



# 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

May 29, 2014

## PHILIPPINE STOCK EXCHANGE, INC.

3<sup>rd</sup> Floor, PSE PLAZA, Ayala Triangle  
Ayala Avenue, Makati City

**Attention: JANET A. ENCARNACION**  
Head, Disclosure Department

Dear Ms. Encarnacion:

Attached is the copy of the Amended Current Report SEC Form 17-C Re: Cash Dividend Declaration submitted to Securities and Exchange Commission.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Evelyn S. Enriquez'.

**ATTY. EVELYN S. ENRIQUEZ**  
Corporate Secretary

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 l 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 . C  
FORM TYPE

0 7 3<sup>rd</sup> Thursday  
Month Day  
Annual Meeting

AMENDED 17-C RE: CASH  
DIVIDEND DECLARATION

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
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



# PHILIPPINE SEVEN CORPORATION

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Telephone Nos. (632) 724-44-41 to 53 / 705-52-00  
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May 29, 2014

**SECURITIES AND EXCHANGE COMMISSION**  
SEC Building, Edsa  
Mandaluyong City

Attention : **MARKETS AND SECURITIES REGULATION DEPARTMENT**

Subject : **AMENDED SEC FORM 17-C RE: CASH DIVIDEND DECLARATION**

Dear Sir:

This refers to Philippine Seven Corporation (PSC) SEC FORM 17-C submitted to Securities and Exchange Commission last April 25, 2014. In connection with our disclosure on Cash Dividend Item 9(1) of the said report, we are submitting additional documents providing certification on certain information as of Record Date of May 23, 2014.

In view of the above, we are submitting the Amended SEC Form 17-C regarding Cash Dividend Declaration with the following additional documents:

1. Certification by the Corporate Secretary on the board resolution approving the cash dividend declaration;
2. Certification by the Corporate Secretary on the Total Outstanding Capital Stock of the Corporation as of Record Date, and Total Amount of Cash Dividend for Distribution; and
3. Copy of the Audited Financial Statements as of last year, stamped received by SEC and BIR and used as basis for the cash dividend declaration (with reconciliation of retained earnings).

Thank you.

Very truly yours,


**ATTY. EVELYN S. ENRIQUEZ**  
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17  
OF THE SECURITIES REGULATION CODE  
AND SRC RULE 17.2 (c) THEREUNDER



- 1. Date of Report : May 29, 2014
- 2. SEC Identification Number : 108476
- 3. BIR Tax Identification No. : 000-390-189-000
- 4. Exact Name of Issuer as specified in its charter : Philippine Seven Corporation
- 5. Province, Country or other jurisdiction : PHILIPPINES
- 6. Industry Classification Code:  (SEC Use only)
- 7. Address of principal office : 7<sup>th</sup> Floor, The Columbia Tower  
Ortigas Avenue, Mandaluyong  
City 1501
- 8. Issuer's Telephone number, including area code : (632) 724-4441 to 51
- 9. Former name of former address, if changed since last report : n / a

10. Securities Registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Shares Outstanding – Common	458, 435, 323
Units – Warrants	0

11. Indicate the item number reported herein :

**Item 9. Other Events**



### **Item 9. Other Events**

The Board of Directors of PHILIPPINE SEVEN CORPORATION, in its Meeting of April 24, 2014 held at the PSC Boardroom 11<sup>th</sup> Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City, there being a quorum, the Board of Directors during said meeting has approved a Cash dividend declaration of Thirty Centavos (Php0.30) per share. The record date for entitlement to said cash dividend shall be on May 23, 2014 and the payment date shall be on June 18, 2014:

In compliance with the requirements of the Commission, attached herewith are the following documents:

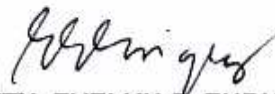
1. Certification by the Corporate Secretary on the board resolution approving the cash dividend declaration;
2. Certification by the Corporate Secretary on the Total Outstanding Capital Stock of the Corporation as of record date, and Total Amount of Cash Dividend for Distribution; and
3. Copy of the Audited Financial Statements as of the last year, stamped received by SEC and BIR and used as basis for the cash dividend declaration (with reconciliation of retained earnings).

### **SIGNATURE**

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

**PHILIPPINE SEVEN CORPORATION**

By:



**ATTY. EVELYN S. ENRIQUEZ**  
*Corporate Secretary*

**SECRETARY'S CERTIFICATE**

I, **EVELYN S. ENRIQUEZ**, Filipino, of legal age, with office address at the 7<sup>th</sup> Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City, having been duly sworn in accordance with law, hereby depose and certify that:

1. I am the Corporate Secretary of **PHILIPPINE SEVEN CORPORATION** (the "Corporation"), a corporation duly organized and existing under and by virtue of the law of the Republic of the Philippines, with principal office address at the 7<sup>th</sup> Floor, The Columbia Tower, Ortigas Avenue, Mandaluyong City, Philippines;

2. As such Corporate Secretary, I have custody of the pertinent books and records of the Corporation;

3. According to said records, at the meeting of the Board of Directors of the Corporation held at the PSC Board Room 11<sup>th</sup> Floor, The Columbia Tower Ortigas Avenue, Mandaluyong City, on 24 April 2014, at which meeting a quorum was present and voting throughout, the following resolutions were approved and adopted:

"RESOLVED, that the Board of Directors of Philippine Seven Corporation (the "Corporation") hereby approve the declaration of cash dividend in the amount of Thirty Centavos (Php0.30) per share on the outstanding capital stock of the Corporation of 458,435,323 shares or equivalent to Php 137,530,597.00. The record date for entitlement to said cash dividend shall be on May 23, 2014, which is not less than 10 days nor more than 30 days from the declaration and the payment date shall be on June 18, 2014, which is not later than 18 trading days from record date.  
"RESOLVED, ALSO, that for purposes of payment of the Cash Dividends, BDO Unibank, Inc. - Trust and Investments Group, the authorized transfer agent of the Corporation, through the following Officers signing jointly, be authorized to prepare, sign, issue and mail the cash dividend checks to stockholders entitled to receive the same in the amounts due them based on the above-mentioned declaration, less any applicable tax, which checks shall be drawn from the bank account of the Corporation opened and maintained for the said purpose.

ADORA A. YANGA - Vice President  
CARLA B. SALONGA - Asst. Vice President


"RESOLVED, FINALLY, that any one of the Chairman of the Board, President, Treasurer or Corporate Secretary is hereby authorized to file the necessary petition and other requisite documents and papers to secure approvals from the appropriate government agencies and other entities to implement the foregoing resolution."

IN WITNESS WHEREOF, I have hereunto set my hand this MAY 27 2014 day of \_\_\_\_\_ 2014 at Mandaluyong City.

  
**EVELYN S. ENRIQUEZ**  
Corporate Secretary

**SUBSCRIBED AND SWORN**, to before me this MAY 27 2014 day of \_\_\_\_\_ at \_\_\_\_\_ Philippines, affiants exhibited to me her her SSS ID No. 0372848505.

Doc. No.: 34  
Page No.: 08  
Book No.: I  
Series of 2014.

NOTARY PUBLIC   
**ALMA ALYN O. ARIAS**  
Notary Public  
April 31st Dec. 2014  
Roll No. 57961 IBP No 954656  
MCLE No. 11/ 00-1800 /23 April 2013  
PTR No. 2167555/ 09 Jan 2014  
Mandaluyong City











# PHILIPPINE SEVEN CORPORATION

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Telephone Nos. (632) 724-44-41 to 53 / 705-52-00  
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## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached herein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or the Executive Committee or the Audit Committee, as authorized by the Board, reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co. the independent auditor appointed by the stockholders for the period December 31, 2013 and 2012, respectively, have examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

  
**VICENTE T. PATERNO**  
Chairman of the Board

  
**JOSE VICTOR P. PATERNO**  
Chief Executive Officer

  
**PING-HUNG CHEN**  
Treasurer & Chief Financial Officer

  
**LAWRENCE M. DE LEON**  
Head  
Finance & Accounting Services Division

SUBSCRIBED AND SWORN TO  
BEFORE ME ON 17 APR 2014  
201 MANILA

  
ATTORNEY AT LAW **AGAOILI JR.**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2014  
PTR NO. 2411997-2014 MLA  
IBP NO. 94-897-2014 MLA  
ROLL NO. 24637 TIN NO. 104-519-068  
MCLE III - 0013521  
COMMISSION NO. 2013-023

DOC. NO. 429  
PAGE NO. 38  
BOOK NO. 38  
SERIES OF 20 14



Sycip Gorres Velayo & Co.  
8766 Ayala Avenue  
1226 Makati City  
Philippines

Tel: (632) 891-9997  
Fax: (632) 819-0870  
sgv.com.ph

BOA/PRO Reg. No. 0001  
December 26, 2012, valid until December 31, 2015  
SEC Accreditation No. 0612-PP-3 (Group A)  
November 15, 2012, valid until November 16, 2015

## INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN

The Stockholders and the Board of Directors  
Philippine Seven Corporation  
7th Floor, The Columbia Tower  
Ortigas Avenue, Mandaluyong City

We have audited the accompanying financial statements of Philippine Seven Corporation for the year ended December 31, 2013, on which we have rendered the attached report dated February 20, 2014.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the director, president, manager or principal stockholders of the Company.

SYCIP GORRES VELAYO & CO.

Julie Christine O. Mateo  
Partner  
CPA Certificate No. 93542  
SEC Accreditation No. 0780-AR-1 (Group A),  
February 2, 2012, valid until February 1, 2015  
Tax Identification No. 198-819-116  
BIR Accreditation No. 08-001998-68-2012,  
April 11, 2012, valid until April 10, 2015  
PTR No. 4225200, January 2, 2014, Makati City

February 20, 2014





## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Philippine Seven Corporation  
7th Floor, The Columbia Tower  
Ortigas Avenue, Mandaluyong City

We have audited the accompanying consolidated financial statements of Philippine Seven Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

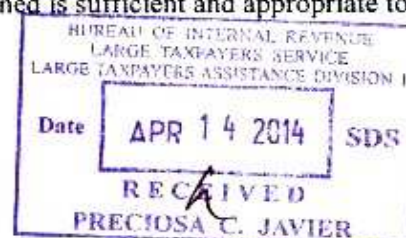
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

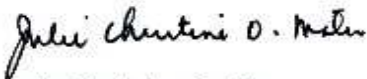




**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philippine Seven Corporation and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO &amp; CO.



