



111142013001756



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

### Barcode Page

The following document has been received:

**Receiving Officer/Encoder** : Dharril Curañes  
**Receiving Branch** : SEC Head Office  
**Receipt Date and Time** : November 14, 2013 01:49:06 PM  
**Received From** : Head Office

Company Representative

---

Doc Source

Company Information

---

**SEC Registration No.** 0000108476  
**Company Name** PHIL. SEVEN CORP.  
**Industry Classification**  
**Company Type** Stock Corporation

**Document Information**

---

**Document ID** 111142013001756  
**Document Type** 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)  
**Document Code** 17-Q  
**Period Covered** September 30, 2013  
**No. of Days Late** 0  
**Department** CFD  
**Remarks**

# COVER SHEET

0	0	0	0	1	0	8	4	7	6
---	---	---	---	---	---	---	---	---	---

S.E.C Registration Number

P	H	I	L	I	P	P	I	N	E																
---	---	---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

S	E	V	E	N																					
---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

C	O	R	P	O	R	A	T	I	O	N														
---	---	---	---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

(Company's full Name)

7	t	h	F	i	r	.	T	h	e	C	o	l	u	m	b	i	a	T	o	w	e	r
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

O	r	t	i	g	a	s	A	v	e	M	a	n	d	a	l	u	y	o	n	g	C	i	t	y
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

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

**Atty. Evelyn S. Enriquez**  
Corporate Secretary

Contact Person

**724-44-41 to 51**

Company Telephone Number

1	2		3	1
---	---	--	---	---

Month              Day  
Fiscal Year

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

FORM TYPE

0	7		<b>3<sup>rd</sup> Thursday</b>
---	---	--	--------------------------------

Month              Day  
Annual Meeting

**3RD QUARTER REPORT**

Secondary License Type, if Applicable

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Dept. Requiring this Doc.  
Number/Section

Amended

Articles

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

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 purposes

# 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

- For the quarterly period ended September 30, 2013
- Commission identification number
- BIR Tax Identification No : 000-390-189-000
- Exact name of registrant as specified in its charter :

#### PHILIPPINE SEVEN CORPORATION

- Country of incorporation : **PHILIPPINES**
- Industry Classification Code:  (SEC Use Only)
- Address of registrant's principal office : 7<sup>TH</sup> Floor, The Columbia Tower  
Ortigas Avenue, Mandaluyong City  
1501
- Telephone number : (632) 724-44-41 to 51
- Former name, former address and former fiscal year, if changed since last report
- 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 : 458,435,323  
Warrants : -0-

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

Yes [  ] No [  ]

*Stock Exchange:* *Class/es of Securities listed*

Philippine Stock Exchange - Common

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

Yes [  ] No [  ]

b. Has been subject 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 11, 2013



Signature and Title: **PING-HUNG CHEN**  
Treasurer and CFO

Date: November 11, 2013

November 11, 2013

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building

EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of September 30, 2013, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

- We are responsible for the fair presentation of the financial statements in conformity with the generally accepted accounting principles.
- 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.
    - 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.
        - The accounting records underlying the financial statements accurately and fairly reflect the transactions of the company.
        - 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.
        - Provision has been made for any material loss to be sustained.
        - 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.

  
**PING-HUNG CHEN**  
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, 2013. 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

**PING-HUNG CHEN**  
Treasurer and CFO

NOV 08 2013  
DAY OF  
CITY EXHIBITING  
HIS/HER ID CARD  
ID NO.

**ATTY. RAMON L. CARIPIO**  
NOTARY PUBLIC

UNTIL DEC. 31, 2013  
ROLL No. 39-172-TW/06-910-897  
MCLE No. 10-003830-10 No. 913609  
PTR No. 8410101 ISSUED ON JAN. 2, 2013 AT PASIG CITY

DOC NO. 268  
PAGE NO. 54  
BOOK NO. 4  
SERIES OF 2013

## Part 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

A.	Unaudited Consolidated Balance Sheets as of September 30,2013 and Audited Balance Sheet as of December 31,2012	2
B.	Unaudited Consolidated Statements of Comprehensive Income for the Three Months Ended September 30, 2013, 2012 and 2011	4
C.	Unaudited Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2013, 2012 and 2011	6
D.	Unaudited Consolidated Statements of Cash Flow for the Three Months Ended September 30, 2013, 2012 and 2011	7
E.	Notes to Unaudited Consolidated Financial Statements	9
F.	Annex 1: Schedule of Receivables as of September 30,2013	51

### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations in 2013 (pages 52-59).

# Philippine Seven Corporation and Subsidiaries

Unaudited Consolidated Financial Statements  
As of September 30, 2013 and 2012  
and for the Quarters Ended September 30, 2013, 2012 and 2011



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	<b>As of</b>	
	<b>Sep. 30, 2013</b>	<b>Dec. 31, 2012</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	₱ 642,235,491	₱ 415,285,569
Short-term investment	10,632,115	10,632,115
Receivables (Note 5)	266,843,662	374,597,843
Inventories - at cost (Note 6)	867,602,452	726,986,563
Prepayments and other current assets (Note 7)	497,986,984	259,007,887
<b>Total Current Assets</b>	<b>2,285,300,705</b>	<b>1,786,509,977</b>
<b>Noncurrent Assets</b>		
Property and equipment (Note 8)	2,505,830,070	2,276,921,044
Deposits (Note 9)	283,963,914	249,418,061
Deferred income tax assets - net (Note 27)	42,924,597	43,009,798
Goodwill and other noncurrent assets (Note 10)	95,584,239	208,489,602
<b>Total Noncurrent Assets</b>	<b>2,928,302,821</b>	<b>2,777,838,505</b>
<b>TOTAL ASSETS</b>	<b>₱ 5,213,603,526</b>	<b>₱4,564,348,482</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans (Note 11)	470,000,000	₱477,777,778
Accounts payable and accrued expenses (Note 12)	1,563,025,852	1,261,289,989
Income tax payable	70,677,083	105,144,142
Other current liabilities (Notes 13 and 25)	533,271,636	541,881,392
<b>Total Current Liabilities</b>	<b>2,636,974,572</b>	<b>2,386,093,301</b>
<b>Noncurrent Liabilities</b>		
Deposits payable (Note 14)	197,973,065	181,901,238
Net retirement obligations (Note 24)	53,787,970	61,120,420
Cumulative redeemable preferred shares (Note 15)	6,328,193	6,000,000
Deferred revenue - net of current portion (Note 16)	861,597	2,643,179
<b>Total Noncurrent Liabilities</b>	<b>258,950,824</b>	<b>251,664,837</b>
<b>Total Liabilities</b>	<b>₱2,895,925,396</b>	<b>₱ 2,637,758,138</b>

(Forward)

	As of	
	Sep. 30, 2013 (Unaudited)	Dec. 31, 2012 (Audited)
<b>Equity</b>		
Capital stock (Note 17) - ₱1 par value		
Authorized - 600,000,000 and 400,000,000 shares as of December 31, 2012 and 2011, respectively		
Issued – 399,325,661 and 347,329,216 shares as of December 31, 2012 and 2011, respectively		
[held by 656 and 666 equity holders in 2012 and 2011, respectively (Note 1)]	₱ 459,121,573	₱ 399,325,661
Additional paid-in capital	293,525,037	293,525,037
Retained earnings (Note 17)	1,564,724,872	1,233,432,997
Other component of equity - revaluation increment on land [net of deferred income tax liability (Notes 8 and 27)]	3,229,895	3,229,895
	<b>2,320,601,377</b>	1,929,513,590
Cost of 686,250 shares held in treasury	<b>(2,923,246)</b>	(2,923,246)
<b>Total Equity</b>	<b>2,317,678,131</b>	1,926,590,344
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱ 5,213,603,526</b>	₱ 4,564,348,482

See accompanying Notes to Consolidated Financial Statements.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Three Months Ended September 30 (Unaudited)</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>REVENUE</b>			
Revenue from merchandise sales	₱3,376,751,484	₱ 2,762,429,823	₱2,202,798,398
Franchise revenue (Note 32)	370,297,286	172,058,319	132,810,517
Marketing income (Note 20)	74,702,454	80,866,700	36,646,340
Rent income (Note 26)	9,191,874	17,270,200	16,839,021
Commission income (Note 32)	14,431,158	18,393,363	9,268,651
Interest income (Notes 9, 22 and 26)	935,088	693,352	487,586
Other income (Note 32)	13,486,112	29,228,356	16,990,118
	<b>3,859,795,454</b>	<b>3,080,940,113</b>	<b>2,415,840,630</b>
<b>EXPENSES</b>			
Cost of merchandise sales (Note 18)	2,592,549,008	2,034,751,478	1,546,688,770
General and administrative expenses (Note 19)	1,067,270,459	958,125,827	780,913,600
Interest expense (Notes 11, 15 and 21)	3,424,413	4,231,826	3,933,287
Other expenses	3,886,544	(2,122,512)	1,847,041
	<b>3,667,130,423</b>	<b>2,994,986,619</b>	<b>2,333,382,698</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>192,665,031</b>	<b>85,953,494</b>	<b>82,457,932</b>
<b>PROVISION FOR INCOME TAX</b> (Note 27)	<b>57,799,509</b>	<b>25,786,048</b>	<b>26,451,154</b>
<b>NET INCOME</b>	<b>134,865,522</b>	<b>60,167,446</b>	<b>56,006,778</b>
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>134,865,522</b>	<b>60,167,446</b>	<b>56,006,778</b>
<b>BASIC/DILUTED EARNINGS PER</b>			
<b>SHARE</b> (Note 28)	<b>0.29</b>	<b>0.13</b>	<b>0.12</b>

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Nine Months Ended September 30 (Unaudited)</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>REVENUE</b>			
Revenue from merchandise sales	<b>10,359,701,984</b>	8,484,265,248	6,398,035,295
Franchise revenue (Note 32)	<b>1,049,955,833</b>	487,401,798	380,812,526
Marketing income (Note 20)	<b>205,280,291</b>	179,139,719	89,130,126
Rent income (Note 26)	<b>21,075,009</b>	42,993,616	39,273,693
Commission income (Note 32)	<b>47,593,307</b>	48,214,981	26,832,392
Interest income (Notes 9, 22 and 26)	<b>2,583,455</b>	2,072,854	1,553,198
Other income (Note 32)	<b>36,831,918</b>	45,552,263	46,357,364
	<b>11,723,021,799</b>	9,289,640,480	6,981,994,595
<b>EXPENSES</b>			
Cost of merchandise sales (Note 18)	<b>7,877,761,921</b>	6,185,586,424	4,512,299,362
General and administrative expenses (Note 19)	<b>3,214,793,911</b>	2,768,941,473	2,207,158,810
Interest expense (Notes 11, 15 and 21)	<b>12,346,356</b>	11,429,969	11,751,941
Other expenses	<b>5,902,855</b>	3,073,864	(5,949,502)
	<b>11,110,805,044</b>	8,969,031,731	6,725,260,611
<b>INCOME BEFORE INCOME TAX</b>	<b>612,216,755</b>	320,608,749	256,733,984
<b>PROVISION FOR INCOME TAX</b> (Note 27)	<b>181,265,027</b>	96,182,625	81,988,649
<b>NET INCOME</b>	<b>430,951,728</b>	224,426,124	174,745,335
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>430,951,728</b>	224,426,124	174,745,335
<b>BASIC/DILUTED EARNINGS PER</b>			
<b>SHARE</b> (Note 28)	<b>0.94</b>	0.49	0.38

