will not materially affect their financial position or financial performance.

34. Note to Consolidated Statements of Cash Flows

The principal non-cash transaction of the Group under financing activities pertains to the issuance of stock dividends (see Note 17).