Julie Christine O. Mateo

Partner

CPA Certificate No. 93542

SEC Accreditation No. 0780-AR-1 (Group A),  
February 2, 2012, valid until February 1, 2015

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April 11, 2012, valid until April 10, 2015

PTR No. 4225200, January 2, 2014, Makati City

February 20, 2014



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

		December 31	January 1
	2013	2012 (As restated - Note 2)	2012 (As restated - Note 2)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents (Notes 4, 29 and 30)	₱973,002,633	₱415,285,569	₱394,696,749
Short-term investment (Notes 4, 29 and 30)	10,810,229	10,632,115	10,409,907
Receivables (Notes 5, 29 and 30)	450,668,446	374,597,843	239,289,287
Inventories (Note 6)	900,849,891	726,986,563	519,258,936
Prepayments and other current assets (Note 7)	270,748,698	259,007,887	161,522,138
<b>Total Current Assets</b>	<b>2,606,079,897</b>	<b>1,786,509,977</b>	<b>1,325,177,017</b>
<b>Noncurrent Assets</b>			
Property and equipment (Note 8)	2,746,672,621	2,276,921,044	1,946,032,976
Deposits (Note 9)	313,888,467	249,418,061	215,964,826
Deferred income tax assets - net (Note 27)	63,203,127	50,477,480	48,181,800
Goodwill and other noncurrent assets (Note 10)	231,929,220	208,489,602	206,461,345
<b>Total Noncurrent Assets</b>	<b>3,355,693,435</b>	<b>2,785,306,187</b>	<b>2,416,640,947</b>
<b>TOTAL ASSETS</b>	<b>₱5,961,773,332</b>	<b>₱4,571,816,164</b>	<b>₱3,741,817,964</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Bank loans (Notes 11, 29 and 30)	₱560,000,000	₱477,777,778	₱374,666,667
Accounts payable and accrued expenses (Notes 12, 29 and 30)	1,872,703,489	1,261,289,989	1,243,937,457
Income tax payable	109,792,774	105,144,142	73,922,196
Other current liabilities (Notes 13 and 25)	571,066,689	541,881,392	298,435,516
<b>Total Current Liabilities</b>	<b>3,113,562,952</b>	<b>2,386,093,301</b>	<b>1,990,961,836</b>
<b>Noncurrent Liabilities</b>			
Deposits payable (Note 14)	202,888,935	181,901,238	171,457,833
Net retirement obligations (Note 24)	96,481,142	86,012,693	90,255,998
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	1,607,183	2,643,179	4,057,482
<b>Total Noncurrent Liabilities</b>	<b>306,977,260</b>	<b>276,557,110</b>	<b>271,771,313</b>
<b>Total Liabilities</b>	<b>₱3,420,540,212</b>	<b>₱2,662,650,411</b>	<b>₱2,262,733,149</b>

(Forward)



	December 31		January 1
	2013	2012 (As restated - Note 2)	2012 (As restated - Note 2)
<b>Equity</b>			
Common stock (Notes 17 and 31) - ₱1 par value			
Authorized - 600,000,000 shares as at December 31, 2013 and 2012 and 400,000,000 shares as at December 31, 2011			
Issued - 459,121,573 and 399,325,661 shares as at December 31, 2013 and 2012, respectively [held by 650 and 656 equity holders in 2013 and 2012, respectively (Note 1)]	<b>₱459,121,573</b>	₱399,325,661	₱347,329,216
Additional paid-in capital (Note 31)	<b>293,525,037</b>	293,525,037	293,525,037
Retained earnings (Notes 17 and 31)	<b>1,810,521,305</b>	1,227,553,509	849,038,228
Other comprehensive income (loss):			
Remeasurements loss on net retirement obligations - net of deferred income tax asset (Notes 24 and 27)	<b>(22,241,444)</b>	(11,545,103)	(11,114,315)
Revaluation increment on land - net of deferred income tax liability (Notes 8 and 27)	<b>3,229,895</b>	3,229,895	3,229,895
	<b>2,544,156,366</b>	1,912,088,999	1,482,008,061
Cost of 686,250 shares held in treasury (Note 17)	<b>(2,923,246)</b>	(2,923,246)	(2,923,246)
<b>Total Equity</b>	<b>2,541,233,120</b>	1,909,165,753	1,479,084,815
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱5,961,773,332</b>	₱4,571,816,164	₱3,741,817,964

See accompanying Notes to Consolidated Financial Statements.





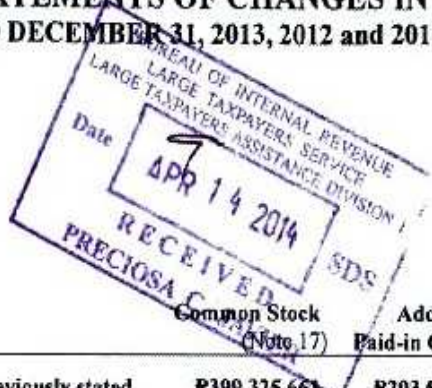
**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
<b>REVENUES</b>			
Revenue from merchandise sales	P14,133,649,192	P11,713,760,468	P9,435,604,073
Franchise revenue (Notes 20 and 32)	1,367,253,289	683,572,827	534,025,712
Marketing income (Note 20)	346,135,947	375,768,257	239,888,660
Rental income (Note 26)	48,341,871	45,751,718	44,143,593
Commission income (Note 32)	43,402,035	67,396,391	37,236,539
Interest income (Notes 4, 9, 22 and 26)	7,165,804	5,377,093	5,864,713
Other income	214,886,062	123,025,663	99,300,756
	<b>16,160,834,200</b>	<b>13,014,652,417</b>	<b>10,396,064,046</b>
<b>EXPENSES</b>			
Cost of merchandise sales (Note 18)	10,626,971,610	8,523,151,274	6,844,562,019
General and administrative expenses (Notes 19 and 32)	4,520,385,066	3,784,875,178	3,011,577,592
Interest expense (Notes 11, 15 and 21)	16,247,890	16,596,830	16,024,647
Other expenses	13,799,871	14,595,186	4,806,251
	<b>15,177,404,437</b>	<b>12,339,218,468</b>	<b>9,876,970,509</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>983,429,763</b>	<b>675,433,949</b>	<b>519,093,537</b>
<b>PROVISION FOR INCOME TAX</b> (Note 27)	<b>300,802,114</b>	<b>210,257,926</b>	<b>162,330,278</b>
<b>NET INCOME</b>	<b>682,627,649</b>	<b>465,176,023</b>	<b>356,763,259</b>
<b>OTHER COMPREHENSIVE LOSS NOT TO BE RECLASSIFIED TO PROFIT AND LOSS IN SUBSEQUENT PERIODS</b>			
Remeasurement loss on net retirement obligations - net of tax (Note 24)	(10,696,341)	(430,788)	(11,114,315)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P671,931,308</b>	<b>P464,745,235</b>	<b>P345,648,944</b>
<b>BASIC/DILUTED EARNINGS</b>			
<b>PER SHARE</b> (Note 28)	<b>P1.49</b>	<b>P1.01</b>	<b>P0.78</b>

See accompanying Notes to Consolidated Financial Statements.



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011**



	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)	Other Comprehensive Income (Loss)		Treasury Stock (Note 17)	Total	
				Remeasurements Loss on Net Retirement Obligations - Net of Tax (Note 2)	Revaluation Increment on Land - Net of Tax			
<b>Balances at January 1, 2013 as previously stated</b>	<b>₱399,325,661</b>	<b>₱293,525,037</b>	<b>₱1,233,432,997</b>	<b>₱-</b>	<b>₱3,229,895</b>	<b>₱1,929,513,590</b>	<b>(₱2,923,246)</b>	<b>₱1,926,590,344</b>
Effect of adoption of the revised PAS 19 (Note 2)	-	-	(5,879,488)	(11,545,103)	-	(17,424,591)	-	(17,424,591)
<b>Balances at January 1, 2013, as restated</b>	<b>399,325,661</b>	<b>293,525,037</b>	<b>1,227,553,509</b>	<b>(11,545,103)</b>	<b>3,229,895</b>	<b>1,912,088,999</b>	<b>(2,923,246)</b>	<b>1,909,165,753</b>
Net income during the year	-	-	682,627,649	-	-	682,627,649	-	682,627,649
Other comprehensive loss	-	-	-	(10,696,341)	-	(10,696,341)	-	(10,696,341)
Total comprehensive income	-	-	682,627,649	(10,696,341)	-	671,931,308	-	671,931,308
Stock dividends (Note 17)	59,795,912	-	(59,795,912)	-	-	-	-	-
Cash dividends (Note 17)	-	-	(39,863,941)	-	-	(39,863,941)	-	(39,863,941)
<b>Balances at December 31, 2013</b>	<b>₱459,121,573</b>	<b>₱293,525,037</b>	<b>₱1,810,521,305</b>	<b>(₱22,241,444)</b>	<b>₱3,229,895</b>	<b>₱2,544,156,366</b>	<b>(₱2,923,246)</b>	<b>₱2,541,233,120</b>
<b>Balances at January 1, 2012 as previously stated</b>	<b>₱347,329,216</b>	<b>₱293,525,037</b>	<b>₱855,468,208</b>	<b>₱-</b>	<b>₱3,229,895</b>	<b>₱1,499,552,356</b>	<b>(₱2,923,246)</b>	<b>₱1,496,629,110</b>
Effect of adoption of the revised PAS 19 (Note 2)	-	-	(6,429,980)	(11,114,315)	-	(17,544,295)	-	(17,544,295)
<b>Balances at January 1, 2012, as restated</b>	<b>347,329,216</b>	<b>293,525,037</b>	<b>849,038,228</b>	<b>(11,114,315)</b>	<b>3,229,895</b>	<b>1,482,008,061</b>	<b>(2,923,246)</b>	<b>1,479,084,815</b>
Net income, as previously stated	-	-	464,625,531	-	-	464,625,531	-	464,625,531
Effect of adoption of the revised PAS 19 (Note 2)	-	-	550,492	-	-	550,492	-	550,492
Net income, as restated	-	-	465,176,023	-	-	465,176,023	-	465,176,023
Other comprehensive loss, as previously stated	-	-	-	-	-	-	-	-
Effect of adoption of the revised PAS 19 (Note 2)	-	-	-	(430,788)	-	(430,788)	-	(430,788)
Other comprehensive loss, as restated	-	-	-	(430,788)	-	(430,788)	-	(430,788)
Total comprehensive income, as restated	-	-	465,176,023	(430,788)	-	464,745,235	-	464,745,235
Stock dividends (Note 17)	51,996,445	-	(51,996,445)	-	-	-	-	-
Cash dividends (Note 17)	-	-	(34,664,297)	-	-	(34,664,297)	-	(34,664,297)
<b>Balances at December 31, 2012</b>	<b>₱399,325,661</b>	<b>₱293,525,037</b>	<b>₱1,227,553,509</b>	<b>(₱11,545,103)</b>	<b>₱3,229,895</b>	<b>₱1,912,088,999</b>	<b>(₱2,923,246)</b>	<b>₱1,909,165,753</b>





	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)	Other Comprehensive Income (Loss)		Total	Treasury Stock (Note 17)	Total
				Remeasurements Loss on Net Retirement Obligations - Net of Tax (Note 2)	Revaluation Increment on Land - Net of Tax			
Balances at January 1, 2011, as previously stated	₱302,114,918	₱293,525,037	₱574,482,384	₱-	₱3,229,895	₱1,173,352,234	(₱2,923,246)	₱1,170,428,988
Effect of adoption of the revised PAS 19 (Note 2)	-	-	(6,850,250)	-	-	(6,850,250)	-	(6,850,250)
<b>Balances at January 1, 2011, as restated</b>	<b>302,114,918</b>	<b>293,525,037</b>	<b>567,632,134</b>	<b>-</b>	<b>3,229,895</b>	<b>1,166,501,984</b>	<b>(2,923,246)</b>	<b>1,163,578,738</b>
Net income, as previously stated	-	-	356,342,989	-	-	356,342,989	-	356,342,989
Effect of adoption of the revised PAS 19 (Note 2)	-	-	420,270	-	-	420,270	-	420,270
Net income, as restated	-	-	356,763,259	-	-	356,763,259	-	356,763,259
Other comprehensive loss, as previously stated	-	-	-	-	-	-	-	-
Effect of adoption of the revised PAS 19 (Note 2)	-	-	-	(11,114,315)	-	(11,114,315)	-	(11,114,315)
Other comprehensive loss, as restated	-	-	-	(11,114,315)	-	(11,114,315)	-	(11,114,315)
Total comprehensive income, as restated	-	-	356,763,259	(11,114,315)	-	345,648,944	-	345,648,944
Stock dividends (Note 17)	45,214,298	-	(45,214,298)	-	-	-	-	-
Cash dividends (Note 17)	-	-	(30,142,867)	-	-	(30,142,867)	-	(30,142,867)
<b>Balances at December 31, 2011</b>	<b>₱347,329,216</b>	<b>₱293,525,037</b>	<b>₱849,038,228</b>	<b>(₱11,114,315)</b>	<b>₱3,229,895</b>	<b>₱1,482,008,061</b>	<b>(₱2,923,246)</b>	<b>₱1,479,084,815</b>

See accompanying Notes to Consolidated Financial Statements.