*See accompanying Notes to Consolidated Financial Statements.*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010 AND AS OF SEPTEMBER 30, 2013 AND 2012**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Total	Treasury Stock	Total
<b>BALANCES AS OF DECEMBER 31, 2010</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>574,482,384</b>	<b>3,229,895</b>	<b>1,173,352,234</b>	<b>(2,923,246)</b>	<b>1,170,428,988</b>
Stock dividends (Note 17)	45,214,298	-	(45,214,298)	-	-	-	-
Cash dividends (Note 17)	-	-	(30,142,867)	-	(30,142,867)	-	(30,142,867)
Total comprehensive income for the year	-	-	356,342,989	-	356,342,989	-	356,342,989
<b>BALANCES AS OF DECEMBER 31, 2011</b>	<b>347,329,216</b>	<b>293,525,037</b>	<b>855,468,208</b>	<b>3,229,895</b>	<b>1,499,552,356</b>	<b>(2,923,246)</b>	<b>1,496,629,110</b>
Stock dividends (Note 17)	51,996,445	-	(51,996,445)	-	-	-	-
Cash dividends (Note 17)	-	-	<b>(34,664,297)</b>	-	<b>(34,664,297)</b>	-	<b>(34,664,297)</b>
Total comprehensive income for the year	-	-	464,625,531	-	464,625,531	-	464,625,531
<b>BALANCES AS OF DECEMBER 31, 2012</b>	<b>399,325,661</b>	<b>293,525,037</b>	<b>1,233,432,997</b>	<b>3,229,895</b>	<b>1,929,513,590</b>	<b>(2,923,246)</b>	<b>1,926,590,344</b>
Stock dividends (Note 17)	<b>59,795,912</b>	-	<b>(59,795,912)</b>	-	-	-	-
Cash dividends (Note 17)	-	-	<b>(39,863,941)</b>	-	<b>(39,863,941)</b>	-	<b>(39,863,941)</b>
Total comprehensive income for the Quarter	-	-	430,951,728	-	430,951,728	-	430,951,728
<b>BALANCES AS OF SEPTEMBER 30, 2013</b>	<b>459,121,573</b>	<b>293,525,037</b>	<b>1,564,724,872</b>	<b>3,229,895</b>	<b>2,320,601,377</b>	<b>(2,923,246)</b>	<b>2,317,678,131</b>
<b>BALANCES AS OF SEPTEMBER 30, 2012</b>	<b>347,329,216</b>	<b>293,525,037</b>	<b>1,045,230,035</b>	<b>3,229,895</b>	<b>1,689,314,183</b>	<b>(2,923,246)</b>	<b>1,686,390,937</b>

*See accompanying Notes to Consolidated Financial Statement*

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended September (Unaudited)		
	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	192,665,031	85,953,494	82,457,933
<u>Adjustments for:</u>			
Depreciation and amortization	183,398,784	130,685,364	96,093,131
Interest expense	3,424,413	4,231,826	3,933,287
Interest income	935,088	693,352	487,586
Net retirement obligations	(2,261,970)	224,922	(12,078)
<u>Amortization of:</u>			
Deferred revenue on exclusivity contract	-	-	2,519,070
Software and other program costs	127,373	372,619	1,113,062
<b>Operating income before working capital changes</b>	<b>378,288,719</b>	<b>222,161,577</b>	<b>186,591,992</b>
<u>Decrease (increase) in:</u>			
Receivables	(102,639,459)	(27,120,783)	(128,530,890)
Inventories	(47,399,631)	13,970,158	(1,190,937)
Prepayments and other current assets	(15,531,548)	(16,393,941)	(76,801,500)
<u>Increase (decrease) in:</u>			
Accounts payable and accrued expenses	206,281,890	(187,165,704)	(21,874,449)
Other current liabilities	(117,675,965)	(10,158,801)	48,736,695
Deposits payable	(9,875,123)	(53,745,598)	96,973,090
Deferred revenue (Notes 16 and 32)			
<b>Cash generated from operations</b>	<b>291,448,884</b>	<b>(58,453,090)</b>	<b>103,904,000</b>
Income taxes paid	(69,153,655)	(44,423,991)	(44,949,143)
Interest received	(935,088)	(693,352)	(487,586)
<b>Net cash from operating activities</b>	<b>221,360,141</b>	<b>(103,570,433)</b>	<b>58,467,271</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<u>Additions to (Amortization of):</u>			
Property and equipment	(277,600,629)	(193,861,044)	(165,804,326)
Software and other program costs	(127,373)	(372,619)	(1,113,062)
<u>Decrease (increase) in:</u>			
Deposits	(14,868,652)	(9,674,707)	(7,149,425)
Goodwill and other noncurrent assets	(149,451)	99,726,064	(175,779)
Collection of lease receivable			
<b>Net cash used in investing activities</b>	<b>(292,746,105)</b>	<b>(104,182,306)</b>	<b>(174,242,593)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bank loans	-	210,000,000	
Payments of bank loans	-	(5,333,333)	(2,000,000)
Interest paid	(3,424,413)	(4,231,826)	(3,933,287)
Cash dividends paid	(39,863,941)	(34,664,297)	(30,142,868)
<b>Net cash used in financing activities</b>	<b>(43,288,354)</b>	<b>165,770,544</b>	<b>(36,076,156)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(114,674,318)</b>	<b>(41,982,194)</b>	<b>(151,851,477)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF QTR.</b>	<b>756,909,810</b>	<b>319,561,921</b>	<b>404,058,844</b>
<b>CASH AND CASH EQUIVALENTS AT END OF 3rd Qtr</b>	<b>642,235,491</b>	<b>277,579,726</b>	<b>252,207,367</b>

See accompanying Notes to Consolidated Financial Statements

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September (Unaudited)		
	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	612,216,754	320,608,748	256,733,983
<u>Adjustments for:</u>			
Depreciation and amortization	496,755,892	366,993,251	271,715,597
Interest expense	12,346,356	11,429,969	11,751,941
Interest income	2,583,455	11,072,854	1,553,198
<u>Amortization of:</u>			
Deferred revenue on exclusivity contract	-	-	2,519,663
Software and other program costs	1,012,651	1,117,856	2,226,122
<b>Operating income before working capital changes</b>	<b>1,124,915,108</b>	<b>711,222,679</b>	<b>546,500,505</b>
<u>Decrease (increase) in:</u>			
Receivables	107,754,181	(42,592,167)	(47,059,324)
Inventories	(140,615,889)	37,895,850	13,275,147
Prepayments and other current assets	(238,979,097)	(196,187,242)	(133,973,712)
<u>Increase (decrease) in:</u>			
Accounts payable and accrued expenses	301,735,863	(228,533,730)	(122,467,090)
Other current liabilities	(8,678,905)	46,145,133	105,770,758
Deposits payable	16,071,827	47,612,790	123,629,268
Deferred revenue (Notes 16 and 32)			
Net retirement obligations	(7,332,450)	(10,569,346)	3,845,762
<b>Cash generated from operations</b>	<b>1,154,870,637</b>	<b>364,993,966</b>	<b>489,521,313</b>
Income taxes paid	(215,732,085)	(139,543,685)	(91,575,510)
Interest received	(2,583,455)	(11,072,854)	(1,553,198)
<b>Net cash from operating activities</b>	<b>936,555,097</b>	<b>214,377,427</b>	<b>396,392,605</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<u>Additions to (Amortization of):</u>			
Property and equipment	(725,664,918)	(570,272,821)	(507,819,518)
Software and other program costs	(1,012,651)	(1,117,856)	(2,226,122)
<u>Decrease (increase) in:</u>			
Deposits	(34,545,853)	(22,504,725)	(34,959,712)
Goodwill and other noncurrent assets	111,606,322	110,050,774	7,318,722
Collection of lease receivable			
<b>Net cash used in investing activities</b>	<b>(649,617,100)</b>	<b>(483,844,628)</b>	<b>(537,686,631)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bank loans	-	210,000,000	-
Payments of bank loans	(7,777,778)	(11,555,556)	76,666,667
Interest paid	(12,346,356)	(11,429,969)	(11,751,941)
Cash dividends paid	(39,863,941)	(34,664,297)	(30,142,867)
<b>Net cash used in financing activities</b>	<b>(59,988,075)</b>	<b>152,350,178</b>	<b>34,771,858</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>226,949,922</b>	<b>(117,117,023)</b>	<b>(106,522,167)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>415,285,569</b>	<b>394,696,749</b>	<b>358,729,534</b>
<b>CASH AND CASH EQUIVALENTS AT END OF 3rd Qtr</b>	<b>642,235,491</b>	<b>277,579,726</b>	<b>252,207,367</b>

See accompanying Notes to Consolidated Financial Statements

## **PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

---

#### **1. Corporate Information and Authorization for Issuance of 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 29, 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 foodstuffs, 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 56.59% of the Company’s outstanding shares. The remaining 43.41% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC, incorporated in Taiwan, Republic of China).

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 2012 and 2011, the Company has 666 and 684 equity holders, respectively.

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

##### Authorization for Issuance of the Financial Statements

The consolidated financial statements as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issue by the Board of Directors (BOD) on February 18, 2013.

---

#### **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 Company’s functional currency and all amounts are rounded to the nearest Peso except when otherwise indicated.

##### Statement of Compliance

The consolidated financial statements, which are prepared for submission to the SEC, are prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS also includes Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).



### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and PAS, which were adopted on January 1, 2012.

- **Amendments to PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets***  
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- **Amendments to PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets***  
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

The Group has parcels of land under PAS 16 carried under the revaluation model. These assets are all classified as ordinary assets for income tax purposes. As the jurisdiction in which the Group operates does not have a different tax rate for 'sale' or 'use' basis of assets classified as ordinary assets for income tax purposes, the amendment has no impact on the consolidated financial statements of the Group.

### New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2012

The Group will adopt the following standards, interpretations and amendments to existing standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these standards, interpretations and amendments to existing standards to have a significant impact on the consolidated financial statements.

Title	Subject	Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	<input type="checkbox"/>	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	<input type="checkbox"/>	
Amendments to PFRS 1	Government Loans	<input type="checkbox"/>	<input type="checkbox"/>
Amendments to PFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	<input type="checkbox"/>	
PFRS 10	Consolidated Financial Statements	<input type="checkbox"/>	
PFRS 11	Joint Arrangements	<input type="checkbox"/>	<input type="checkbox"/>
PFRS 12	Disclosure of Interest with Other Entities	<input type="checkbox"/>	
PFRS 13	Fair Value Measurement	<input type="checkbox"/>	

*Effective in 2013*

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
- c) The net amounts presented in the balance sheet;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

This is presented separately for financial assets and financial liabilities recognized at the end of the balance sheet period. The amendments to PFRS 7 are to be applied retrospectively and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*  
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

A reassessment of control was performed by the Company in accordance with the provisions of PFRS 10. The Company determined that there will be no change in the composition of subsidiaries currently included in the consolidated financial statements.

- PFRS 11, *Joint Arrangements*  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.
- PFRS 12, *Disclosure of Interest with Other Entities*  
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013. Adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- *PFRS 13, Fair Value Measurement*  
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

The Group is currently assessing the impact of adopting this standard, but based on preliminary analyses, no material impact is expected, apart from additional disclosures required by the standard.

- *Amendments to PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI*  
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI. The amendments affect presentation only and have no impact on the Group’s financial position or performance.
- *Amendment to PAS 19, Employee Benefits (Revised)*  
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The accounts below are expected to increase (decrease) as follows:

Consolidated balance sheets

	As at December 31, 2012	As at January 1, 2012
Net retirement obligations	₱24,892,273	₱25,063,278
Deferred income tax asset	7,467,682	7,518,983
Retained earnings	(17,424,591)	(17,544,295)

Consolidated statements of comprehensive income

	2012	2011
Net retirement benefits cost	(₱786,417)	(₱600,386)
Income tax expense	235,925	180,116
Net income for the year	550,492	420,270
Other comprehensive income	(430,788)	(7,183,143)
Total comprehensive income	119,704	(6,762,873)

- *Amendment to PAS 27, Separate Financial Statements (Revised)*  
As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- Amendment to PAS 28, *Investments in Associates and Joint Ventures (Revised)*  
As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28, *Investments in Associates*, has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). The interpretation becomes effective for annual periods beginning on or after January 1, 2013. The new interpretation is not relevant to the Group.

#### *Effective in 2014*

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*  
The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

#### *Effective in 2015*

- PFRS 9, *Financial Instruments*  
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

The adoption of the first phase of PFRS 9 may have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

As of December 31, 2012, the Group did not conduct an evaluation of the impact of PFRS 9 in its consolidated financial statements. The Group did not early adopt PFRS 9 in its December 31, 2012 consolidated financial statements. The Group will assess the impact of PFRS 9 in its consolidated financial statements upon completion of all phases of PFRS 9.

#### *Effective date to be determined*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have

deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

*Annual Improvements to PFRSs (2009-2011 cycle)*

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*  
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
  
- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
  
- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
  
- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distributions to Holders of Equity Instruments*  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Group expects that this amendment will not have any impact on its financial position or performance.
  