BUREAU OF INTERNAL REVENUE  
LARGE TAXPAYERS SERVICE  
LARGE TAXPAYERS ASSISTANCE DIVISION I

Date: APR 14 2014 SDS

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**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱983,429,763</b>	₱675,433,949	₱519,093,537
Adjustments for:			
Depreciation and amortization (Notes 8 and 19)	<b>709,518,959</b>	527,786,925	378,355,521
Net retirement benefits cost (Notes 23 and 24)	<b>16,858,692</b>	15,420,495	11,768,015
Interest expense (Notes 11, 15, and 21)	<b>16,247,890</b>	16,596,830	16,024,647
Interest income (Notes 4, 9, 22 and 26)	<b>(7,165,804)</b>	(5,377,093)	(5,864,713)
Amortization of:			
Deferred lease (Notes 10 and 26)	<b>2,410,613</b>	2,485,728	2,779,684
Software and other program costs (Notes 10 and 19)	<b>1,316,561</b>	1,490,475	2,598,741
Deferred revenue on exclusivity contract (Notes 16 and 32)	<b>(818,452)</b>	(1,934,524)	(1,934,524)
Deferred revenue on finance lease (Notes 16 and 26)	<b>(589,567)</b>	(589,567)	(589,567)
Unrealized foreign exchange loss (gain)	<b>296,601</b>	439,728	(49,798)
Operating income before working capital changes	<b>1,721,505,256</b>	1,231,752,946	922,181,543
Increase in:			
Receivables	<b>(75,865,909)</b>	(130,841,872)	(75,684,791)
Inventories	<b>(173,863,328)</b>	(207,727,627)	(116,839,359)
Prepayments and other current assets	<b>(11,740,811)</b>	(97,485,749)	(32,811,310)
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>610,988,026</b>	17,353,481	165,298,414
Other current liabilities	<b>29,557,320</b>	244,555,664	32,636,218
Deposits payable	<b>20,987,697</b>	10,443,405	28,595,696
Deferred revenue	<b>-</b>	-	(418,727)
Retirement benefits contributions (Note 24)	<b>(21,670,730)</b>	(20,279,212)	(4,629,263)
Cash generated from operations	<b>2,099,897,521</b>	1,047,771,036	918,328,421
Income taxes paid	<b>(304,294,983)</b>	(181,147,036)	(133,352,439)
Interest received	<b>4,350,085</b>	2,866,833	2,933,116
Net cash provided by operating activities	<b>1,799,952,623</b>	869,490,833	787,909,098
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Property and equipment (Note 8)	<b>(1,179,270,536)</b>	(858,674,993)	(717,091,736)
Software and other program costs (Note 10)	<b>(3,019,195)</b>	(190,000)	-
Increase in:			
Deposits	<b>(61,940,757)</b>	(35,553,176)	(37,156,223)
Goodwill and other noncurrent assets	<b>(24,147,597)</b>	(7,405,740)	(7,922,962)
Short-term investment	<b>(178,114)</b>	(222,208)	(268,352)
Collection of lease receivable (Note 26)	<b>-</b>	1,591,280	1,591,280
Net cash used in investing activities	<b>(1,268,556,199)</b>	(900,454,837)	(760,847,993)

(Forward)

	Years Ended December 31		
	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availments of bank loans (Note 11)	P550,000,000	P210,000,000	P230,000,000
Payments of bank loans (Note 11)	(467,777,778)	(106,888,889)	(175,333,333)
Interest paid	(15,822,416)	(16,597,779)	(15,725,011)
Cash dividends paid (Note 17)	(39,863,941)	(34,664,297)	(30,142,867)
Net cash provided by financing activities	26,535,865	51,849,035	8,798,789
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	(215,225)	(296,211)	107,321
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
	557,717,064	20,588,820	35,967,215
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
	415,285,569	394,696,749	358,729,534
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
	P973,002,633	P415,285,569	P394,696,749

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 the Consolidated Financial Statements**

Corporate Information

Philippine Seven Corporation (the Company or PSC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 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 51.56% of the Company’s outstanding shares. The remaining 48.44% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC), which is incorporated in Taiwan, Republic of China.

The Company has its primary listing on the Philippine Stock Exchange. As at December 31, 2013 and 2012, the Company has 650 and 656 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 Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 20, 2014.

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

Basis of Preparation

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

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the consolidated financial statements. An additional balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies [see discussion on Changes in Accounting Policies - Philippine Accounting Standard (PAS) 19, *Employee Benefits* (Revised)].



### 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 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 Group applied for the first time, amendments that require restatement of previous financial statements. These include PAS 19, *Employee Benefits* (Revised 2011) and PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, PFRS 12, *Disclosures of Interests in Other Entities* and PFRS 13, *Fair Value Measurement* resulted in additional disclosures in the financial statements.

Several other amendments apply for the first time in 2013. However, they do not impact the annual financial statements of the Group.

The nature and the impact of each new standard and amendment are described below:

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Government Loans*  
These amendments require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments do not apply to the Group as it is not a first-time adopter of PFRS.
- 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 affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 29 to the consolidated financial statements.

- *PFRS 10, Consolidated Financial Statements*  
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (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.

A reassessment of control was performed by the Group in accordance with the provisions of PFRS 10. The Group 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 Group has no existing arrangements with other entities that falls within the scope of this standard. This standard has no impact in the Group's financial position or performance.
- *PFRS 12, Disclosure of Interest with Other Entities*  
PFRS 12 includes all of the disclosures related to consolidated financial statements that were a 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. Adoption of PFRS 12 affects disclosures only and has no impact on the Group's financial position or performance (see discussion on Accounting Policies - Basis of Consolidation).
- *PFRS 13, Fair Value Measurement*  
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. This standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. It defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.



- Amendments to PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI*

These amendments 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 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.

- PAS 19, *Employee Benefits* (Revised)

PAS 19 ranges 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.

For defined benefit plans, the revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The revised standard replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group’s financial position and financial performance.

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 consolidated financial statements upon adoption of the standard.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
<u>Consolidated balance sheets</u>		
Net retirement obligations	₱24,892,273	₱25,063,279
Deferred income tax asset	7,467,682	7,518,984
Other comprehensive loss	(11,545,103)	(11,114,315)
Retained earnings	(5,879,488)	(6,429,980)
	<u>2012</u>	<u>2011</u>
<u>Consolidated statements of comprehensive income</u>		
General and administrative expenses	(₱786,417)	(₱600,386)
Provision for deferred income tax	235,925	180,116
Net income	<u>550,492</u>	<u>420,270</u>
Remeasurements loss on net retirement obligations	(615,412)	(15,877,593)
Deferred income tax	184,624	4,763,278
Other comprehensive loss - net of tax	(430,788)	(11,114,315)
Total comprehensive income (loss)	<u>₱119,704</u>	<u>(₱10,694,045)</u>

In 2012 and 2011, effect on basic/diluted earnings per share related to the restatement amounted to ₱0.0012 and ₱0.0009, respectively.

The adoption did not have any impact on the statements of cash flows in 2012 and 2011.

- 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. This amendment has no significant impact on the Group's financial statements.
- 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 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. This amendment has no significant impact on the Group's financial statements.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation is not relevant to 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 Company adopted these amendments for the current year.

- *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 has no 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, *Income Taxes*. The amendment does not have any significant impact on Group's 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.

New Accounting Standards, Interpretations, and Amendments  
to Existing Standards Effective Subsequent to December 31, 2013



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:

*Effective in 2014*

- *Investment Entities* (Amendments to PFRS 10, PFRS 12 and PAS 27)  
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*  
These amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. These amendments are not expected to have an impact to the Group's financial statements as there are no contributions from employees or third parties to the defined benefit plan.
- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*  
These 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 affect presentation only and are not expected to impact the Group's financial position or performance.
- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*  
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and are not expected to have an impact on the Group's financial position or performance.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company will consider this amendment for future purchase of derivatives.
- Philippine Interpretation IFRIC 21, *Levies*  
This interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered

upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

*Annual Improvements to PFRS (2010-2012 cycle)*

The *Annual Improvements to PFRS (2010-2012 cycle)* contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*  
This amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it currently has no share-based payment transactions.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
This amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*  
These amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and are not expected to have an impact on the Group's financial position or performance.

□ *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*

This amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is not expected to have an impact to the Group's balance sheet or statement of comprehensive income since short-term receivables and payables of the Group are already held at invoice amounts.

□ *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

This amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Group shall consider this amendment for future revaluations of property, plant and equipment.

□ *PAS 24, Related Party Disclosures - Key Management Personnel*

These amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and are not expected to have an impact on the Group's balance sheet or statement of comprehensive income.

□ *PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

These amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.



- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The Group shall consider these amendments for future revaluations of intangible assets.

#### *Annual Improvements to PFRS (2011-2013 cycle)*

The *Annual Improvements to PFRS (2011-2013 cycle)* contain non-urgent but necessary amendments to the following standards:

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*  
This amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*  
This amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The Group shall consider this amendment for future business combinations.
- *PFRS 13, Fair Value Measurement - Portfolio Exception*  
This amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment is not expected to have a significant impact on the Group's balance sheet or statement of comprehensive income.
- *PAS 40, Investment Property*  
This amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment is not expected to have an impact on the Group's balance sheet or statement of comprehensive income.

#### *Effective Date to be Determined*

- *PFRS 9, Financial Instruments*

This amendment reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model hedge accounting is still ongoing, with a view to replace 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 designated as at FVPL using the fair value option, 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 relating to the entity's own credit risk 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 to PFRS 9, including the embedded derivative bifurcation separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- *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 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 is not expected to have an impact on the financial statements of the Group.

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2013. Control is achieved when the Company is

exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

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

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

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

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

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

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

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



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

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

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

The financial statements of the subsidiaries are prepared for the same 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 at December 31, 2013 and 2012, 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 at December 31, 2013 and 2012 (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 (excluding statutory liabilities), and cumulative redeemable preferred shares as at December 31, 2013 and 2012 (see Note 29).

#### Determination of Fair Value

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

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

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

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

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

#### 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:

	<u>Years</u>
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 of the same asset previously recognized in profit or loss, the increase is recognized in profit or loss. A revaluation deficit is recognized in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in “Revaluation increment on land - net of deferred income tax liability” account in equity.

#### Deposits

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

#### Intangible Assets

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and amortization method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite useful lives are tested for impairment annually at the 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.

#### OCI

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

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. The Group has assessed its revenue arrangements against the criteria enumerated under PAS 18, *Revenue Recognition*, and concluded that it is acting as principal in all arrangements, except for its sale of consigned

goods. The following specific recognition criteria must also be met before revenue is recognized:

#### *Merchandise Sales*

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

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

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

#### *Franchise*

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

#### *Marketing*

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

#### *Rental*

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

#### *Commission*

Commission income is recognized upon the sale of consigned goods.

#### *Interest*

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

#### *Other Income*

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

#### 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.

#### Retirement Benefits

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

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

Net retirement benefits cost comprise the following:

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

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

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

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

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

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

#### *Termination Benefit*

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

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes



related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

#### *Employee Leave Entitlement*

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

#### 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.

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### **3. Use of Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as 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 Group, the functional currency of the Group has been determined to be the Peso. The Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the revenue, costs and expenses of the Group.

##### *Classification of Financial Instruments*

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

Financial assets are classified as financial assets at FVPL, HTM 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 at December 31, 2013 and 2012, 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 cost are impaired. Thus, no impairment losses on these non-financial assets were recognized in the years ended December 31, 2013, 2012 and 2011. The carrying value of these non-financial assets is as follows:

	<b>2013</b>	2012
Property and equipment (Note 8)	<b>P2,746,672,621</b>	P2,276,921,044
Rent deposits (Note 9)	<b>232,020,464</b>	183,893,042
Software and program cost (Note 10)	<b>2,886,285</b>	1,183,651

#### 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 observable market 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 ₱1,516,908,752 and ₱869,050,177

as at December 31, 2013 and 2012, respectively. Allowance for impairment on loans and receivables amounted to ₱18,960,182 and ₱8,227,261 as at December 31, 2013 and 2012, respectively (see Note 5). Provision for impairment amounted to ₱12,671,486, ₱788,778 and

₱3,810,991 in 2013, 2012 and 2011, respectively (see Note 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 ₱900,849,891 and ₱726,986,563 as at December 31, 2013 and 2012, respectively (see Note 6). No provisions for decline in inventory value were recognized in 2013, 2012 and 2011.

*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 ₱2,746,672,621 and ₱2,276,921,044 as at December 31, 2013 and 2012, respectively (see Note 8). The carrying amount of software and program cost amounted to ₱2,886,285 and ₱1,183,651 as at December 31, 2013 and 2012, 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 ₱1,384,241 deferred income tax liability. The Group believes that carrying value of the revalued parcels of land as at December 31, 2013 and 2012 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 at December 31, 2013 and 2012. The carrying value of goodwill amounted to

₱65,567,524 as at December 31, 2013 and 2012 (see Note 10). No impairment losses were recognized in 2013, 2012 and 2011.

*Estimation of Retirement Benefits*

The net retirement benefits cost and the present value of retirement obligations are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the

valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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

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

The Group's net retirement obligations amounted to ₱96,481,142 and ₱86,012,693 as at December 31, 2013 and 2012, respectively (see Note 24). Retirement benefits cost amounted to ₱16,858,692, ₱15,420,495 and ₱11,768,015 in 2013, 2012 and 2011, respectively (see Notes 23 and 24).

*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 at December 31, 2013 and 2012, the Group has provisions amounting to ₱13,704,073 and ₱7,066,290, respectively 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.

*Realizability of Deferred Income Tax Assets*

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

The Group's recognized deferred income tax assets amounted to ₱69,131,632 and ₱56,504,022 as at December 31, 2013 and 2012, respectively (see Note 27).

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

	<b>2013</b>	2012
Cash on hand and in banks	<b>₱922,422,571</b>	₱367,285,569
Cash equivalents	<b>50,580,062</b>	48,000,000
	<b>₱973,002,633</b>	₱415,285,569

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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.

As at December 31, 2013 and 2012, short-term investment amounting to ₱10,810,229 and ₱10,632,115, respectively, pertains to time deposit which has a maturity date of more than 90 days.

Interest income from savings and deposits accounts and short-term investment amounted to ₱4,350,085, ₱2,857,696 and ₱2,911,480 in 2013, 2012 and 2011, respectively (see Note 22).

## 5. Receivables

	2013	2012
Franchisees (Note 32)	<b>₱379,544,124</b>	₱184,444,213
Suppliers	<b>48,657,689</b>	139,512,975
Employees	<b>14,936,783</b>	12,993,209
Store operators	<b>12,547,006</b>	19,452,194
Rent	<b>4,760,464</b>	5,638,673
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	<b>3,118,978</b>	1,637,912
Current portion of:		
Lease receivable - net of unearned interest income amounting to ₱96,445 and ₱197,221 as at December 31, 2013 and 2012, respectively (Notes 10 and 26)	<b>3,086,114</b>	1,394,060
Notes receivable (Notes 10, 29 and 30)	<b>1,033,914</b>	1,403,344
Insurance receivable	<b>585,057</b>	614,135
Others	<b>1,358,499</b>	15,734,389
	<b>469,628,628</b>	382,825,104
Less allowance for impairment	<b>18,960,182</b>	8,227,261
	<b>₱450,668,446</b>	₱374,597,843

The classes of receivables of the Group are as follows:

- Franchisees - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations, cash deposits and deposits still in transit, negative balance on franchisees' holding account and inventory variation noted during monthly store audits.
- Suppliers - pertains to receivables from the Group's suppliers for display allowances, annual volume discount and commission income from different service providers.
- Employees - includes car loans, salary loans and cash shortages from stores which are charged to employees.
- Store operators - pertains to the advances given to third party store operators under service agreements (see Note 32).
- 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.

- Lease receivable - pertains to a five-year sale and leaseback finance lease agreement entered by the Company with an armored car service provider (see Note 26).
- Notes receivable - pertains to a receivable issued by a third party borrower evidenced by written promises of payment with three to five year terms maturing in 2013 and 2014. As at December 31, 2013 and 2012, unamortized discount amounted to ₱35,562 and ₱124,413, respectively. Accretion of interest income amounted to ₱88,851, ₱128,251 and ₱186,596 in 2013, 2012 and 2011, respectively (see Note 22).

Receivables are noninterest-bearing and are generally on 30 to 90 day terms except for lease receivable with a 7% interest rate per annum (see Note 26).

Impairment on receivables is based on individual assessment of accounts. Movements in allowance for impairment are as follows:

	<b>2013</b>			
	<b>Beginning balances</b>	<b>Provision for the year (Note 19)</b>	<b>Write-off</b>	<b>Ending Balances</b>
Franchisees	<b>₱214,342</b>	<b>₱-</b>	<b>₱-</b>	<b>₱214,342</b>
Suppliers	<b>5,804,455</b>	<b>11,700,044</b>	<b>(1,938,565)</b>	<b>15,565,934</b>
Employees	<b>391,918</b>	<b>148,003</b>	<b>-</b>	<b>539,921</b>
Store operators	<b>365,801</b>	<b>-</b>	<b>-</b>	<b>365,801</b>
Rent	<b>1,450,745</b>	<b>823,439</b>	<b>-</b>	<b>2,274,184</b>
<b>Total</b>	<b>₱8,227,261</b>	<b>₱12,671,486</b>	<b>(₱1,938,565)</b>	<b>₱18,960,182</b>

	2012			
	Beginning balances	Provision for the year (Note 19)	Write-off	Ending Balances
Franchisees	₱214,342	₱–	₱–	₱214,342
Suppliers	5,304,455	500,000	–	5,804,455
Employees	391,918	–	–	391,918
Store operators	365,801	–	–	365,801
Rent	1,161,967	288,778	–	1,450,745
<b>Total</b>	<b>₱7,438,483</b>	<b>₱788,778</b>	<b>₱–</b>	<b>₱8,227,261</b>

## 6. Inventories

	2013	2012
At cost (Note 18):		
Warehouse merchandise	<b>₱618,738,640</b>	₱415,590,676
Store merchandise	<b>282,111,251</b>	311,395,887
	<b>₱900,849,891</b>	₱726,986,563

## 7. Prepayments and Other Current Assets

	2013	2012
Current portion of:		
Deferred input VAT	<b>₱78,364,535</b>	₱64,041,931
Deferred lease (Notes 10 and 26)	<b>1,421,460</b>	421,194
Prepaid:		
Rent (Note 10)	<b>63,373,604</b>	42,241,979
(Forward)		
	<b>2013</b>	<b>2012</b>
Store expenses	<b>₱34,455,780</b>	₱11,625,230
Uniform	<b>6,066,259</b>	1,704,252
Taxes	<b>4,765,253</b>	3,558,689
Repairs and maintenance	<b>1,218,655</b>	2,214,838
Advances to suppliers	<b>55,761,777</b>	109,149,544
Advances for expenses	<b>13,788,613</b>	6,600,314
Supplies	<b>3,528,830</b>	3,256,203
Dues and subscription	<b>571,651</b>	2,983,004
Others	<b>7,432,281</b>	11,210,709
	<b>₱270,748,698</b>	₱259,007,887

Deferred input VAT pertains to the input VAT on the acquisition of capital goods over ₱ 1,000,000 which are being amortized over the useful life or 60 months, whichever is shorter, commencing on the date of acquisition.

## 8. Property and Equipment

Movements in property and equipment are as follows:

2013									
	Land- at revalued amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
<b>Costs/Revalued Amount</b>									
Beginning balances	P44,481,000	P118,154,849	P1,740,413,144	P579,371,098	P43,646,176	P211,556,342	P1,201,609,872	P67,369,297	P4,006,601,778
Additions	-	-	525,981,492	207,879,041	10,587,673	33,864,213	205,468,926	195,489,191	1,179,270,536
Retirements	-	-	(66,288,608)	(24,194,070)	(9,103,746)	(435,198)	(152,838,708)	-	(252,860,330)
Reclassifications	-	-	-	-	-	-	167,659,566	(167,659,566)	-
Ending balances	44,481,000	118,154,849	2,200,106,028	763,056,069	45,130,103	244,985,357	1,421,899,656	95,198,922	4,933,011,984
<b>Accumulated Depreciation and Amortization</b>									
Beginning balances	-	70,181,591	690,911,415	256,680,089	20,199,135	134,639,263	557,069,241	-	1,729,680,734
Depreciation and amortization (Note 19)	-	3,943,271	367,196,300	112,543,884	8,272,483	31,165,352	186,397,669	-	709,518,959
Retirements	-	-	(66,288,608)	(24,194,070)	(9,103,746)	(435,198)	(152,838,708)	-	(252,860,330)
Ending balances	-	74,124,862	991,819,107	345,029,903	19,367,872	165,369,417	590,628,202	-	2,186,339,363
<b>Net Book Values</b>	<b>P44,481,000</b>	<b>P44,029,987</b>	<b>P1,208,286,921</b>	<b>P418,026,166</b>	<b>P25,762,231</b>	<b>P79,615,940</b>	<b>P831,271,454</b>	<b>P95,198,922</b>	<b>P2,746,672,621</b>

2012									
	Land- at revalued Amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
<b>Costs/Revalued Amount</b>									
Beginning balances	P44,481,000	P110,179,849	P1,307,026,502	P454,106,297	P38,988,602	P176,359,215	P978,634,236	P72,806,750	P3,182,582,451
Additions	-	7,975,000	449,148,981	129,124,221	8,818,393	36,162,964	127,255,239	100,190,195	858,674,993
Retirements	-	-	(15,762,339)	(3,859,420)	(4,160,819)	(965,837)	(9,907,251)	-	(34,655,666)
Reclassifications	-	-	-	-	-	-	105,627,648	(105,627,648)	-
Ending balances	44,481,000	118,154,849	1,740,413,144	579,371,098	43,646,176	211,556,342	1,201,609,872	67,369,297	4,006,601,778
<b>Accumulated Depreciation and Amortization</b>									
Beginning balances	-	64,958,094	425,110,107	194,721,454	15,683,194	105,282,852	430,793,774	-	1,236,549,475
Depreciation and amortization (Note 19)	-	5,223,497	281,563,647	65,818,055	8,676,760	30,322,248	136,182,718	-	527,786,925
Retirements	-	-	(15,762,339)	(3,859,420)	(4,160,819)	(965,837)	(9,907,251)	-	(34,655,666)
Ending balances	-	70,181,591	690,911,415	256,680,089	20,199,135	134,639,263	557,069,241	-	1,729,680,734
<b>Net Book Values</b>	<b>P44,481,000</b>	<b>P47,973,258</b>	<b>P1,049,501,729</b>	<b>P322,691,009</b>	<b>P23,447,041</b>	<b>P76,917,079</b>	<b>P644,540,631</b>	<b>P67,369,297</b>	<b>P2,276,921,044</b>

Construction in-progress pertains to costs of constructing new stores and renovation of old stores. Completion of construction and renovation is expected within three months to one year from construction date. The costs of constructed stores are accumulated until such time the relevant assets are completed and put into operational use.