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

### Basis of Consolidation

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

	Country of Incorporation	Percentage of Ownership
Convenience Distribution, Inc. (CDI)	Philippines	100
Store Sites Holding, Inc. (SSHI)	Philippines	100

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies through interlocking directorships such that substantial benefits from the subsidiaries' activities flow to the Company. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases. The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date of acquisition or up to the date of the disposal, as appropriate.

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 balance sheet 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) financial assets, 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 of December 31, 2012 and 2011, the Group has no financial assets or liabilities at FVPL, HTM financial assets and AFS financial assets.

The Group's financial instruments are as follows:

a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently carried either at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. 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 of December 31, 2012 and 2011 (see Note 29).

b. 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, and cumulative redeemable preferred shares as of December 31, 2012 and 2011 (see Note 29).

#### Determination of Fair Value

The fair value of financial instruments traded in active markets at 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 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 traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

#### Day 1 Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference.

#### Offsetting Financial Instruments

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.

#### Impairment of Financial Assets

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*

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.

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.

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.

#### Derecognition of Financial Assets and Liabilities

##### *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.



### Inventories

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.

### Prepayments and Other Current Assets

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.

Advances to suppliers are downpayments 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.

### Property and Equipment

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 balance sheet 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 tax” account in equity. However, to the extent that the Group reverses a revaluation deficit 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.

#### 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 cash generating unit 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” 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.

#### Impairment of Non-financial Assets

The Group assesses at each balance sheet date whether there is an indication that its non-financial assets such as property and equipment, 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 cash generating unit’s fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. For land, the asset’s recoverable amount is the land’s net selling price, which may be obtained from its sale in an arm’s length transaction. 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 property and equipment 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 cash-generating unit or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount of the cash-generating unit or group of cash-generating units 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 sub lessees 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.

#### *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.

#### 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.

#### *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.

#### Costs and Expenses Recognition

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.

#### Other Comprehensive Income

Other comprehensive income comprises items of income and expense (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS.

#### Retirement Benefits

Retirement benefits cost is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous balance sheet year exceeded 10% of the higher of the present value of the retirement obligations and the fair value of the net plan assets as of that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to the plan, past service cost is recognized immediately.

The net retirement obligation is the aggregate of the present value of the retirement obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of the net plan assets out of which obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refund from the plan or reductions in the future contributions to the plan.

### Leases

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 re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstance gave rise to the re-assessment 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

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 directly in equity is recognized in profit or loss.

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 "Accounts payable and accrued expenses" 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 (Loss) Per Share

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

Diluted earnings (loss) per share is calculated by dividing the net income or (loss) 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 (loss) 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.

---

## 1. **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 of 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 Company, the functional currency of the Company has been determined to be the Peso. The Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenue, costs and expenses of the Company.

##### *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 financial assets, 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 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 29).

#### *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).

#### *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.

As of December 31, 2012 and 2011, the Group has not identified any indicators or circumstances that would indicate that the Group's property and equipment, rent deposits and software and program costs are impaired. Thus, no impairment losses on these non-financial assets were recognized in the years ended December 31, 2012, 2011 and 2010. The carrying value of these non-financial assets is as follows:

	<b>2012</b>	<b>2011</b>
Property and equipment (Note 8)	<b>₱2,276,921,044</b>	₱1,946,032,976
Rent deposits (Note 9)	<b>183,893,042</b>	155,379,984
Software and program costs (Note 10)	<b>1,183,651</b>	2,484,126

#### Estimates

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 asking 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 market observable prices exist, options pricing models, and other relevant valuation models.

Note 29 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.

The carrying value of loans and receivables amounted to ₱869,050,177 and ₱710,118,389 as of December 31, 2012 and 2011, respectively (see Note 29). Allowance for impairment on loans and receivables amounted to ₱8,227,261 and ₱7,438,483 as of December 31, 2012 and 2011, respectively (see Note 5). Provision for impairment amounted to ₱788,778, ₱3,810,991 and ₱1,622,883 in 2012, 2011 and 2010, respectively (see Notes 5 and 19).

#### *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.

The carrying value of inventories amounted to ₱726,986,563 and ₱519,258,936 as of December 31, 2012 and 2011, respectively (see Note 6). No provisions for decline in inventory value were recognized in 2012, 2011 and 2010.

#### *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 balance sheet period and updated if expectations differ materially from previous estimates.

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱2,276,921,044 and ₱1,946,032,976 as of December 31, 2012 and 2011, respectively (see Note 8). The carrying amount of software and program cost amounted to ₱1,183,651 and ₱2,484,126 as of December 31, 2012 and 2011, respectively (see Note 10).

#### *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.

The last appraisal made on the Group's parcels of land was on February 5, 2007, where it resulted to an appraisal increase of ₱3,229,895, net of ₱1,384,249 deferred income tax liability. The Group believes that carrying value of the revalued parcels of land as of December 31, 2012 and 2011 amounting to ₱44,481,000 does not materially differ from its fair value as of these balance sheet dates (see Note 8).

#### *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 cash-generating units 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 cash-generating unit 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 cash-generating units exceeds the carrying amount of the unit, including goodwill as of December 31, 2012 and 2011. The carrying value of goodwill amounted to ₱65,567,524 as of December 31, 2012 and 2011 (see Note 10). No impairment losses were recognized in 2012, 2011 and 2010 (see Note 10).

#### *Estimation of Retirement Benefits*

The determination of the net retirement obligation and related expense is dependent on management's assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 24 and include, among others, discount rates per annum, expected annual rate of return on plan assets and salary rate increase. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

#### *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.

As of December 31, 2012 and 2011, the Group has provision for litigation losses amounting to ₱7,066,290 and is reported as part of "Others" under "Accounts payable and accrued expenses" in the consolidated balance sheets (see Note 12). Provisions and contingencies are further explained in Note 34.

---

#### **4. Cash and Cash Equivalents and Short-Term Investment**

	<b>Sep. 2013</b>	Dec. 2012
Cash on hand and in banks	<b>642,235,491</b>	₱415,285,569
Cash equivalents	-	
	<b>642,235,491</b>	<b>₱415,285,569</b>

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

	Sep. 2013	Dec. 2012
Suppliers	P 135,797,725	P139,512,975
Franchisee	28,357,732	184,444,213
Insurance receivable	453,834	614,135
Employees	12,648,313	12,993,209
Store operators	83,707,794	P19,452,194
Rent	5,105,332	5,638,673
Current portion of lease receivable - net of unearned interest income amounting to P197,221 and P291,204 as of December 31, 2012 and 2011, respectively (Note 26)	1,394,058	1,394,060
Deposits	1,009,864	1,009,864
Due from Philseven Foundation, Inc. (PFI)(Note 25)	1,951,209	1,637,912
Others	7,645,063	16,127,869
	<b>278,070,923</b>	382,825,104
Less allowance for impairment	11,227,261	8,227,261
	<b>266,843,662</b>	<b>P374,597,843</b>

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Franchisees - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - includes car loans, salary loans and cash shortages from stores which are charged to employees.
- Rent - pertains to receivables from sublease agreements with third parties, which are based on an agreed fixed monthly rate or as agreed upon by the parties.
- Store operators - pertains to the advances given to third party store operators under service agreements (see Note 32).

Receivables are noninterest-bearing and are generally on 30 to 90 day terms except for lease receivable with a 7% interest rate per annum.

Movements in allowance for impairment are as follows:

	Sep. 2013		
	Suppliers	Others	Total
Beginning balances	2,277,954	5,949,307	8,227,261
Provision for the year (Note 19)	-	3,000,000	3,000,000
Write-off	-	-	-
Recovery of bad debts	-	-	-
<b>Ending balances</b>	<b>2,277,954</b>	<b>8,949,307</b>	<b>11,227,261</b>

## 6. Inventories

	Sep. 2013	Dec. 2012
At cost (Note 18):		
Warehouse merchandise	₱ 549,321,022	₱415,590,676
Store merchandise	318,281,430	311,395,887
	<b>₱ 867,602,452</b>	<b>₱726,986,563</b>

## 7. Prepayments and Other Current Assets

	Sep. 2013	Dec. 2012
Deferred input VAT	₱ 196,480,735	₱64,041,931
Advances to suppliers	135,630,605	109,149,544
Prepaid rent	46,707,157	42,241,979
Advances for expenses	27,099,501	6,600,314
Prepaid uniform		1,704,252
Supplies	2,690,415	3,256,203
Current portion of deferred lease (Notes 10 and 26)	1,084,500	421,194
Others	88,294,070	31,592,470
	<b>₱ 497,986,984</b>	<b>₱259,007,887</b>

## 8. Property and Equipment

Movements in property and equipment are as follows:

As of September 30, 2013									
		Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transporta tion Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs/Revalued Amount									
<b>Beginning balances</b>	<b>44,481,000</b>	<b>118,154,849</b>	<b>1,740,413,144</b>	<b>579,371,098</b>	<b>43,646,176</b>	<b>211,556,342</b>	<b>1,201,609,872</b>	<b>67,369,297</b>	<b>4,006,601,778</b>
Additions			283,483,821	120,841,548	5,194,781	25,208,187	236,612,683	54,323,898	725,664,918
Disposals									-
Reclassifications		-	-	-	-	-			-
<b>Ending balances</b>	<b>44,481,000</b>	<b>118,154,849</b>	<b>2,023,896,965</b>	<b>700,212,646</b>	<b>48,840,957</b>	<b>236,764,529</b>	<b>1,440,482,412</b>	<b>119,433,338</b>	<b>4,732,266,696</b>
Accumulated Depreciation & Amortization									
<b>Beginning balances</b>	<b>-</b>	<b>70,181,591</b>	<b>690,911,415</b>	<b>256,680,089</b>	<b>20,199,135</b>	<b>134,639,263</b>	<b>557,069,241</b>	<b>-</b>	<b>1,729,680,734</b>
Depreciation & amortization (Note 19)	-	15,720,690	259,078,916	65,516,397	5,791,458	24,108,886	126,539,543		496,755,892
Disposals	-							-	-
Reclassifications	-	-	-	-	-	-	-	-	-
<b>Ending balances</b>	<b>-</b>	<b>85,902,281</b>	<b>949,990,331</b>	<b>322,196,486</b>	<b>25,990,593</b>	<b>158,748,149</b>	<b>683,608,784</b>		<b>2,226,436,626</b>
<b>Net Book Values</b>	<b>44,481,000</b>	<b>32,252,568</b>	<b>1,073,906,634</b>	<b>378,016,160</b>	<b>22,850,363</b>	<b>78,016,380</b>	<b>756,873,627</b>	<b>119,433,338</b>	<b>2,505,830,070</b>

The carrying value of the Group's capitalized interest amounted to ₱13,130 and ₱1,677,864 as of December 31, 2012 and 2011.

The cost of fully depreciated property and equipment that are still being used in operations amounted to ₱ 232,325,091 and ₱88,860,329 as of December 31, 2012 and 2011, respectively. No property and equipment are pledged nor treated as security to the outstanding liabilities, as of December 31, 2012 and 2011.

#### 9. Deposits

	Sep. 2013	Dec. 2012
Rent	₱216,286,942	₱183,893,042
Utilities	37,506,411	33,663,791
Refundable	25,843,670	25,843,670
Others	4,326,892	6,017,558
	<b>₱ 283,963,914</b>	<b>₱249,418,061</b>

#### 10. Goodwill and Other Noncurrent Assets

	Sep. 2013	Dec. 2012
Goodwill	₱ 65,567,524	₱ 65,567,524
Deferred input vat-net of current portion		115,865,751
Deferred lease - net of current portion (Note 26)	14,618,345	15,281,651
Garnished accounts	5,271,168	5,223,977
Software and program cost	428,914	1,183,651
Lease receivable - net of current portion (Note 26)	2,156,493	2,054,276
AFS financial assets	-	-
Others	7,541,795	3,312,772
	<b>₱ 95,584,239</b>	<b>₱ 208,489,602</b>

##### 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.

The recoverable amount of the goodwill was estimated based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 10.67% in 2012 and 10.22% in 2011. The cash flows beyond the five-year period are extrapolated using a 3% growth rate in 2012 and 2011 which is the same as the long-term average growth rate for the retail industry. No store acquired from Jollimart was closed in 2012. In 2011, the Group has closed one store out of the 25 remaining stores it purchased from Jollimart. No impairment loss was recognized in 2012, 2011 and 2010.

Goodwill is allocated to the group of cash generating unit (CGU) which comprises the working capital and property and equipment of all the purchased stores' assets.