On February 5, 2007, the Group revalued its land with cost amounting to P39,866,864 at appraised value of P44,481,000, as determined by a professionally qualified independent appraiser. The appraisal increase of P3,229,895, net of P1,384,241 deferred income tax liability (see Note 22), resulting from the revaluation was credited to "Revaluation increment on land" account under equity section of the consolidated balance sheets. The appraised value was determined using the market data approach, wherein the value of the land is based on sales and listings of comparable properties registered within the vicinity.

The cost of fully depreciated property and equipment that are still being used in operations amounted to P428,587,084 and P232,325,091 as at December 31, 2013 and 2012, respectively. No property and equipment are pledged nor treated as security for the outstanding liabilities as at December 31, 2013 and 2012.

## 9. Deposits

	2013	2012
Rent	<b>P232,020,464</b>	P183,893,042
Utilities (Notes 29 and 30)	<b>42,509,396</b>	33,663,791
Refundable (Notes 29 and 30)	<b>34,871,384</b>	25,843,670
Others (Notes 29 and 30)	<b>4,487,223</b>	6,017,558
	<b>P313,888,467</b>	P249,418,061

### Refundable

Refundable deposits on rent are computed at amortized cost as follows:



	2013	2012
Face value of security deposits	<b>₱46,053,889</b>	₱48,602,936
Additions	<b>7,446,475</b>	2,248,407
Refunded	–	(4,797,455)
Unamortized discount	<b>(18,628,980)</b>	(20,210,218)
	<b>₱34,871,384</b>	₱25,843,670

Movements in unamortized discount are as follows:

	2013	2012
Beginning balance	<b>₱20,210,218</b>	₱21,813,932
Additions	<b>948,411</b>	496,227
Accretion (Note 22)	<b>(2,529,649)</b>	(2,099,941)
Ending balance	<b>₱18,628,980</b>	₱20,210,218

#### 10. Goodwill and Other Noncurrent Assets

	2013	2012
Noncurrent portion of:		
Deferred input VAT	<b>₱143,808,850</b>	₱115,865,751
Deferred lease (Note 26)	<b>12,819,183</b>	15,281,651
Lease receivable - net of unearned interest income amounting to ₱5,773 and ₱102,216 as at December 31, 2013 and 2012, respectively (Notes 26, 29 and 30)	<b>559,441</b>	2,054,276
Note receivable (Notes 5, 29 and 30)	–	955,355
Intangible assets:		
Goodwill	<b>65,567,524</b>	65,567,524
Software and program cost	<b>2,886,285</b>	1,183,651
Garnished accounts (Note 34)	<b>4,876,522</b>	5,223,977
Others	<b>1,411,415</b>	2,357,417
	<b>₱231,929,220</b>	₱208,489,602

#### 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:

	2013	2012
Beginning balance	<b>₱15,702,845</b>	₱17,692,345
Additions	<b>948,411</b>	496,228
Less amortization (Note 26)	<b>2,410,613</b>	2,485,728
Ending balance	<b>14,240,643</b>	15,702,845
Less current portion (Note 7)	<b>1,421,460</b>	421,194
Noncurrent portion	<b>₱12,819,183</b>	₱15,281,651

### 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 8.27% in 2013 and 10.67% in 2012. The cash flows beyond the five-year period are extrapolated using a 3% growth rate in 2013 and 2012 which is the same as the long-term average growth rate for the retail industry.

No store acquired from Jollimart was closed in 2013 and 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 2013, 2012 and 2011.

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 2013 and 2012 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 67.00% - 72.00% 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:

- Average high and low range of average bank lending rates as of year-end
- Yield on a 10-year Philippine zero coupon bond as of valuation date
- Market risk premium
- Company relevered beta
- 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 6.84% and 6.10% in the discount rates, or a reduction of growth rates by 12.90% and 3.00%, would give a

value in use equal to the carrying amount of the cash generating units in 2013 and 2012, respectively.

#### Software and Program Cost

Movements in software and program cost are as follows:

	<b>2013</b>	2012
Cost:		
Beginning balance	<b>₱14,851,985</b>	₱14,661,985
Additions	<b>3,019,195</b>	190,000
Ending balance	<b>17,871,180</b>	14,851,985
Accumulated amortization:		
Beginning balance	<b>13,668,334</b>	12,177,859
Amortization (Note 19)	<b>1,316,561</b>	1,490,475
Ending balance	<b>14,984,895</b>	13,668,334
Net book value	<b>₱2,886,285</b>	₱1,183,651

#### 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).

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### 11. Bank Loans

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2014 and 2013 with annual interest rates ranging from 2.50% to 3.30%, 3.30% to 3.75% and 3.50% to 4.25% in 2013, 2012 and 2011, 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>2013</b>	2012
Beginning balance	<b>₱477,777,778</b>	₱374,666,667
Availments	<b>550,000,000</b>	210,000,000
Payments	<b>(467,777,778)</b>	(106,888,889)
Ending balance	<b>₱560,000,000</b>	₱477,777,778

Interest expense from these bank loans amounted to ₱16,033,270, ₱16,338,080 and ₱15,697,647 in 2013, 2012 and 2011, respectively (see Note 21). Interest payable amounted to ₱1,689,053 and ₱1,173,579 as at December 31, 2013 and 2012, respectively (see Note 12).

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**12. Accounts Payable and Accrued Expenses**

	2013	2012
Trade payable	<b>₱1,575,446,279</b>	₱1,077,213,586
Utilities	<b>71,354,276</b>	55,148,912
Rent (Note 26)	<b>58,097,685</b>	51,355,557
Employee benefits	<b>39,622,810</b>	22,772,206
Advertising and promotion	<b>37,844,609</b>	8,754,528
Outsourced services	<b>24,844,921</b>	14,531,473
Bank charges	<b>13,487,060</b>	3,361,310
Security services	<b>3,375,831</b>	3,860,300
Interest (Notes 11 and 15)	<b>1,947,803</b>	1,522,329
Others	<b>46,682,215</b>	22,769,788
	<b>₱1,872,703,489</b>	₱1,261,289,989

The trade suppliers generally provide 15 or 30 day credit terms to the Group. Prompt payment discounts ranging from 0.5% to 5.0% are given by a number of trade suppliers. All other payables are due within 3 months.

Others include provisions and accruals of various expenses incurred in the stores' operations.

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**13. Other Current Liabilities**

	2013	2012
Non-trade accounts payable	<b>₱362,508,354</b>	₱423,183,843
Output VAT	<b>61,134,099</b>	25,064,839
Retention payable	<b>48,466,743</b>	24,673,598
Withholding taxes	<b>33,462,627</b>	26,913,389
Employee related liabilities	<b>27,210,000</b>	2,481,125
Royalty (Note 25)	<b>16,305,559</b>	12,579,753
Service fees payable	<b>10,381,467</b>	20,586,182
Current portion of deferred revenue on:		
Finance lease (Notes 16 and 26)	<b>589,567</b>	589,567
Exclusivity contract (Notes 16 and 32)	<b>446,429</b>	818,452
Others	<b>10,561,844</b>	4,990,644
	<b>₱571,066,689</b>	₱541,881,392

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

Retention payable pertains to the 10% of progress billings related to the construction of stores to be paid upon satisfactory completion of the construction.

Service fees payable pertains to management fee to store operators of service agreement stores computed based on a graduated percentage multiplied to stores' gross profit and is payable the following month.

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**14. Deposits Payable**

	<b>2013</b>	2012
Franchisees (Note 32)	<b>₱99,370,298</b>	₱89,860,690
Service agreements (Note 32)	<b>89,707,363</b>	79,041,337
Rent (Note 26)	<b>13,811,274</b>	12,999,211
	<b>₱202,888,935</b>	₱181,901,238

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**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.

The guaranteed annual dividends shall be calculated and paid in accordance with the Shareholder's Agreement dated November 16, 2000 which provides that the dividend shall be determined by the BOD of SSHI using the prevailing market conditions and other relevant factors. Further, the preferred shareholder shall not participate in the earnings of SSHI except to the extent of guaranteed dividends and whatever is left of the retained earnings will be declared as dividends in favor of common shareholders. Guaranteed preferred dividends included under "Interest expense" in the consolidated statements of comprehensive income amounted to ₱214,620, ₱258,750, ₱327,000 in 2013, 2012 and 2011, respectively (see Note 21). Interest payable amounted to ₱258,750 and ₱348,750 as at December 31, 2013 and 2012, respectively (see Note 12).

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**16. Deferred Revenue**

	<b>2013</b>	2012
Noncurrent portion of:		
Deferred revenue on finance lease (Note 26)	<b>₱98,264</b>	₱687,831
Deferred revenue on exclusivity contracts (Note 32)	–	446,429
Deferred revenue - others	<b>1,508,919</b>	1,508,919
	<b>₱1,607,183</b>	₱2,643,179

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### Deferred Revenue on Finance Lease

Movements in deferred revenue on finance lease are as follows:

	<b>2013</b>	2012
Beginning balance	<b>₱1,277,398</b>	₱1,866,965
Less amortization (Note 26)	<b>589,567</b>	589,567
Ending balance (Note 26)	<b>687,831</b>	1,277,398
Less current portion (Notes 13 and 26)	<b>589,567</b>	589,567
Noncurrent portion (Note 26)	<b>₱98,264</b>	₱687,831

### Deferred Revenue on Exclusivity Contracts

Movements in deferred revenue on exclusivity contracts are as follows:

	<b>2013</b>	2012
Beginning balance	<b>₱1,264,881</b>	₱3,199,405
Less amortization (Note 32)	<b>818,452</b>	1,934,524
Ending balance (Note 32)	<b>446,429</b>	1,264,881
Less current portion (Note 13)	<b>446,429</b>	818,452
Noncurrent portion	<b>₱–</b>	₱446,429

## **17. Equity**

### Common Stock

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

Date of SEC order rendered effective or permit to sell/ Date of SEC approval	Event	Authorized Capital Stock	Issued shares	Issue price/ Par value
January 9, 1998	Outstanding common shares	400,000,000	166,556,250	₱1.00
February 4, 1998	Listed shares: Public offering Private placement	400,000,000 400,000,000	47,000,000 24,382,000	4.40 4.40
August 15, 2008	10% stock dividends	400,000,000	23,725,200	1.00
August 4, 2009	10% stock dividends	400,000,000	26,097,720	1.00
August 27, 2010	5% stock dividends	400,000,000	14,353,746	1.00
August 19, 2011	15% stock dividends	400,000,000	45,214,300	1.00
November 15, 2012	15% stock dividends	600,000,000	51,996,445	1.00
August 15, 2013	15% stock dividends	600,000,000	59,795,912	1.00
As at December 31, 2013			459,121,573	

As at December 31, 2013 and 2012, the Company has a total of 650 and 656 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 Group's retained earnings is restricted to the extent of ₱83,238,361 and ₱54,212,460 as at December 31, 2013 and 2012, respectively for the undistributed earnings of subsidiaries and ₱2,923,246 as at December 31, 2013 and 2012 for the cost of treasury shares.

Details of the Group's stock dividend declaration for the years ended December 31, 2013, 2012 and 2011 are as follows:

Declaration date	Record date	Stock dividend %	Outstanding no. of common shares as at declaration date	Total stock dividend issued
<b>July 18, 2013</b>	<b>August 15, 2013</b>	<b>15%</b>	<b>398,639,411</b>	<b>59,795,912</b>
July 24, 2012	November 15, 2012	15%	346,642,966	51,996,445
July 21, 2011	August 19, 2011	15%	301,428,666	45,214,298

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

Details of the Group's cash dividend declaration for the years ended December 31, 2013, 2012 and 2011 are shown below:

Declaration date	Record date	Payment date	Dividend per share	Outstanding no. of common shares as of declaration date	Total cash dividends
<b>July 18, 2013</b>	<b>August 15, 2013</b>	<b>September 9, 2013</b>	<b>₱0.10</b>	<b>398,639,411</b>	<b>₱39,863,941</b>
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

The Group'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 at December 31, 2013 and 2012. There are no movement in the Group's treasury shares in 2013 and 2012.

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**18. Cost of Merchandise Sales**

	2013	2012	2011
Merchandise inventory, beginning	<b>₱726,986,563</b>	₱519,258,936	₱402,419,577
Net purchases	<b>10,800,834,938</b>	8,730,878,901	6,961,401,378
	<b>11,527,821,501</b>	9,250,137,837	7,363,820,955
Less merchandise inventory, ending	<b>900,849,891</b>	726,986,563	519,258,936
	<b>₱10,626,971,610</b>	₱8,523,151,274	₱6,844,562,019

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**19. General and Administrative Expenses**

	2013	2012 (As restated - Note 2)	2012 (As restated - Note 2)
Communication, light and water	<b>₱908,791,566</b>	₱822,136,123	₱610,997,841
Depreciation and amortization (Note 8)	<b>709,518,959</b>	527,786,925	378,355,521
Outside services (Note 32) (Forward)	<b>665,732,867</b>	663,221,838	527,283,460
	<b>2013</b>	2012 (As restated - Note 2)	2012 (As restated - Note 2)
Rent (Note 26)	<b>₱553,791,399</b>	₱488,292,500	₱401,628,602
Personnel costs (Notes 5, 23 and 24)	<b>342,606,112</b>	269,182,182	271,325,009
Advertising and promotion	<b>246,559,168</b>	139,445,376	119,151,632
Trucking services	<b>218,412,580</b>	171,676,338	128,105,699
Royalties (Note 25)	<b>171,714,747</b>	133,085,007	106,490,524
Warehousing services	<b>141,077,370</b>	95,052,873	69,397,133
Repairs and maintenance	<b>139,538,097</b>	120,154,712	101,447,166
Supplies	<b>113,159,695</b>	119,944,818	98,718,890
Taxes and licenses	<b>104,669,922</b>	85,985,255	76,189,697
Transportation and travel	<b>46,379,337</b>	38,476,668	26,472,937
Entertainment, amusement and recreation	<b>33,472,479</b>	24,609,677	28,169,708
Provision for impairment of receivables (Note 5)	<b>12,671,486</b>	788,778	3,810,991
Inventory losses	<b>12,561,816</b>	23,875,151	19,906,752
Dues and subscription	<b>11,579,746</b>	9,355,941	5,898,075
Insurance	<b>10,311,574</b>	8,968,897	6,032,839
Amortization of software and program cost (Note 10)	<b>1,316,561</b>	1,490,475	2,598,741
Others	<b>76,519,585</b>	41,345,644	29,596,375

	2012 (As restated - Note 2)	2012 (As restated - Note 2)
<b>2013</b>		
<b>₱4,520,385,066</b>	<b>₱3,784,875,178</b>	<b>₱3,011,577,592</b>

## 20. Marketing Income

	2013	2012	2011
Promotions	<b>₱288,895,179</b>	₱339,113,279	₱171,330,886
Marketing support funds (Note 32)	<b>57,240,768</b>	36,654,978	68,557,774
	<b>₱346,135,947</b>	<b>₱375,768,257</b>	<b>₱239,888,660</b>

## 21. Interest Expense

	2013	2012	2011
Interest on bank loans (Note 11)	<b>₱16,033,270</b>	₱16,338,080	₱15,697,647
Guaranteed preferred dividends (Note 15)	<b>214,620</b>	258,750	327,000
	<b>₱16,247,890</b>	<b>₱16,596,830</b>	<b>₱16,024,647</b>

## 22. Interest Income

	2013	2012	2011
Bank deposits (Note 4)	<b>₱4,154,524</b>	₱2,589,071	₱2,597,676
Accretion of refundable deposits (Note 9)	<b>2,529,649</b>	2,099,941	2,387,787
Finance lease (Note 26)	<b>197,219</b>	291,205	378,850
Short-term investment (Note 4)	<b>195,561</b>	268,625	313,804
Accretion of note receivable (Note 5)	<b>88,851</b>	128,251	186,596
	<b>₱7,165,804</b>	<b>₱5,377,093</b>	<b>₱5,864,713</b>

## 23. Personnel Costs

	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Salaries and wages	<b>₱175,765,448</b>	₱217,356,126	₱227,335,598
Employee benefits	<b>149,981,972</b>	36,405,561	32,221,396
Net retirement benefits cost (Note 24)	<b>16,858,692</b>	15,420,495	11,768,015
	<b>₱342,606,112</b>	<b>₱269,182,182</b>	<b>₱271,325,009</b>

## 24. Retirement Benefits

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

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

Changes in net defined benefit liability of funded funds in 2013 are as follows:

	Net retirement benefits cost in consolidated statement of comprehensive income				Remeasurements in other comprehensive income						December 31, 2013
	January 1, 2013 (As restated - Note 2)	Current service cost	Net interest	Subtotal	Benefits paid	Remeasurement on plan assets	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contribution by employer	
Present value of the retirement obligations											
PSC	(P109,977,260)	(P11,184,138)	(P5,806,799)	(P16,990,937)	P4,021,523	P-	(P14,261,393)	(P846,903)	(P15,108,296)	P-	(P138,054,970)
CDI	(6,625,244)	(1,145,926)	(334,575)	(1,480,501)	-	-	(451,957)	351,239	(100,718)	-	(8,206,463)
	(116,602,504)	(12,330,064)	(6,141,374)	(18,471,438)	4,021,523	-	(14,713,350)	(495,664)	(15,209,014)	-	(146,261,433)
Fair value of plan assets											
PSC	29,548,266	-	1,560,148	1,560,148	(4,021,523)	(56,468)	-	-	(56,468)	21,670,730	48,701,153
CDI	1,041,545	-	52,598	52,598	-	(15,005)	-	-	(15,005)	-	1,079,138
	30,589,811	-	1,612,746	1,612,746	(4,021,523)	(71,473)	-	-	(71,473)	21,670,730	49,780,291
Net retirement obligations	(P86,012,693)	(P12,330,064)	(P4,528,628)	(P16,858,692)	P-	(P71,473)	(P14,713,350)	(P495,664)	(P15,280,487)	P21,670,730	(P96,481,142)

Changes in net defined benefit liability of funded funds in 2012 are as follows:

	Net retirement benefits cost in consolidated statement of comprehensive income				Remeasurements in other comprehensive income						December 31, 2012 (As restated - Note 2)
	January 1, 2012 (As restated - Note 2)	Current service cost	Net interest	Subtotal	Benefits paid	Remeasurement on plan assets	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	Contribution by employer	
Present value of the retirement obligations											
PSC	(P96,296,328)	(P9,655,975)	(P5,585,187)	(P15,241,162)	P4,686,898	P-	(P8,858,149)	P5,731,481	(P3,126,668)	P-	(P109,977,260)
CDI	(6,764,360)	(545,788)	(374,746)	(920,534)	1,245,962	-	(225,804)	39,492	(186,312)	-	(6,625,244)
	(103,060,688)	(10,201,763)	(5,959,933)	(16,161,696)	5,932,860	-	(9,083,953)	5,770,973	(3,312,980)	-	(116,602,504)
Fair value of plan assets											
PSC	12,239,143	-	709,870	709,870	(4,686,898)	2,687,354	-	-	2,687,354	18,598,797	29,548,266
CDI	565,547	-	31,331	31,331	(1,245,962)	10,214	-	-	10,214	1,680,415	1,041,545
	12,804,690	-	741,201	741,201	(5,932,860)	2,697,568	-	-	2,697,568	20,279,212	30,589,811
Net retirement obligations	(P90,255,998)	(P10,201,763)	(P5,218,732)	(P15,420,495)	P-	P2,697,568	(P9,083,953)	P5,770,973	(P615,412)	P20,279,212	(P86,012,693)

The fair value of plan assets by each classes as at the end of each balance sheet date as follows:

	PSC			CDI		
	December 31, 2012	January 1, 2012	December 31, 2012	January 1, 2012	December 31, 2012	January 1, 2012
	<b>December 31, 2013</b>	(As restated - Note 2)	(As restated - Note 2)	<b>December 31, 2013</b>	(As restated - Note 2)	(As restated - Note 2)
BPI short term fund						
Unit investment trust fund	<b>₱38,677,625</b>	₱1,591,027	₱-	<b>₱1,079,138</b>	₱1,041,545	₱565,547
BPI ALFM mutual fund	-	18,689,399	5,319,175	-	-	-
Investments in equity securities						
PSC - listed shares - 40,848 and 35,520 shares as at December 31, 2013 and 2012, respectively	<b>4,023,528</b>	3,267,840	919,968	-	-	-
SSHI - unlisted shares	<b>6,000,000</b>	6,000,000	6,000,000	-	-	-
Fair value of plan assets	<b>₱48,701,153</b>	₱29,548,266	₱12,239,143	<b>₱1,079,138</b>	₱1,041,545	₱565,547

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

The retirement benefits cost and the present value of the retirement are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining the net retirement obligations are shown below:

	PSC		CDI	
	2013	2012	2013	2012
Discount rates	<b>5.28%</b>	5.80%	<b>5.05%</b>	5.54%
Salary increase rates	<b>5.50%</b>	5.50%	<b>5.50%</b>	5.50%
Turnover rates:				
Age 17-24	<b>5.00%</b>	5.00%	<b>5.00%</b>	5.00%
25-29	<b>3.00%</b>	3.00%	<b>3.00%</b>	3.00%
30-49	<b>1.00%</b>	1.00%	<b>1.00%</b>	1.00%
50-59	<b>0.00%</b>	0.00%	<b>0.00%</b>	0.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2013, assuming if all other assumptions were held constant:

	Increase (Decrease)	PSC	CDI
Discount rates	+0.5%	(₱10,397,512)	(₱311,910)
	-0.5%	11,589,388	341,681
Turnover rate	+1%	23,545,481	719,772
	-1%	(19,357,509)	(620,295)
Average remaining years of service	+3 years	(5,956,710)	(171,926)
	-3 years	6,087,323	166,914

The Group expects to contribute ₱16,183,950 and ₱1,032,598 to the defined benefit retirement plans of PSC and CDI, respectively in 2014.