Key assumptions used in value-in-use calculations in 2012 and 2011 follow:

a. Sales and Cost Ratio

Sales and cost ratio are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

Sales are projected to increase by two to three percent per annum while the cost ratio is set at 68.00% - 70.00% of sales per annum.

b. Discount Rates

Discount rates reflect management's estimates of the risks specific to the CGU. Management computed for its weighted average cost of capital (WACC). In computing for its WACC, the following items were considered:

1. Average high and low range of average bank lending rates as of year-end
2. Yield on a 10-year Philippine zero coupon bond as of valuation date
3. Market risk premium
4. Company relevered beta
5. Alpha risk

c. Growth Rate Estimates

Rates are based on average historical growth rate which is consistent with the expected average growth rate for the industry. Annual inflation and rate of possible reduction in transaction count were also considered in determining growth rates used.

Management recognized that unfavorable conditions could materially affect the assumptions used in the determination of value in use. An increase of 6.10% and 0.52% in the discount rates, or a reduction of growth rates by 3.00% and 1.00%, would give a value in use equal to the carrying amount of the cash generating units in 2012 and 2011, respectively.

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:

	<b>Sep. 2013</b>	Dec. 2012
Beginning balance	<b>₱15,702,845</b>	₱17,692,345
Additions	-	496,228
Amortization (Note 26)	-	(2,485,728)
Ending balance	<b>15,702,845</b>	15,702,845
	<b>1,084,500</b>	421,194
Less current portion		
Noncurrent portion	<b>₱14,618,345</b>	₱15,281,652

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 (see Note 34).

**11. Bank Loans**

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2012 and 2011 with annual interest rates ranging from 3.30% to 3.75%, 3.50% to 4.25% and 4.20% to 5.20% in 2012, 2011 and 2010, respectively, 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:

	<b>Sep. 2013</b>	Dec. 2012
Beginning balance	<b>₱ 477,777,778</b>	₱ 374,666,667
Availment		210,000,000
Payments	<b>(7,777,778)</b>	(106,888,889)
Ending balance	<b>₱ 470,000,000</b>	₱ 477,777,778

Interest expense from these bank loans amounted to ₱ 12,346,356, ₱ 11,429,969 and ₱ 11,751,941 for the quarters ended September 30, 2013, 2012 and 2011 (see Note 21). Interest payable amounted to ₱ 1,349,921 and ₱ 1,173,579 as of September 30, 2013 and December 31, 2012, respectively (see Note 12).

#### 12. Accounts Payable and Accrued Expenses

	Sep. 2013	Dec. 2012
Trade payable	₱ 1,328,019,807	₱ 1,077,213,586
Rent (Notes 26 and 34)	53,509,760	51,355,557
Employee benefits	33,042,983	22,772,206
Utilities	62,205,616	55,148,912
Advertising and promotion	21,330,145	8,754,528
Outsourced services	16,095,467	14,531,473
Security services	3,316,172	3,361,310
Bank charges	11,833,980	3,860,300
Interest (Notes 11 and 15)	1,349,921	1,173,579
Others	32,322,002	23,118,538
	<b>₱1,563,025,852</b>	<b>₱1,261,289,989</b>

#### 13. Other Current Liabilities

	Sep. 2013	Dec. 2012
Non-trade accounts payable	₱ 359,673,912	₱423,183,843
Output VAT	35,179,442	25,064,839
Withholding taxes	29,236,170	26,913,387
Retention payable	44,034,227	24,673,598
Service fees payable	7,001,637	20,586,182
Royalty (Note 25)	11,774,438	12,579,753
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	10,000,000	818,452
Finance lease (Notes 16 and 26)	1,349,921	589,569
Others (Note 25)	35,021,889	7,471,769
	<b>₱533,271,636</b>	<b>₱541,881,392</b>

Non-trade accounts payable pertains to payable to suppliers of goods or services that are not directly related to the Company's ordinary course of business.

#### 14. Deposits Payable

	Sep. 2013	Dec. 2012
Franchisees	₱ 97,742,317	₱ 89,860,690
Service agreements	86,452,184	79,041,337
Rent	13,778,563	12,999,211
	<b>₱ 197,973,065</b>	<b>₱ 181,901,238</b>

#### 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

	Sep. 2013	Dec. 2012
Deferred revenue on exclusivity contract (Note 32)	<b>₱446,429</b>	₱ 446,429
Deferred revenue on finance lease (Note 26)	<b>687,829</b>	687,829
Deferred revenue - others	<b>(272,661)</b>	1,508,921
	<b>₱861,597</b>	₱ 2,643,179

## 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 Parent Company offered the share at a price of ₱4.40. As of December 31, 2012 and 2011, the Company has a total of 656 and 666 shareholders on record.

On July 24, 2012, the BOD and at least 2/3 of the Company's stockholders approved the increase of the Company's authorized common stock from ₱400,000,000, divided into 400,000,000 common shares with par value of ₱1 per share, to ₱600,000,000, divided into 600,000,000 common shares with a par value of ₱ 1 per share.

The Philippine SEC approved the Company's application for the increase in its authorized capital stock on October 19, 2012.

### Retained Earnings

The Company's retained earnings is restricted to the extent of ₱54,212,460 and ₱56,484,212 as of December 31, 2012 and 2011, respectively for the undistributed earnings of subsidiaries and ₱2,923,246 as of December 31, 2012 and 2011 for the cost of treasury shares.

Details of the Company's stock dividend declaration for the years ended December 31, 2012, 2011 and 2010 are as follows:

Declaration date	Record date	Stock dividend %	Outstanding no. of common shares as of declaration date	Total stock dividend issued
<b>July 24, 2012</b>	<b>November 15, 2012</b>	<b>15%</b>	<b>346,642,966</b>	<b>51,996,445</b>
July 21, 2011	August 19, 2011	15%	301,428,666	45,214,298
July 29, 2010	August 27, 2010	5%	287,074,922	14,453,746

The Company's BOD and at least 2/3 of the Company's stockholders approved all the aforementioned stock dividend declarations above.

Details of the Company's cash dividend declaration for the years ended December 31, 2012, 2011 and 2010 are shown below:

Declaration date	Record date	Payment date	Dividend per share	Outstanding no. of common shares as of declaration date	Total cash dividends
July 24, 2012	August 22, 2012	September 14, 2012	₱0.10	346,642,966	₱34,664,297
July 21, 2011	August 19, 2011	September 13, 2011	0.10	301,428,666	30,142,867
July 29, 2010	August 27, 2010	September 23, 2010	0.05	287,074,922	14,353,746

The Company's BOD approved all the cash dividends presented above.



### Treasury Shares

There are 686,250 shares that are in the treasury amounting to ₱2,923,246 as of December 31, 2012 and 2011. There are no movement in the Group's treasury shares in 2012 and 2011.

Movements in the number of shares issued are as follows:

	Sep. 2013	Dec. 2012
Beginning balance	399,325,661	347,329,216
Issuance of stock dividends	59,795,912	51,996,445
Ending balance	459,121,573	399,325,661

### 18. Cost of Merchandise Sales

	Sep. 2013	Sep. 2012	Sep. 2011
Merchandise inventory, beginning	₱ 726,986,563	₱ 519,258,936	₱ 402,419,577
Net purchases	8,018,377,810	6,147,690,574	4,499,024,215
	8,745,364,373	6,666,949,510	4,901,443,792
Less merchandise inventory, ending	867,602,452	481,363,086	389,144,430
Total Cost of Sales	₱7,877,761,921	₱ 6,185,586,424	₱ 4,512,299,362

### 19. General and Administrative Expenses

	Sep. 2013	Sep. 2012	Sep. 2011
Communication, light and water	₱ 672,240,024	₱ 605,212,723	441,577,713
Outside services (Note 32)	476,616,861	472,544,116	375,235,934
Rent (Note 26)	389,693,897	362,189,052	310,726,747
Depreciation and amortization	496,755,892	366,993,251	271,715,597
Personnel costs (Note 23)	280,423,454	208,491,243	224,723,202
Advertising and promotion	135,745,383	89,707,757	77,844,140
Royalties (Note 25)	125,041,554	96,461,732	76,612,036
Trucking services	5,662,985	5,321,229	4,550,695
Repairs and maintenance	88,953,130	87,245,572	74,235,225
Supplies	61,632,104	82,376,797	63,582,238
Taxes and licenses	75,570,960	66,799,579	56,552,479
Warehousing services	242,063,407	181,426,722	133,402,846
<i>(forward)</i>			
Entertainment, amusement and recreation	5,617,835	4,617,859	4,847,484
Transportation and travel	31,900,496	27,858,266	17,377,687
Inventory losses	65,056,908	63,238,085	41,240,540
Dues and subscription	8,761,939	6,674,361	4,369,566
Insurance	7,621,164	6,495,998	3,538,014
Amortization of software and program costs	3,426,982	2,095,801	2,283,624
Provision for impairment of receivables	-	-	-
Others	42,008,938	33,191,330	22,743,043
	₱ 3,214,793,913	2,768,941,473	2,207,158,810

---

**20. Marketing Income**

	Sep. 2013	Sep. 2012	SEP 2011
Display charges	<b>₱ 30,312,734</b>	₱ 21,954,041	₱ 19,460,448
Promotions	<b>174,967,557</b>	157,185,678	69,669,678
	<b>₱ 205,280,291</b>	₱ 179,139,719	₱ 89,130,126

Display charges and certain marketing support funds previously recorded within marketing income have been reclassified as purchase discounts as part of “net purchases” under “cost of merchandise sales”. Total amount reclassified amounted to ₱ 325,803,588 ₱ 167,600,345 and ₱ 182,438,840.49 in 2013, 2012 and 2011, respectively (see Note 18).

---

**21. Interest Expense**

	Sep. 2013	Sep. 2012	Sep. 2011
Interest on Bank loans	<b>₱ 12,152,293</b>	₱ 11,325,907	<b>₱ 11,574,191</b>
Guaranteed preferred dividends	<b>194,063</b>	104,063	177,750
	<b>₱ 12,346,356</b>	₱ 11,429,969	<b>₱ 11,751,941</b>

---

**22. Interest Income**

	Sep. 2013	Sep. 2012	Sep. 2011
Interest on:			
Bank deposits (Note 4)	<b>₱ 2,583,455</b>	₱ 2,072,854	1,553,198
Finance lease (Note 26)	-	-	-
Accretion of refundable deposits	-	-	-
Accretion of notes receivable	-	-	-
	<b>₱2,583,455</b>	₱2,072,854	1,553,198

---

**23. Personnel Costs**

	Sep. 2013	Sep. 2012	Sep. 2011
Salaries and wages	<b>₱ 129,884,538</b>	₱ 111,727,121	124,669,190
Employee benefits	<b>138,730,037</b>	89,643,857	92,503,247
Retirement benefits cost (Note 24)	<b>11,808,880</b>	7,120,267	7,550,765
	<b>₱ 280,423,454</b>	₱ 208,491,245	224,723,202

---

**24. Retirement Benefits**

The Group maintains a trustee, non-contributory defined benefit retirement plan covering all qualified employees. Normal retirement benefits are equal to the employee’s retirement pay as defined in Republic Act No. 7641 multiplied by the years of service. Normal retirement date is the attainment of age 60 and completion of at least five years of service.