Shown below is the maturity analysis and weighted average duration of the retirement benefits obligations:

	Benefits Payments	
	PSC	CDI
Not exceeding 1 year	₱7,565,958	₱4,467,312
More than 1 year to 5 years	1,812,478	–
More than 5 to 10 years	27,091,028	448,718
More than 10 to 15 years	106,236,000	4,540,298
More than 15 years to 20 years	1,497,894,560	6,281,385
More than 20 years	1,872,763,104	34,506,490

## 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:

- 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.
- 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.

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

Related Parties	Relationship	Nature of Transactions	Terms and Conditions	Transactions for the Year Ended December 31		Outstanding Balance as at December 31	
				2013	2012	2013	2012
<b>Receivables</b>							
PFI (Note 5)	Under common control	Donations	0.5% of earnings before income tax. Payable within 30 days.	<b>₱2,667,500</b>	₱2,650,000	<b>₱–</b>	₱–
		Non-interest bearing advances	Unsecured, no impairment in 2013 and 2012. Amounts are due and demandable.	<b>1,481,066</b>	1,463,967	<b>3,118,978</b>	1,637,912
				<b>₱4,148,566</b>	₱4,113,967	<b>₱3,118,978</b>	₱1,637,912
<b>Other current liability</b>							
SEI (Note 13)	Stockholder	Royalty fee	Unsecured and payable monthly.	<b>₱171,714,747</b>	₱133,085,007	<b>₱16,305,559</b>	₱12,579,753

- As of December 31, 2013 and 2012, the Group's defined benefit retirement fund has investments in shares of stock of the Parent Company with a cost of ₱0.12 million. The retirement benefit fund's total gains arising from changes in market

prices amounted to ₱0.76 million and ₱2.35 million in 2013 and 2012, respectively.

d. Compensation of key management personnel are as follows:

	2013	2012	2011
Short-term employee benefits	<b>₱35,130,247</b>	₱34,979,611	₱31,624,639
Post-employment benefits	<b>2,855,806</b>	430,000	1,664,000
Other long-term benefits	<b>776,964</b>	376,073	376,073
	<b>₱38,763,017</b>	₱35,785,684	₱33,664,712

## 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. Future minimum lease receivables under this lease as at December 31 are as follows:

	2013	2012
Within one year	<b>₱3,182,560</b>	₱1,591,280
After one year but not more than five years	<b>565,213</b>	2,156,493
Total minimum lease payments receivable	<b>3,747,773</b>	3,747,773
Less unearned interest income	<b>102,218</b>	299,437
Present value of future minimum lease payments receivable	<b>3,645,555</b>	3,448,336
Less current portion (Note 5)	<b>3,086,114</b>	1,394,060
Noncurrent portion (Note 10)	<b>₱559,441</b>	₱2,054,276

Collection of lease receivable amounted to nil and ₱1,591,280 in 2013 and 2012, respectively.

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

	2013	2012
Within one year	<b>₱3,086,114</b>	₱1,394,060
After one year but not more than five years	<b>559,441</b>	2,054,276
Total minimum lease payments receivable	<b>3,645,555</b>	3,448,336
Less current portion	<b>3,086,114</b>	1,394,060
Present value of future minimum lease payments receivable	<b>₱559,441</b>	₱2,054,276

Unearned interest income as at December 31, 2013 and 2012 amounted to ₱102,218 and ₱299,437, respectively. Related interest income amounted to ₱197,219, ₱291,205 and ₱378,850 in 2013, 2012 and 2011, 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 ₱687,831 and ₱1,277,398 as at December 31, 2013 and 2012, with current portion amounting to ₱589,567 as at December 31, 2013 and 2012 (see Notes 13 and 16). Noncurrent portion amounted to ₱98,264 and ₱687,831 as at December 31, 2013 and 2012, respectively (see Note 16). Amortization of deferred revenue on finance lease amounted to ₱589,567 in 2013, 2012 and 2011 (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.

Rent expense related to these lease agreements amounted to ₱515,939,520, ₱449,915,799 and ₱375,908,146 in 2013, 2012 and 2011, respectively (see Note 19). Of the total rent expense, ₱2,658,415 in 2013, ₱2,573,518 in 2012 and ₱2,019,210 in 2011 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 ₱1,717,581, ₱719,536 and ₱1,164,066 in 2013, 2012 and 2011, respectively (see Note 10).

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

	2013	2012
Within one year	<b>₱53,181,751</b>	₱62,130,526
After one year but not more than five years	<b>83,822,903</b>	131,556,590
More than five years	<b>9,551,874</b>	12,654,307
	<b>₱146,556,528</b>	₱206,341,423

- 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.

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

Rent expense related to these lease agreements amounted to ₱32,611,697, ₱33,952,195 and ₱23,828,055 in 2013, 2012 and 2011, respectively (see Note 19). Amortization of deferred lease amounted to ₱693,032, ₱1,766,192 and ₱1,615,618 in 2013, 2012 and 2011, respectively (see Note 10).

The approximate annual future minimum rental payments of CDI under its existing lease contract, including the lease of the main warehouse assumed by PSC as at December 31 are as follows:

	<b>2013</b>	2012
Within one year	<b>₱32,636,578</b>	₱36,902,700
After one year but not more than five years	<b>132,218,529</b>	183,491,415
More than five years	<b>82,629,568</b>	75,839,671
	<b>₱247,484,675</b>	₱296,233,786

CDI also has other various short-term operating leases pertaining to rental of warehouse and equipments. Related rent expense amounted to ₱5,240,182, ₱4,424,506 and ₱1,892,401 in 2013, 2012 and 2011, 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 ₱48,341,871, ₱45,751,718 and ₱44,143,593 in 2013, 2012 and 2011, respectively.

## **27. Income Tax**

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

	<b>2013</b>	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Current:			
Regular corporate income tax	<b>₱308,105,233</b>	₱211,923,436	₱161,398,364
Final tax on interest income	<b>838,382</b>	445,546	586,624
	<b>308,943,615</b>	212,368,982	161,984,988
Deferred	<b>(8,141,501)</b>	(2,111,056)	345,290
	<b>₱300,802,114</b>	₱210,257,926	₱162,330,278

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

	2013			
	PSC	CDI	SSHI	Total
Deferred income tax assets:				
Net retirement obligations	₱26,806,145	₱2,138,198	₱-	₱28,944,343
Accrued rent	16,833,945	595,361	-	17,429,306
Unamortized discount on refundable deposit	4,031,977	1,556,717	-	5,588,694
Allowance for impairment on receivables	6,269,624	-	-	6,269,624
Provision for litigation losses	2,119,887	1,991,335	-	4,111,222
Unamortized past service cost	6,193,281	294,794	-	6,488,075
Deferred revenue on exclusivity contracts	133,929	-	-	133,929
Unearned rent income	95,040	-	-	95,040
Unamortized discount on receivable	11,820	-	-	11,820
Unrealized foreign exchange loss	59,579	-	-	59,579
	<b>62,555,227</b>	<b>6,576,405</b>	<b>-</b>	<b>69,131,632</b>
(Forward)				
Deferred income tax liabilities:				
Deferred lease expense	₱2,858,206	₱1,413,987	₱-	₱4,272,193
Unamortized discount on purchase of refundable deposit	267,083	-	-	267,083
Revaluation increment on land	-	-	1,384,241	1,384,241
Unrealized foreign exchange gain	-	4,988	-	4,988
	<b>3,125,289</b>	<b>1,418,975</b>	<b>1,384,241</b>	<b>5,928,505</b>
Net deferred income tax assets (liability)	<b>₱59,429,938</b>	<b>₱5,157,430</b>	<b>(₱1,384,241)</b>	<b>₱63,203,127</b>

	2012 (As restated - Note 2)			
	PSC	CDI	SSHI	Total
Deferred income tax assets:				
Net retirement obligations	₱24,128,698	₱1,675,110	₱-	₱25,803,808
Accrued rent	8,700,799	6,705,868	-	15,406,667
Unamortized discount on refundable deposit	4,336,926	1,726,139	-	6,063,065
Allowance for impairment on receivables	2,468,178	-	-	2,468,178
Provision for litigation losses	2,119,887	-	-	2,119,887
Unamortized past service cost	3,952,094	29,082	-	3,981,176
Deferred revenue on exclusivity contracts	379,464	-	-	379,464
Unearned rent income	127,680	-	-	127,680
Unamortized discount on receivable	37,324	-	-	37,324
Unrealized foreign exchange loss	37,765	79,008	-	116,773
	<b>46,288,815</b>	<b>10,215,207</b>	<b>-</b>	<b>56,504,022</b>
Deferred income tax liabilities:				
Deferred lease expense	3,088,956	1,248,107	-	4,337,063
Unamortized discount on purchase of refundable deposit	305,238	-	-	305,238
Revaluation increment on land	-	-	1,384,241	1,384,241
	<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>₱42,894,621</b>	<b>₱8,967,100</b>	<b>(₱1,384,241)</b>	<b>₱50,477,480</b>

- c. 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:

	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
Provision for income tax computed at statutory income tax rate	<b>₱295,028,929</b>	₱202,630,185	₱155,728,061
Adjustments for:			
Nondeductible expenses:			
Inventory losses	<b>3,768,545</b>	7,162,545	5,972,026
Interest expense and others	<b>2,446,834</b>	867,483	955,165
Tax effect of rate difference between final tax and statutory tax rate on bank interest income	<b>(404,040)</b>	(364,133)	(286,820)
Nontaxable other income	<b>(38,154)</b>	(38,154)	(38,154)
	<b>₱300,802,114</b>	₱210,257,926	₱162,330,278

- d. RA 9504, effective on July 7, 2008 allows availment of optional standard deductions (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. The Group did not avail of the OSD for the computation of its taxable income in 2013, 2012 and 2011.

## 28. Basic/Diluted Earnings Per Share

	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
a. Net income	<b>₱682,627,649</b>	₱465,176,023	₱356,763,259
b. Weighted average number of shares issued	<b>459,121,573</b>	459,121,573	459,121,573
c. Less weighted average number of shares held in treasury	<b>686,250</b>	686,250	686,250
d. Weighted average number of shares outstanding (b- c)	<b>458,435,323</b>	458,435,323	458,435,323
e. Basic/diluted earnings per share (a/d)	<b>₱1.49</b>	₱1.01	₱0.78

The Group does not have potentially dilutive common shares as at December 31, 2013, 2012 and 2011. Thus, the basic earnings per share is equal to the diluted earnings per share as at 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 Group 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 comparison of the carrying value and fair value of all of the Company's financial instruments (those with carrying amounts that are not equal to their fair values) as at December 31 are as follows:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FINANCIAL ASSETS</b>				
<b>Loans and Receivables</b>				
Receivables				
Lease receivable	<b>₱3,645,555</b>	<b>₱3,691,723</b>	₱3,448,336	₱3,606,990
Deposits				
Refundable	<b>34,871,384</b>	<b>41,815,472</b>	25,843,670	32,667,920
	<b>₱38,516,939</b>	<b>₱45,507,195</b>	₱29,292,006	₱36,274,910

Lease receivable and refundable deposits are categorized under level 3 in the fair value hierarchy.

### Fair Value Information

#### *Current Financial Assets and Financial Liabilities*

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

#### *Lease Receivable*

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 at December 31, 2013 and 2012, which is 2.73% and 3.80%, 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 at December 31, 2013 and 2012 ranging from 0.5% to 4.35% and 1.33% to 4.36%, 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.