The following tables summarize the components of net retirement benefits cost recognized in profit or loss and the funding status and amounts recognized in the consolidated balance sheets:

a. Net retirement benefits cost for the year are as follows:

	2012		
	PSC	CDI	Total
Current service cost	₱9,655,975	₱545,788	₱10,201,763
Interest cost	5,585,187	374,746	5,959,933
Expected return on plan assets	(673,153)	(31,105)	(704,258)
Net actuarial losses	749,474	–	749,474
<b>Net retirement benefits cost (Note 23)</b>	<b>₱15,317,483</b>	<b>₱889,429</b>	<b>₱16,206,912</b>

  

	2011		
	PSC	CDI	Total
Current service cost	₱4,637,501	₱351,324	₱4,988,825
Interest cost	7,377,255	540,217	7,917,472
Expected return on plan assets	(645,048)	(31,373)	(676,421)
Net actuarial losses	138,525	–	138,525
<b>Net retirement benefits cost (Note 23)</b>	<b>₱11,508,233</b>	<b>₱860,168</b>	<b>₱12,368,401</b>

b. Net retirement obligations recognized by the Group are as follows:

	2012		
	PSC	CDI	Total
Present value of retirement obligations	₱109,977,260	₱6,625,244	₱116,602,504
Less fair value of net plan assets	29,548,266	1,041,545	30,589,811
Unfunded retirement obligation	80,428,994	5,583,699	86,012,693
Unrecognized net actuarial gain (losses)	(25,021,701)	129,428	(24,892,273)
<b>Net retirement obligations</b>	<b>₱55,407,293</b>	<b>₱5,713,127</b>	<b>₱61,120,420</b>

  

	2011		
	PSC	CDI	Total
Present value of retirement obligations	₱96,296,328	₱6,764,360	₱103,060,688
Less fair value of net plan assets	12,239,143	565,547	12,804,690
Unfunded retirement obligation	84,057,185	6,198,813	90,255,998
Unrecognized net actuarial gain (losses)	(25,368,578)	305,300	(25,063,278)
<b>Net retirement obligations</b>	<b>₱58,688,607</b>	<b>₱6,504,113</b>	<b>₱65,192,720</b>

c. Changes in the present value of the retirement obligations are as follows:

	2012		
	PSC	CDI	Total
Beginning balances	₱96,296,328	₱6,764,360	₱103,060,688
Current service cost	9,655,975	545,788	10,201,763
Interest cost	5,585,187	374,746	5,959,933
Benefits paid	(4,686,898)	(1,245,962)	(5,932,860)
Actuarial losses	3,126,668	186,312	3,312,980
<b>Ending balances</b>	<b>₱109,977,260</b>	<b>₱6,625,244</b>	<b>₱116,602,504</b>

  

	2011		
	PSC	CDI	Total
Beginning balances	₱72,897,778	₱5,615,558	₱78,513,336
Current service cost	4,637,501	351,324	4,988,825
Interest cost	7,377,255	540,217	7,917,472
Benefits paid	(4,018,237)	–	(4,018,237)
Actuarial losses	15,402,031	257,261	15,659,292
<b>Ending balances</b>	<b>₱96,296,328</b>	<b>₱6,764,360</b>	<b>₱103,060,688</b>

d. Changes in the fair value of net plan assets are as follows:

	2012		
	PSC	CDI	Total
Beginning balances	₱12,239,143	₱565,547	₱12,804,690
Expected return on plan assets	673,153	31,105	704,258
Contribution	18,598,797	1,680,415	20,279,212
Benefits paid	(4,686,898)	(1,245,962)	(5,932,860)
Actuarial gains	2,724,071	10,440	2,734,511
Ending balances	₱29,548,266	₱1,041,545	₱30,589,811

	2011		
	PSC	CDI	Total
Beginning balances	₱10,750,804	₱522,878	₱11,273,682
Expected return on plan assets	645,048	31,373	676,421
Contribution	4,629,263	–	4,629,263
Benefits paid	(4,018,237)	–	(4,018,237)
Actuarial gains	232,265	11,296	243,561
Ending balances	₱12,239,143	₱565,547	₱12,804,690

The Group's plan asset is being managed by Bank of the Philippine Islands (BPI) - Asset Management and Trust Group, a trustee bank. Breakdown of the Group's net plan assets are as follows:

	2012		2011	
	PSC	CDI	PSC	CDI
Investments in trust and mutual funds	69.00%	100.00%	46.00%	46.00%
Investments in equity securities	31.00%	–	54.00%	54.00%
	100.00%	100.00%	100.00%	100.00%

Details on the cost and fair value of the fund as of December 31 are as follows:

	2012					
	Face amount /No. of shares	PSC		Face amount /No. of shares	CDI	
		Cost	Fair Value		Cost	Fair Value
Investments in trust and mutual funds						
BPI - ALFM Mutual Fund	62,463	₱17,511,278	₱18,689,399	3,480	₱1,010,852	₱1,041,545
BPI - Short Term Fund						
Unit Investment Trust Fund	11,809	1,590,436	1,591,027	–	–	–
		19,101,714	20,280,426		1,010,852	1,041,545
Investments in equity securities						
PSC - listed shares	35,520	122,417	3,267,840	–	–	–
SSH - unlisted shares	60,000	6,000,000	6,000,000	–	–	–
		6,122,417	9,267,840		–	–
		₱25,224,131	₱29,548,266		₱1,010,852	₱1,041,545

	2011					
	PSC			CDI		
	Face amount /No. of shares	Cost	Fair Value	Face amount /No. of shares	Cost	Fair Value
Investments in trust and mutual funds						
BPI - ALFM Mutual Fund	18,843	₱4,896,967	₱5,319,175	2,003	₱520,540	₱565,547
BPI - Short Term Fund						
Unit Investment Trust Fund	-	-	-	-	-	-
		4,896,967	5,319,175		520,540	565,547
Investments in equity securities						
PSC - listed shares	35,520	122,417	919,968	-	-	-
SSHI - unlisted shares	60,000	6,000,000	6,000,000	-	-	-
		6,122,417	6,919,968		-	-
		₱11,019,384	₱12,239,143		₱520,540	₱565,547

The trustee exercises the voting rights over the PSC shares held by the retirement fund.

Actual return on plan assets amounted to ₱3,397,224 in 2012 and ₱877,313 in 2011 for PSC and ₱41,545 in 2012 and ₱42,669 in 2011 for CDI.

The overall expected rate of return on plan assets is determined based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled.

The Group expects to contribute ₱21,500,000 to its defined benefit plan in 2013.

The principal assumptions used in determining net retirement benefits cost for the Group's plan at the beginning of the year are as follows:

	PSC		CDI	
	2012	2011	2012	2011
Number of employees	681	655	23	20
Discount rate per annum	5.80%	5.80%	5.54%	5.54%
Expected annual rate of return on plan assets	5.50%	5.50%	5.50%	5.50%
Salary increase rate	5.50%	5.50%	5.50%	5.50%

Amounts for the current and prior four periods are as follows:

	2012		
	PSC	CDI	Total
Present value of retirement obligations	₱109,977,260	₱6,625,244	₱116,602,504
Fair value of net plan assets	29,548,266	1,041,545	30,589,811
Unfunded retirement obligation	80,428,994	5,583,699	86,012,693
Experience gain adjustments on retirement obligations	(5,731,481)	(39,492)	(5,770,973)
Experience gain adjustments on plan assets	2,724,071	10,440	2,734,511

The discount rate of PSC and CDI as of December 31, 2012 are 5.80% and 5.54%, respectively, based on market rates consistent with the obligation of the defined benefit plan. Future annual increase in salary as of December 31, 2012 is 5.5%. Expected rate of return as of December 31, 2012 is 5.5%.

## 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:

- c. The Group executed a licensing agreement with Seven Eleven, Inc. (SEI), a stockholder organized in Texas, U.S.A. This grants the Group the exclusive right to use the 7-Eleven System in the Philippines. In accordance with the agreement, the Group pays, among others, royalty fee to SEI based on a certain percentage of monthly gross sales, net of gross receipts tax.
- b. PSC has 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.

Balances arising from the foregoing transactions with related parties are as follows:

Related Parties	Nature of Transactions	Terms and Conditions	Transactions for the Year Ended December 31		Outstanding Balance as of December 31	
			2012	2011	2012	2011
<b>Receivables</b>						
PFI (Note 5)	Donations	None	<b>₱2,650,000</b>	₱61,355	<b>₱-</b>	₱-
	Non-interest bearing advances	Unsecured, no impairment in 2012 and 2011. Amounts are due and demandable	<b>1,463,967</b>	469,856	<b>1,637,912</b>	173,945
			<b>₱4,113,967</b>	₱531,211	<b>₱1,637,912</b>	₱173,945
<b>Other current liabilities</b>						
SEI (Note 13)	Royalty fee	Unsecured and payable monthly	<b>₱133,085,007</b>	₱106,490,524	<b>₱12,579,753</b>	₱10,353,333

## 26. Leases

### *Finance Lease as Lessor*

In March 2007, PSC entered into a five-year sale and leaseback finance lease agreement with an armored car service provider. The lease has no terms of renewal and no escalation clauses. Unguaranteed residual values accruing to the Company amounted to ₱300,000.

In March 2010, the Company amended its agreement with the armored car service provider extending the lease term for another five years from March 1, 2010 to February 1, 2015, imposing 7% interest per annum on the restructured loan obligation and reducing its monthly rental payments. The unguaranteed residual values accruing to the Company was retained. The restructuring resulted in the recognition of a gain on accretion amounting to ₱849,890 and is reported under "Other income" in the 2010 consolidated profit or loss.

Future minimum lease receivables under this lease as of December 31 are as follows:

	2012	2011
Within one year	<b>₱1,591,280</b>	₱1,591,280
After one year but not more than five years	<b>2,156,493</b>	3,747,773
Total minimum lease payments receivable	<b>3,747,773</b>	5,339,053
Less unearned interest income	<b>299,437</b>	590,642
Present value of future minimum lease payments receivable	<b>3,448,336</b>	4,748,411
Less current portion (Note 5)	<b>1,394,060</b>	1,300,075
Noncurrent portion (Note 10)	<b>₱2,054,276</b>	₱3,448,336

Collection of lease receivable amounted to ₱1,591,280 in 2012 and 2011, respectively.

Present value of lease receivable as of December 31 is as follows:

	2012	2011
Within one year	<b>₱1,394,060</b>	₱1,300,075
After one year but not more than five years	<b>2,054,276</b>	3,448,336
Total minimum lease payments receivable	<b>3,448,336</b>	4,748,411
Less current portion	<b>1,394,060</b>	1,300,075
Present value of future minimum lease payments receivable	<b>₱2,054,276</b>	₱3,448,336

Unearned interest income as of December 31, 2012 and 2011 amounted to ₱299,437 and ₱590,642, respectively. Related interest income amounted to ₱291,205, ₱378,850 and ₱403,887 in 2012, 2011 and 2010, respectively.

Difference between the original lease agreement's present value of minimum lease payments at the date of lease inception against the carrying value of the finance lease asset resulted in a deferred revenue on finance lease amounting to ₱6,550,753, which is to be amortized on a straight-line basis over the lease term. The related deferred revenue amounted to ₱1,277,398 and ₱1,866,965 as of December 31, 2012 and 2011, with current portion amounting to ₱589,569 in 2012 and ₱589,567 in 2011 (see Notes 13 and 16). Noncurrent portion amounted to ₱687,829 and ₱1,277,398 as of December 31, 2012 and 2011, respectively (see Note 16). Amortization of deferred revenue on finance lease amounted to ₱589,567, ₱589,567 and ₱709,665, in 2012, 2011 and 2010, respectively (see Note 16).

#### *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.

Rental expense related to these lease agreements amounted to ₱449,915,799, ₱375,908,146 and ₱314,390,025 in 2012, 2011 and 2010, respectively (see Note 19). Of the total rent expense, ₱2,573,518 in 2012, ₱2,019,210 in 2011 and ₱1,902,221 in 2010 pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to ₱719,536, ₱1,164,066 and ₱324,200 in 2012, 2011 and 2010, respectively.

The approximate annual future minimum rental payments of the PSC under its existing lease agreements as of December 31 are as follows:

	2012	2011
Within one year	<b>₱62,130,526</b>	₱52,930,899
After one year but not more than five years	<b>131,556,590</b>	114,077,970
More than five years	<b>12,654,307</b>	-
	<b>₱206,341,423</b>	₱167,008,869

- b. In April 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%.

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.

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

Rent expense related to these lease agreements amounted to ₱ 33,952,195, ₱ 23,828,055 and ₱23,494,115 in 2012, 2011 and 2010, respectively (see Note 19). Amortization of deferred lease amounted to ₱ 1,766,192, ₱1,615,618 and ₱1,090,500 in 2012, 2011 and 2010, respectively.

The approximate annual future minimum rental payments of CDI under its existing lease contract as of December 31 are as follows:

	2012	2011
Within one year	<b>₱36,902,700</b>	₱31,879,766
After one year but not more than five years	<b>183,491,415</b>	138,038,344
More than five years	<b>75,839,671</b>	152,413,780
	<b>₱296,233,786</b>	₱322,331,890

CDI also has other various short-term operating leases pertaining to rental of warehouse and equipments. Related rent expense amounted to ₱4,424,506, ₱1,892,401 and ₱3,513,249 in 2012, 2011 and 2010, respectively (see Note 19).

#### *Operating Lease as Lessor*

The Group has various sublease agreements with third parties which provide for lease rentals based on an agreed fixed monthly rate or as agreed upon by the parties. Rental income related to these sublease agreements amounted to ₱ 45,751,718, ₱44,143,593 and ₱37,361,844 in 2012, 2011 and 2010, respectively.

## 27. Income Tax

c. The components of the Group's provision for (benefit from) income tax are as follows:

d.

	2012	2011	2010
Current:			
Regular corporate income tax	<b>₱211,923,436</b>	₱161,398,364	₱124,265,727
Final tax on interest income	<b>445,546</b>	586,624	693,335
	<b>212,368,982</b>	161,984,988	124,959,062
Deferred	<b>(2,346,981)</b>	165,174	3,796,610
	<b>₱210,022,001</b>	₱162,150,162	₱128,755,672

e. The components of the Group's net deferred income tax assets are as follows:

	2012			Total
	PSC	CDI	SSHI	
Deferred income tax assets:				
Net retirement obligations	<b>₱16,622,188</b>	<b>₱1,713,938</b>	₱-	<b>₱18,336,126</b>
Accrued rent	<b>8,700,799</b>	<b>6,705,868</b>	-	<b>15,406,667</b>
Unamortized discount on refundable deposit	<b>4,336,926</b>	<b>1,726,139</b>	-	<b>6,063,065</b>
Allowance for impairment on receivables	<b>2,468,178</b>	-	-	<b>2,468,178</b>
Provision for litigation losses	<b>2,119,887</b>	-	-	<b>2,119,887</b>
Unamortized past service cost	<b>3,952,094</b>	<b>29,082</b>	-	<b>3,981,176</b>
Deferred revenue on exclusivity contracts	<b>379,464</b>	-	-	<b>379,464</b>
Unearned rent income	<b>127,680</b>	-	-	<b>127,680</b>
Unamortized discount on receivable	<b>37,323</b>	-	-	<b>37,323</b>
Unrealized foreign exchange loss	<b>37,765</b>	<b>79,009</b>	-	<b>116,774</b>
	<b>38,782,304</b>	<b>10,254,036</b>	-	<b>49,036,340</b>
Deferred income tax liabilities:				
Deferred lease expense	<b>3,088,956</b>	<b>1,248,107</b>	-	<b>4,337,063</b>
Unamortized discount on purchase of refundable deposit	<b>305,238</b>	-	-	<b>305,238</b>
Revaluation increment on land	-	-	<b>1,384,241</b>	<b>1,384,241</b>
	<b>3,394,194</b>	<b>1,248,107</b>	<b>1,384,241</b>	<b>6,026,542</b>
Net deferred income tax assets (liability)	<b>₱35,388,110</b>	<b>₱9,005,929</b>	<b>(₱1,384,241)</b>	<b>₱43,009,798</b>

f. The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of comprehensive income follow:

	2012	2011	2010
Provision for income tax computed at statutory income tax rate	<b>₱202,394,260</b>	₱155,547,945	₱121,690,776
Adjustments for:			
Nondeductible expenses:			
Inventory losses	<b>7,162,545</b>	5,972,026	4,397,733
Interest expense and others	<b>867,483</b>	955,165	3,114,649
Tax effect of rate difference between final tax and statutory tax rate on bank interest income	<b>(364,133)</b>	(286,820)	(386,196)
Nontaxable other income	<b>(38,154)</b>	(38,154)	(61,290)
	<b>₱210,022,001</b>	₱162,150,162	₱128,755,672



## 28. Basic/Diluted Earnings Per Share

	SEP 2013	SEP 2012	SEP 2011
a. Net income	430,951,728	₱ 224,426,124	₱ 174,745,334
b. Weighted average number of shares issued	459,121,573	459,121,573	459,121,573
c. Less weighted average number of shares held in treasury	686,250	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	459,121,573	459,121,573	459,121,573
e. Basic/diluted earnings per share (a/d)	0.94	₱ 0.49	₱ 0.38

The Group does not have potentially dilutive common shares as of December 31, 2012, 2011 and 2010. Thus, the basic earnings per share is equal to the diluted earnings per share as of those dates.

The Group's outstanding common shares increased from 399,325,661 to 459,121,573 as a result of stock dividend issuance equivalent to 15% of the outstanding common shares of the Company of 398,639,411 shares approved on July 18, 2013 (see Note 17). Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

## 29. Financial Instruments

The following tables summarize the carrying value and fair value of the Group's financial assets and financial liabilities per class as of December 31:

	Sep. 2013		Dec. 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>				
Cash and cash equivalents				
Cash on hand and in banks	642,235,491	756,909,810	367,285,569	367,285,569
Cash equivalents	0	0	48,000,000	48,000,000
	642,235,491	545,386,665	415,285,569	415,285,569
	SEP 2013		DEC 2012	
Short-term investments	10,632,115	10,632,115	10,632,115	10,632,115
Receivables:				
Suppliers	133,519,771	133,519,771	137,235,021	137,235,021
Franchisee	28,357,732	28,357,732	184,444,213	184,444,213
Insurance claims	453,834	453,834	614,135	614,135
Employees	12,648,313	12,648,313	12,993,209	12,993,209
Store operators	83,707,794	83,707,794	25,963,931	25,963,931
Rent*	5,105,332	5,105,332	5,638,673	5,638,673
Current portion of lease receivable	1,394,058	1,394,058	1,394,060	1,570,588
Deposits	1,009,864	1,009,864	0	0
Due from PFI	1,951,209	1,951,209	1,637,912	1,637,912
Others	-1,304,244	-1,304,244	4,676,689	4,676,689
	266,843,662	266,843,662	374,597,843	374,774,371
Deposits:				
Utilities	37,506,411	37,506,411	33,663,791	33,663,791
Refundable	25,843,670	25,843,670	25,843,670	32,667,920
Others	4,326,892	4,326,892	6,017,558	6,017,558
	67,676,972	67,676,972	65,525,019	72,349,269
Other noncurrent assets - lease receivable (net of current portion)	2,156,493	2,156,493	2,054,276	2,036,402
Other noncurrent assets - note receivable (net of current portion)			955,355	955,355
<b>Total Loans and Receivables</b>	<b>989,544,734</b>	<b>989,544,734</b>	<b>869,050,177</b>	<b>876,033,081</b>
<b>AFS Financial Assets</b>			-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>989,544,734</b>	<b>989,544,734</b>	<b>869,050,177</b>	<b>876,033,081</b>

<b>FINANCIAL LIABILITIES</b>				
<b>Other Financial Liabilities</b>				
Bank loans	470,000,000	470,000,000	477,777,778	477,777,778
Accounts payable and accrued expenses:				
Trade payable	<b>1,328,019,807</b>	<b>1,328,019,807</b>	1,007,213,586	1,007,213,586
Employee benefits	<b>33,042,983</b>	<b>33,042,983</b>	22,772,206	22,772,206
Utilities	<b>62,205,616</b>	<b>62,205,616</b>	55,148,912	55,148,912
Advertising and promotion	<b>21,330,145</b>	<b>21,330,145</b>	8,754,528	8,754,528
Outsourced services	<b>16,095,467</b>	<b>16,095,467</b>	14,531,473	14,531,473
Security services	<b>3,316,172</b>	<b>3,316,172</b>	3,361,310	3,361,310
Bank charges	<b>11,833,980</b>	<b>11,833,980</b>	3,860,300	3,860,300
Interest	<b>1,349,921</b>	<b>1,349,921</b>	1,173,579	1,173,579
Others**	<b>32,322,002</b>	<b>32,322,002</b>	23,116,538	23,116,538
			1,209,932,432	1,209,932,432
Other current liabilities:				
Non-trade accounts payable	<b>359,673,912</b>	<b>359,673,912</b>	423,183,843	423,183,843
Retention payable	<b>44,034,227</b>	<b>44,034,227</b>	24,673,598	24,673,598
Service fees payable	<b>7,001,637</b>	<b>7,001,637</b>	20,586,182	20,586,182
Royalty	<b>11,774,438</b>	<b>11,774,438</b>	12,579,753	12,579,753
Others	<b>35,021,889</b>	<b>35,021,889</b>	4,990,644	4,990,644
	<b>457,506,103</b>	<b>457,506,103</b>	486,014,020	486,014,020
Deposit Payable				
Cumulative redeemable preferred shares	<b>6,000,000</b>	<b>6,000,000</b>	6,000,000	6,000,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>2,443,022,195</b>	<b>2,443,022,195</b>	2,179,724,230	2,179,724,230

\*Excludes withholding taxes payable amounting to ₱2,000 as of December 31, 2012 and 2011.

#### 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 of balance sheet date.

##### *Lease Receivables*

The fair value of lease receivable is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2012 and 2011, which is 3.80% and 4.64%, respectively.

##### *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 of December 31, 2012 and 2011 ranging from 1.33% to 4.36% and 2.74% to 6.09%, respectively.

##### *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.

### 30. 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 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 of December 31:

	Sep. 2013	Dec. 2012
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	542,084,113	204,668,267
Cash equivalents		48,000,000
	542,084,113	252,668,267
Short-term investments	10,632,115	10,632,115
Receivables:		
Suppliers	135,797,725	137,235,021
Franchisee	28,357,732	184,444,213
Insurance claims	453,834	614,135
Employees	12,648,313	12,993,209
Store operators	83,707,794	19,452,194
Rent*	5,105,332	5,638,673
Current portion of lease receivables	1,394,058	1,394,060
Deposits	1,009,864	-
Due from PFI	1,951,209	1,637,912
Others	4,645,063	11,188,426
	275,070,923	374,597,843
Deposits:		
Utilities-	37,506,411	33,663,791
Refundable	25,843,670	25,843,670
Others	4,326,892	6,017,558
	67,676,972	65,525,019
Other noncurrent assets:		
Lease receivables - net of current portion	2,156,493	2,054,276
Note receivables - net of current portion		955,355
	2,156,493	3,009,631
	897,620,618	706,432,875

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 follows:

Cash and cash equivalents 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 assets 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:

	SEP 2013					
	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	41,300,153	3,774,284	53,474,078	98,548,515	2,277,954	100,826,469
Others	-	-	-	-	5,949,307	5,949,307
	41,300,153	3,774,284	53,474,078	98,548,515	8,227,261	106,775,776

	DEC 2012					
	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	9,537,555	8,726,274	11,101,267	29,365,096	2,277,954	31,643,050
Others	-	-	-	-	5,949,307	5,949,307
	9,537,555	8,726,274	11,101,267	29,365,096	8,227,261	37,592,357

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

	SEP 2013					Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years		
Cash and cash equivalents						
Cash	642,235,491	-	-	-	-	642,235,491
Cash equivalents	-	-	-	-	-	-
	642,235,491	-	-	-	-	642,235,491

<i>(forward)</i>					
Short-term investments	-	10,632,115	-	-	10,632,115
Receivables					
Suppliers	122,418,504	11,101,267	2,277,954	-	135,797,725
Franchisee	28,357,732	-	-	-	28,357,732
Insurance claims	-	453,834	-	-	453,834
Employees	12,648,313	-	-	-	12,648,313
Store operators	83,707,794	-	-	-	83,707,794
Rent	5,105,332	-	-	-	5,105,332
Current portion of lease receivables	-	1,394,058	-	-	1,394,058
Deposits		1,009,864	-	-	1,009,864
Due from subsidiaries	-	1,951,209	-	-	1,951,209
Others	1,695,756	5,949,307	-	-	7,645,063
	<b>253,933,431</b>	<b>32,491,654</b>	<b>2,277,954</b>	-	<b>288,703,039</b>
Deposits					
Utilities	-	-	37,506,411	-	37,506,411
Refundable	-	-	25,843,670	-	25,843,670
Others	-	-	4,326,892	-	4,326,892
	-	-	67,676,97	-	67,676,972
Other noncurrent assets					
Lease receivables - net of current portion	-	-	2,156,493	-	2,156,493
AFS financial assets	-	-	-	-	-
	-	-	2,156,493	-	2,156,493
	<b>896,168,922</b>	<b>43,123,769</b>	<b>72,111,420</b>	-	<b>1,000,771,995</b>

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

	Sep. 2013			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	-	470,000,000	-	470,000,000
Accounts payable and accrued expenses				
Trade payable	1,128,513,473	-	-	1,128,513,473
Employee benefits	22,270,963	-	-	22,270,963
Utilities	61,000,623	-	-	61,000,623
Advertising and promotion	34,925,266	-	-	34,925,266
Outsourced services	15,744,736	-	-	15,744,736
Security services	3,982,591	-	-	3,982,591
Bank charges	9,180,500	-	-	9,180,500
Interest	925,091	-	-	925,091
Others	39,496,608	-	-	39,496,608
	<b>1,316,039,851</b>	-	-	<b>1,316,039,851</b>

(forward)

Other current liabilities				
Non-trade accounts payable	-	359,693,617	-	359,693,617
Retention payable	-	36,349,251	-	36,349,251
Service fees payable	8,202,074	-	-	8,202,074
Royalty	12,126,045	-	-	12,126,045
Others	-	39,496,608	-	39,496,608
	20,328,119	435,539,476	-	455,867,595
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	1,336,367,971	905,539,476	6,000,000	2,247,907,447

	Dec. 2012			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	₱457,777,778	₱20,000,000	₱-	₱477,777,778
Accounts payable and accrued expenses				
Trade payable	1,077,213,586	-	-	1,077,213,586
Utilities	55,148,912	-	-	55,148,912
Employee benefits	22,772,206	-	-	22,772,206
Advertising and promotion	8,754,528	-	-	8,754,528
Outsourced services	14,531,473	-	-	14,531,473
Security services	3,361,310	-	-	3,361,310
Bank charges	3,860,300	-	-	3,860,300
Interest	1,173,579	₱-	₱-	1,173,579
Others	23,118,538	-	-	23,118,538
	1,209,934,432	-	-	1,209,934,432
Other current liabilities				
Non-trade accounts payable	47,226,209	375,957,634	-	423,183,843
Service fees payable	-	24,673,598	-	24,673,598
Retention payable	-	20,586,182	-	20,586,182
Royalty	12,579,753	-	-	12,579,753
Others	-	4,990,644	-	4,990,644
	59,805,962	426,208,058	-	486,014,020
Cumulative redeemable preferred shares	6,000,000	-	-	6,000,000
	₱1,733,518,172	₱446,208,058	₱-	₱2,179,726,230

#### 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:

	2012	2011
Due in less than one year	₱477,777,778	₱374,666,667
Rate	3.30%-3.75%	3.50%-4.25%

Interest of financial instruments classified as floating rate is repriced at intervals of 30 days. The other financial instruments of the Group that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk.

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):

	2012		2011	
	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	(4,777,778)	+100	(3,746,667)
	-100	4,777,778	-100	3,746,667

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. The Group's cash and receivables denominated in foreign currency and converted into Peso using the closing exchange rates at the reporting dates are summarized below.

	2012		2011	
	Dollar	Peso	Dollar	Peso
Cash	\$141,607	₱5,812,967	\$59,634	₱2,614,355
Receivables	27,049	1,110,362	90,349	3,960,900
	\$168,656	₱6,923,329	\$149,983	₱6,575,255

As of December 31, 2012 and 2011, the closing functional currency exchange rate is ₱41.05 and ₱43.84 respectively.

The following table represents the impact on the Group's income before income tax brought about by a reasonably possible changes in Peso to Dollar exchange rate (holding all other variables constant) as of December 31, 2012 and 2011 until its next financial reporting date:

	Change in Peso to Dollar Exchange Rate	Effect on Income before Income Tax
2012	Increase by 6.36%	(₱440,324)
	Decrease by 6.36%	440,324
2011	Increase by 3.00%	(197,258)
	Decrease by 3.00%	197,258

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

### 31. 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% and 50% in relation to its total assets. The

Group's net worth ratio is 42% and 40% as of December 31, 2012 and 2011, respectively. No changes were made in the objectives, policies and processes during the year.

	Sep. 2013	Dec. 2012
Capital stock	₱ 459,121,573	₱399,325,661
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	1,564,724,872	1,233,432,997
	2,317,371,482	1,926,283,695
Less cost of shares held in treasury	2,923,246	2,923,246
	₱ 2,314,448,236	₱1,923,360,449
<b>Total assets</b>	<b>₱ 5,213,603,526</b>	<b>₱4,564,348,482</b>
<b>Net worth</b>	<b>44%</b>	<b>42%</b>

As of December 31, 2012 and 2011, the Group was able to meet its objective.

### 32. Significant Agreements

- d. 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. Franchise fee amounted to ₱74,056,940, ₱50,540,500 and ₱57,520,118, respectively, and franchise revenue for the 7-Eleven charge amounted to ₱636,242,377, ₱422,757,161 and ₱323,292,338 for the quarters ended September 30, 2013, 2012 and 2011, respectively.
- e. 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 "General and administrative expenses" in profit or loss amounted to ₱109,760,984, ₱171,794,373 and ₱125,071,687 for the quarters ended September 30, 2013, 2012 and 2011, respectively.
- f. 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 ₱67,396,391, ₱37,236,539 and ₱29,271,506 in 2012, 2011 and 2010, respectively.

### 33. 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 segment's relevant financial information is as follows:

	Sep. 2013	Sep. 2012	Sep. 2011
<b>REVENUE</b>			
Revenue from merchandise sales	<b>₱10,359,701,984</b>	₱8,484,265,248	6,398,035,295
Franchise revenue	<b>1,049,955,833</b>	487,401,798	380,812,526
Marketing income	<b>205,280,291</b>	346,740,064	271,568,966
Rent income	<b>21,075,009</b>	42,993,616	39,273,693
Commission income	<b>47,593,307</b>	48,214,981	26,832,392
Interest income	<b>2,583,455</b>	2,072,854	1,553,198
Other income	<b>36,831,918</b>	45,552,263	46,357,364
	<b>11,723,021,798</b>	9,457,240,824	7,164,433,435



*(forward)*

<b>EXPENSES</b>			
Cost of merchandise sales	<b>7,877,761,921</b>	6,353,186,769	4,694,738,202
General and administrative expenses:			
Depreciation and amortization	<b>496,755,892</b>	366,993,251	271,715,597
Others	<b>2,718,038,020</b>	2,401,948,222	1,935,443,212
Interest expense	<b>12,346,356</b>	11,429,969	11,751,941
Other expenses	<b>5,902,855</b>	3,073,864	(5,949,502)
	<b>11,110,805,044</b>	9,136,632,076	6,907,699,451
<b>INCOME BEFORE INCOME TAX</b>	<b>612,216,754</b>	320,608,748	256,733,983
<b>PROVISION FOR INCOME TAX</b>	<b>181,265,027</b>	96,182,625	81,988,649
<b>SEGMENT PROFIT</b>	<b>430,951,727</b>	₱ 224,426,123	174,745,334
<b>SEGMENT ASSETS</b>	<b>5,213,603,526</b>	₱3,932,414,798	3,418,153,993
<b>SEGMENT LIABILITIES</b>	<b>2,895,925,396</b>	₱2,246,023,860	2,103,122,536

### 34. Provisions and Contingencies

The Group is a party to various litigations involving, among others, employees suing for illegal dismissal, back wages and damage claims, lessors claiming for lease payments for the unexpired portion of the lease agreements in cases of pre-termination of lease agreements, claims arising from store operations and as co-respondents with manufacturers on complaints with the Bureau of Food and Drugs, specific performance and other civil claims. All such cases are in the normal course of business and are not deemed to be considered as material legal proceedings. Further, these 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.

As of December 31, 2012 and 2011, the Company has provisions amounting to ₱7,066,290 pertaining to probable loss on litigations.

### 35. 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).

**Philippine Seven Corporation**  
Schedule of Receivables

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Suppliers	<b>₱ 135,797,725</b>	₱139,512,975
Franchisee	<b>28,357,732</b>	184,444,213
Insurance receivable	<b>453,834</b>	614,135
Employees	<b>12,648,313</b>	12,993,209
Store operators	<b>83,707,794</b>	₱19,452,194
Rent	<b>5,105,332</b>	5,638,673
Current portion of lease receivable - net of unearned interest income amounting to ₱197,221 and ₱291,204 as of December 31, 2012 and 2011, respectively (Note 26)	<b>1,394,058</b>	1,394,060
Deposits	<b>1,009,864</b>	1,009,864
Due from Philseven Foundation, Inc. (PFI)(Note 25)	<b>1,951,209</b>	1,637,912
Others	<b>7,645,063</b>	16,127,869
	<b>278,070,923</b>	382,825,104
Less allowance for impairment	<b>11,227,261</b>	8,227,261
	<b>266,843,662</b>	₱374,597,843

The classes of receivables of the Group are as follows:

- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Franchisees - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - includes car loans, salary loans and cash shortages from stores which are charged to employees.
- Rent - pertains to receivables from sublease agreements with third parties, which are based on an agreed fixed monthly rate or as agreed upon by the parties.
- Store operators - pertains to the advances given to third party store operators under service agreements (see Note 32).

Receivables are noninterest-bearing and are generally on 30 to 90 day terms except for lease receivable with a 7% interest rate per annum.

## Management's Discussion and Analysis of Results of Operations and Financial Condition

### SELECTED FINANCIAL DATA

	Three Months Ended September 30 (Unaudited)		Nine Months Ended September 30 (Unaudited)	
	2013	2012	2013	2012
<b>SYSTEMWIDE SALES</b>	<b>₱ 4,006,271</b>	<b>₱ 3,152,543</b>	<b>₱ 12,549,401</b>	<b>₱ 9,686,077</b>
<b>Statement of Income Data:</b>				
Revenues and other income				
Sales of merchandise	<b>₱ 3,376,751</b>	₱ 2,762,430	<b>₱ 10,359,702</b>	₱ 8,484,265
Franchise revenue	<b>370,297</b>	172,058	<b>1,049,956</b>	487,402
Marketing income	<b>74,702</b>	80,867	<b>205,280</b>	179,140
Rent income	<b>9,192</b>	17,270	<b>21,075</b>	42,994
Others (net)	<b>87,009</b>	95,840	<b>28,852</b>	48,315
Cost and expenses				
Cost of merchandise sold	<b>2,592,549</b>	2,034,751	<b>7,877,762</b>	6,185,586
General & admin expenses	<b>1,067,270</b>	958,126	<b>3,214,794</b>	2,768,941
Interest expense	<b>3,424</b>	4,232	<b>12,346</b>	11,430
Net income	<b>134,866</b>	60,167	<b>430,952</b>	224,426
Earnings per share	<b>0.29</b>	0.13	<b>0.94</b>	0.49
<b>Cash Flow Data:</b>				
Net cash from operating activities	<b>221,360</b>	(103,570)	<b>936,555</b>	214,377
Net cash used in investing activities	<b>(292,746)</b>	(104,182)	<b>(649,617)</b>	(483,845)
Net cash (used)/from financing activities	<b>(43,288)</b>	165,771	<b>(59,988)</b>	152,350
<b>Balance Sheet Data:</b>				
Total assets	<b>₱ 5,213,604</b>	₱ 4,564,348	<b>₱ 5,213,604</b>	₱ 4,564,348
Total liabilities	<b>2,895,925</b>	2,637,758	<b>2,895,925</b>	2,637,758
Total stockholders' equity	<b>2,317,679</b>	1,926,590	<b>2,317,679</b>	1,926,590

*(Amount in thousands, except EPS)*

### OVERVIEW

Philippine Seven Corporation (PSC) operates the largest convenience store network in the country. It acquired from Southland Corporation (now Seven Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven 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, processes, and systems, the rate of expansion was stepped up further in 2007.

At the end of the third quarter of 2013, total 7-Eleven convenience stores reached 937, mainly in Metro Manila and in major towns and cities in Luzon.

Out of the 937 7-Eleven Convenience Stores, about sixty nine percent are operated by third party franchisees and the remainder is company-owned.

Our retail chain of convenience stores is sustained by a manpower complement of 2,670 (regular and outsourced) employees engaged in corporate store operations and in various support service units.

We derive our revenues principally from retail sales of merchandise, marketing income and franchising activities. The primary expenses consist of cost of goods, selling, general and administrative expenses.

We at 7-Eleven 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.

By the end of the third quarter, we have opened our first forty stores in the cities of Cebu and Bacolod. In order to support the logistics requirements of these stores, the second distribution center was opened in Cebu City. This is our first venture outside Luzon, which is home to half the country's population as well as the capital of Metro Manila.

It is a significant first step in our company's push to bring modern convenience wherever feasible to the rest of the archipelago – a more logistically complex market than the contiguous and highly urbanized Luzon.

## **FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE THIRD QUARTER OF 2013.**

### **Results of Operations**

#### ***For the Third Quarter***

Net income generated in the third quarter rose by 124.2 percent to P134.9 million from P60.2 million registered in the same period last year. Earnings per share (EPS) likewise grew by 123.1 percent from P0.13 to P0.29 per share. The strong earnings results can be attributed to better than expected sales during the quarter.

System wide sales, which represent sales of all corporate and franchise operated stores grew by 27.1 percent during the July to September period. This was largely due to improvement in same store sales and opening of new stores.

At the end of September, 7-Eleven stores in the Philippines totaled to 937, up by 156 stores or 20 percent from same period in 2012.

#### ***For the Nine Months Ended September 30***

During the first nine months of 2013, net income posted an increase of 92.0 percent from P224.4 million last year to P431.0 million at the end of September 2013. This translated into an EPS of P0.94, an improvement compared to P0.49 registered a year ago.

System wide sales rose by 29.6 percent to P12.5 billion at the end of the nine-month period from P9.7 billion last year. This was driven mainly by the increase in store base and improved average sales registered by mature stores.

Although sales benefitted from better weather and a better economy, the bulk of the increase was due to the effects of the sin tax law (passed at the end of 2012) on the tobacco category.

Much of this effect was temporary, brought about by significant disruptions in the supply chain that played to our strengths. Sales in the affected categories have in fact already settled down, although higher prices and a more level playing field will continue to benefit these categories going forward. Therefore, while we continue to expect improved profitability vs. last year, it is unlikely to be at the rate recorded this quarter.

Marketing income continues to enhance the bottom-line by posting growth of 14.6 percent to P205.3 million. This represents suppliers' support from various promotion programs. Historically, bulk of marketing income is earned during the latter part of the year – more promo activities are slated, and annual volume rebates, in the fourth quarter.

Following reporting conventions of listed local and international retailers, some components of marketing income were reclassified to cost of goods sold. Previous periods were also restated for comparability. There is no impact on net income and retained earnings.

Further, new franchise operators boosted franchise revenues as it totaled to more than P1.0 billion. This also increased the ratio of franchise stores to 69 percent of all stores from 67 percent last year. In addition, the restructuring of stores previously operated under service agreement to a franchise setup, resulted into a one-time increase in franchise revenues during the year. The change in accounting treatment has no impact in net income and full comparability shall start by 2014.

EBITDA (earnings before interest, taxes, depreciation and amortization) at the end of September 2013 likewise grew by 61.1 percent to P1.1 billion. EBITDA margin was pegged at 8.8 percent from 7.1 percent in the preceding year.

Management believes the Company can sustain momentum moving forward to meet store expansion and profit goals. We however may do what we have to in the short term to protect and expand industry leadership in the long term, as rewards for market share are especially strong in the convenience store sector.

### ***Revenue and Gross Margin***

The Company registered total revenue from merchandise sales of ₱10.4 billion as of 3Q 2013, an increase of 22.1 percent compared to ₱8.5 billion in 2012. Cost of merchandise sold rose by ₱1.7 billion to ₱7.9 billion during the period.

Gross profit stood at P2.5 billion, while GP in relation to sales went down by 3.1 percent owing to the dilution brought about by the increase in Company's sales to franchise stores, which are accounted for at zero mark-up. Notwithstanding this factor, real gross profit ratio to sales slightly declined by 5 basis points compared to the level a year ago.

Along with its 24/7 convenience, PSC also offers services including bills payment, phone cards, and top-ups and also allows customers to pay for selected online purchases with cash through any 7-Eleven store. These products in the services category plus consigned goods form part of commission income.

We intend to grow services as new opportunities surface due to technological progress. In the recent quarters, we announced a partnership with major airlines and budget carrier that allows

passengers to pay for tickets booked online at our stores. This latest innovation will be implemented in partnership with our third party payment processor ECPay.

### ***Other Income***

Other income is mainly consisting of marketing income, franchise fees and rentals. The Company's total other income increased by P566.8 million, to P1.3 billion as a result of the following:

Marketing income grew by P26.1 million from the 3Q 2012 level. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The goal is to become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to P1.0 billion from P487.4 million a year ago. This was the result of the increase in number of franchise-operated stores.

In addition, the restructuring of stores previously operated under service agreement to a franchise setup, resulted into a one-time increase in franchise revenues during the year. The change in accounting treatment has no impact in net income while comparability of franchise revenues shall normalize by 2014.

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

### ***General and Administrative Expense***

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 10.0% or P109.2 million and totaled to P1.1 billion as of September 2013.

Communication, light & water were the highest contributor and accounted for 22.0% of the total G & A expenses. This is followed by depreciation and amortization with 17.2% share and 14.0% share for outside services.

Personnel costs aggregated to P86.4 million, versus P75.5 million in 3Q 2012. Ratio to sales was 2.2% in 2013 and 1.9% in 2012. Personnel costs include salaries and wages at P45.4 million, employee benefits at P35.8 million and pension costs at P5.2 million. The Company continued to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Rent expense incurred is pegged at P131.7 million or 3.4% of sales against P128.7 million or 4.2% in 2012.

### ***Interest Expense***

Cost of debt servicing in 2013 totaled to P12.3 million, an increase of 8% compared with 2012 level of P11.4 million. Outstanding loan balance at the end of 3Q 2013 was pegged at P470.0 million, a decrease of P7.8 million from P477.8 million beginning of 2013.

### ***Net Income***

Net income as of September 30, 2013 increased by 92.0% or P206.5 million to ₱431.0 million mainly due to improved sales, higher margin and increase in other income.

The net profit generated during the first nine months of the year translated into a 3.4% return on system wide sales, up from 2.3% a year ago. Moreover, EPS is pegged at ₱0.94 from ₱0.49.

### **Financial Condition**

Total assets went up by P649.3 million or 14.2% to P5.2 billion at the end of 3Q 2013. Cash and cash equivalents during the year increased by P227.0 million from P415.3 million at the beginning of the year. Receivables went down by P107.8 million due to collection of other income from suppliers. Moreover, inventories went up by P140.6 million while prepayments increased by P239.0 million coming from advance rent paid for new stores and down payments to equipment vendors. These factors resulted into a net increase in total current assets of P498.8 million compared with the beginning of year level.

Total current liabilities rose by P250.9 million or 10.5% mainly due to increase in accounts payable and accrued expenses. Current ratio had grown to 0.87 to 1 as of September 30, 2013 against 0.75 to 1 at the beginning of the year.

Property and equipment, net of accumulated depreciation increased by P228.9 million mainly due to capital expenditures spent in relation to store expansion, renovation and investment on new equipment for new product lines that cater to the varying customers needs.

Stockholders' equity at the third quarter of 2013 comprises 44.5% of total assets, compared to 42.2% at the beginning of the year. Debt to equity ratio is pegged at 1.25 in 3Q 2013 from 1.37 at end of 2012.

### **Liquidity and Capital Resources**

The Company obtains the majority of its working capital from these sources:

- Cash flows generated from retailing operations and franchising activities
- Borrowings under the revolving credit facility extended by banks

PSC has sufficient level of cash generated by continuing operating activities and adequate standby credit line from various banks that can be utilized to fund its investing and financing activities. The following are the discussion of the sources and uses of cash during the third quarter of 2013.

#### ***Cash Flows from Operating Activities***

Net cash from operating activities in 3Q 2013 amounted to P936.6 million, compared to P214.4 million cash inflow during comparable period last year. This is attributable to increase of operating income before working capital by P413.7 million and decrease of P107.8 million in receivables during the quarter. The increase in accounts payable and accrued expenses by P301.7 million compared last year also resulted into the improvement in cash flow from operations.

#### ***Cash Flows from Investing Activities***

Net cash used in investing activities amounted to P649.6 million in 3Q 2013 compared to net cash out flow of P483.8 million in 3Q 2012. Major cash outlay went to the procurement of store

equipment, and new store constructions. There were 114 new stores opened as of September 30, 2013.

Majority of the company's commitments for capital expenditures for the remainder of the year are for new store constructions and renovations. Funds for these expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

#### ***Cash Flows from Financing Activities***

Net cash used in financing activities reached P60.0 million representing net payments of bank loans in the amount of P7.8 million and interest paid on outstanding bank loans totaling P12.3 million. During the third quarter, the company paid P0.10 per share as cash dividends to holders of common shares of the Corporation totaling to P 39.9 million.

The Company is in a negative working capital position since the days required to convert inventories and receivables into cash is shorter than the days required to settle its payables. This situation results into a higher level of current liabilities vis a vis its current assets. The negative finance gap goes into cash and is well utilized since these are re-invested to finance the Company's capital expenditures. Moreover, the country's leading banks extend short-term credit lines to PSC totaling to approximately P2.0 billion. The Company utilizes the line when the need for such arises but only on a short-term basis.

Currently, PSC has no plans of raising funds either from the debt or equity market since funding for future growth can be sourced internally.

#### **Discussion and Analysis of Material Events and Uncertainties**

1. There were no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.
2. There were 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 30 of the June 30, 2013 Notes to Unaudited Consolidated Financial Statements.
6. There are no other known trends, events and uncertainties that will have a material impact on the Company's liquidity.



## DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

### **System Wide Sales**

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

### **Revenue from Merchandise Sales**

Revenue corresponds to the retail sales of corporate owned and sales made by stores under labor franchise. This also includes merchandise sales to franchise operated 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 system-wide sales. This measures the level of free cash flow generated by retail operations and is an indicator of profitability.

### **Earnings per Share (EPS)**

EPS is the ratio of net income earned during the year relative to the number of issued and outstanding common shares after due consideration to potentially dilutive shares and retrospective effect of stock dividend declaration, if any. This is an indicator of profitability per unit of shareholding to the Company.

<b>For the Third Quarter</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
System wide Sales (in '000s)	<b>4,006,271</b>	3,152,543	27.1%
Revenue from Merchandise Sales (in '000s)	<b>3,376,751</b>	2,762,430	22.2%
EBITDA (in '000s)	<b>373,437</b>	216,056	72.8%
EBITDA Margin *	<b>9.3%</b>	6.8%	36.8%
EBIT Margin *	<b>1.6%</b>	0.9%	77.8%
Net income (in '000s)	<b>134,866</b>	60,167	124.2%
Net Income Margin *	<b>3.4%</b>	1.9%	78.9%
Return on Equity (Annualized)	<b>25.4%</b>	15.1%	68.1%
Earnings Per Share	<b>0.29</b>	0.13	124.2%

<b>Year-to-Date September</b>	<b>2013</b>	<b>2012</b>	<b>% change</b>
System wide Sales (in '000s)	<b>12,549,401</b>	9,686,077	29.6%
Revenue from Merchandise Sales (in '000s)	<b>10,359,702</b>	8,484,265	22.1%
EBITDA (in '000s)	<b>1,103,694</b>	685,136	61.1%
EBITDA Margin *	<b>8.8%</b>	7.1%	23.9%
EBIT Margin *	<b>5.0%</b>	3.4%	47.1%
Net income (in '000s)	<b>430,952</b>	224,426	92.0%
Net Income Margin *	<b>3.4%</b>	2.3%	47.8%
Return on Equity (Annualized)	<b>27.1%</b>	18.9%	43.4%
Earnings Per Share	<b>0.94</b>	0.49	92.0%

\* Margin is calculated based from system wide sales

System wide sales generated by all 7-Eleven stores continued with its upward trajectory by posting growth of 27.1% and 29.6%, during the third quarter and nine month period ended September 30, 2013, respectively.

The increase in total sales can be attributed to the opening of new stores and improvement in average sales of mature stores.

At the end of September, 7-Eleven stores in the Philippines totaled to 937, up by 156 stores or 20 percent from same period in 2012.

YTD EBITDA margin improved to 8.8% of system wide sales from 7.1% during the same period in 2012. This was largely driven by the increase in operating income resulting from the faster rate of increase in sales by 29.6% compared to the 27.2% increase in SG & A expense.

Moreover, other income during the nine month period surged by 72.2% largely driven by franchise revenues and marketing income.

Net income generated during the first nine months of 2013 rose by 92.0% to P430.9 million, translating into a net margin and EPS of 3.4% and P0.94, respectively.

## SIGNATURES

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

Registrant: **PHILIPPINE SEVEN CORPORATION**



**JOSE VICTOR P. PATERNO**

President and CEO

November 11, 2013



**LAWRENCE M. DE LEON**

Manager

Finance Accounting Services Division

November 11, 2013