### Fair Value Hierarchy

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

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

As at December 31, 2013 and 2012, the Group has no financial instruments measured at fair value.

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## **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 a separate board-level entity, which is the Audit Committee, with explicit authority and responsibility in managing and monitoring risks. The Audit Committee, which ensures the integrity of internal control activities throughout the Group, develops, oversees, checks and pre-approves financial management functions and systems in the areas of credit, market, liquidity, operational, legal and other risks of the Group, and crisis management. The Internal Audit Department and the External Auditor directly report to the Audit Committee regarding the direction, scope and coordination of audit and any related activities.

Listed below are the summarized risk identified by the BOD.

### *Credit Risk*

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

The following tables provide information regarding the maximum credit risk exposure of the Group as at December 31:

	2013	2012
Cash and cash equivalents (excluding cash on hand)		
Cash in bank	P734,552,645	P204,668,267
Cash equivalents	50,580,062	48,000,000
	<b>785,132,707</b>	252,668,267
Short-term investment	<b>10,810,229</b>	10,632,115
Receivables		
Franchisees	379,329,782	184,229,871
Suppliers	33,091,755	133,708,520
Employees	14,396,862	12,601,291
Store operators	12,181,205	19,086,393
Rent	2,486,280	4,187,928
Due from PFI	3,118,978	1,637,912
Current portion of:		
Lease receivable	3,086,114	1,394,060
Notes receivable	1,033,914	1,403,344
Insurance receivable	585,057	614,135
Others	1,358,499	15,734,389
	<b>450,668,446</b>	374,597,843
Deposits		
Utilities	42,509,396	33,663,791
Refundable	34,871,384	25,843,670
Others	4,487,223	6,017,558
	<b>81,868,003</b>	65,525,019
Other noncurrent assets		
Noncurrent portion of:		
Lease receivable	559,441	2,054,276
Notes receivable	–	955,355
	<b>559,441</b>	3,009,631
	<b>P1,329,038,826</b>	P706,432,875

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

	2013			Total
	Neither Past Due nor Impaired		Past Due Or Impaired	
	High Grade	Standard Grade		
<b>Cash and cash equivalents</b>				
Cash in bank	P734,552,645	P–	P–	P734,552,645
Cash equivalents	50,580,062	–	–	50,580,062
	<b>785,132,707</b>	–	–	<b>785,132,707</b>
<b>Short-term investment</b>	<b>10,810,229</b>	–	–	<b>10,810,229</b>
<b>Receivables</b>				
Franchisees	–	379,329,782	214,342	379,544,124
Suppliers	–	28,271,501	20,386,188	48,657,689
Employees	–	14,396,862	539,921	14,936,783
Store operators	–	12,181,205	365,801	12,547,006
Rent	–	2,486,280	2,274,184	4,760,464
Due from PFI	–	3,118,978	–	3,118,978
Current portion of:				
Lease receivable	–	3,086,114	–	3,086,114
Notes receivable	–	1,033,914	–	1,033,914
Insurance receivable	–	585,057	–	585,057
Others	–	1,358,499	–	1,358,499

2013				
	Neither Past Due nor Impaired		Past Due Or Impaired	Total
	High Grade	Standard Grade		
	–	445,848,192	23,780,436	469,628,628
<b>Deposits</b>				
Utilities	–	42,509,396	–	42,509,396
Refundable	–	34,871,384	–	34,871,384
Others	–	4,487,223	–	4,487,223
	–	81,868,003	–	81,868,003
<b>Other noncurrent asset</b>				
Noncurrent portion of lease receivable	–	559,441	–	559,441
	–	559,441	–	559,441
	<b>₱795,942,936</b>	<b>₱528,275,636</b>	<b>₱23,780,436</b>	<b>₱1,347,999,008</b>

2012				
	Neither Past Due nor Impaired		Past Due Or Impaired	Total
	High Grade	Standard Grade		
<b>Cash and cash equivalents</b>				
Cash in bank	₱204,668,267	₱–	₱–	₱204,668,267
Cash equivalents	48,000,000	–	–	48,000,000
	252,668,267	–	–	252,668,267
<b>Short-term investment</b>	10,632,115	–	–	10,632,115
<b>Receivables</b>				
Franchisees	–	184,229,871	214,342	184,444,213
Suppliers	–	104,343,424	35,169,551	139,512,975
Employees	–	12,601,291	391,918	12,993,209
Store operators	–	19,086,393	365,801	19,452,194
Rent	–	4,187,928	1,450,745	5,638,673
Due from PFI	–	1,637,912	–	1,637,912
Current portion of:				
Lease receivable	–	1,394,060	–	1,394,060
Notes receivable	–	1,403,344	–	1,403,344
Insurance receivable	–	614,135	–	614,135
Others	–	15,734,389	–	15,734,389
	–	345,232,747	37,592,357	382,825,104

2012				
	Neither Past Due nor Impaired		Past Due Or Impaired	Total
	High Grade	Standard Grade		
<b>Deposits</b>				
Utilities	₱–	₱33,663,791	₱–	₱33,663,791
Refundable	–	25,843,670	–	25,843,670
Others	–	6,017,558	–	6,017,558
	–	65,525,019	–	65,525,019
<b>Other noncurrent assets</b>				
Noncurrent portion of:				
Lease receivable	–	2,054,276	–	2,054,276
Notes receivable	–	955,355	–	955,355
	–	3,009,631	–	3,009,631
	<b>₱263,300,382</b>	<b>₱413,767,397</b>	<b>₱37,592,357</b>	<b>₱714,660,136</b>

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

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

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

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:						
Franchisees	P-	P-	P-	P-	P214,342	P214,342
Suppliers	1,601,652	868,379	2,350,223	4,820,254	15,565,934	20,386,188
Employees	-	-	-	-	539,921	539,921
Store operators	-	-	-	-	365,801	365,801
Rent	-	-	-	-	2,274,184	2,274,184
	<b>P1,601,652</b>	<b>P868,379</b>	<b>P2,350,223</b>	<b>P4,820,254</b>	<b>P18,960,182</b>	<b>P23,780,436</b>

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:						
Franchisees	P-	P-	P-	P-	P214,342	P214,342
Suppliers	9,537,555	8,726,274	11,101,267	29,365,096	5,804,455	35,169,551
Employees	-	-	-	-	391,918	391,918
Store operators	-	-	-	-	365,801	365,801
Rent	-	-	-	-	1,450,745	1,450,745
	<b>P9,537,555</b>	<b>P8,726,274</b>	<b>P11,101,267</b>	<b>P29,365,096</b>	<b>P8,227,261</b>	<b>P37,592,357</b>

Receivables from suppliers are noninterest-bearing and are generally on 30 day to 90 day terms.

There are no significant concentrations of credit risk within the Group.

#### *Liquidity Risk*

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

As part of its liquidity risk management program, the Group regularly evaluates projected and actual cash flow information and continuously assesses conditions in the financial markets for opportunities to pursue fund raising initiatives. The Group uses historical figures and experiences and forecasts of collections and disbursements. These initiatives may include drawing of loans from the approved credit line intended for working capital and capital expenditures purposes and equity market issues.

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

	2013				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
<b>Cash and cash equivalents</b>					
Cash on hand and in banks	P922,422,571	P-	P-	P-	P922,422,571
Cash equivalents	50,580,062	-	-	-	50,580,062
	973,002,633	-	-	-	973,002,633
<b>Short-term investment</b>	10,810,229	-	-	-	10,810,229
<b>Receivables</b>					
Franchisees	379,329,782	-	-	-	379,329,782
Suppliers	28,271,501	4,820,254	-	-	33,091,755
Employees	14,396,862	-	-	-	14,396,862
Store operators	12,181,205	-	-	-	12,181,205
Rent	2,486,280	-	-	-	2,486,280
Due from PFI	3,118,978	-	-	-	3,118,978
Current portion of:					
Lease receivable	1,955,265	1,130,849	-	-	3,086,114
Notes receivable	1,033,914	-	-	-	1,033,914
Insurance receivable	-	585,057	-	-	585,057
Others	1,358,499	-	-	-	1,358,499
	444,132,286	6,536,160	-	-	450,668,446
<b>Deposits</b>					
Utilities	-	-	42,509,396	-	42,509,396
Refundable	-	-	34,871,384	-	34,871,384
Others	-	-	4,487,223	-	4,487,223
	-	-	81,868,003	-	81,868,003
<b>Other noncurrent asset</b>					
Noncurrent portion of lease receivable	-	-	559,441	-	559,441
	-	-	559,441	-	-
	<b>P1,427,945,148</b>	<b>P6,536,160</b>	<b>P82,427,444</b>	<b>P-</b>	<b>P1,516,908,752</b>

	2012				Total
	Three months or less	More than three months to one year	More than one year to five years	More than five years	
<b>Cash and cash equivalents</b>					
Cash on hand and in banks	P367,285,569	P-	P-	P-	P367,285,569
Cash equivalents	48,000,000	-	-	-	48,000,000
	415,285,569	-	-	-	415,285,569
<b>Short-term investment</b>	10,632,115	-	-	-	10,632,115
<b>Receivables</b>					
Franchisees	184,229,871	-	-	-	184,229,871
Suppliers	104,343,424	29,365,096	-	-	133,708,520
Employees	12,601,291	-	-	-	12,601,291
Store operators	19,086,393	-	-	-	19,086,393
Rent	4,187,928	-	-	-	4,187,928
Due from PFI	-	1,637,912	-	-	1,637,912
Current portion of:					
Lease receivable	339,448	1,054,612	-	-	1,394,060
Notes receivable	201,610	1,201,734	-	-	1,403,344
Insurance receivable	-	614,135	-	-	614,135
Others	15,734,389	-	-	-	15,734,389
	340,724,354	33,873,489	-	-	374,597,843
<b>Deposits</b>					
Utilities	-	-	33,663,791	-	33,663,791
Refundable	-	-	25,843,670	-	25,843,670
Others	-	-	6,017,558	-	6,017,558
	-	-	65,525,019	-	65,525,019
<b>Other noncurrent assets</b>					
Noncurrent portion of:					
Lease receivable	-	-	2,054,276	-	2,054,276
Notes receivable	-	-	955,355	-	955,355
	-	-	3,009,631	-	3,009,631
	<b>P766,642,038</b>	<b>P33,873,489</b>	<b>P 68,534,650</b>	<b>P-</b>	<b>P869,050,177</b>



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

	2013			Total
	Three months or less	More than three months to one year	More than one year	
<b>Bank loans</b>	<b>₱350,000,000</b>	<b>₱210,000,000</b>	<b>₱-</b>	<b>₱560,000,000</b>
<b>Accounts payable and accrued expenses</b>				
Trade payable	1,575,446,279	-	-	1,575,446,279
Utilities	71,354,276	-	-	71,354,276
Rent	58,097,685	-	-	58,097,685
Employee benefits	39,622,810	-	-	39,622,810
Advertising and promotion	37,844,609	-	-	37,844,609
Outsourced services	24,844,921	-	-	24,844,921
Bank charges	13,487,060	-	-	13,487,060
Security services	3,375,831	-	-	3,375,831
Interest	1,947,803	-	-	1,947,803
Others	46,682,215	-	-	46,682,215
	<b>1,872,703,489</b>	<b>-</b>	<b>-</b>	<b>1,872,703,489</b>
<b>Other current liabilities</b>				
Non-trade accounts payable	43,501,002	319,007,352	-	362,508,354
Retention payable	-	48,466,743	-	48,466,743
Employee related liabilities	27,210,000	-	-	27,210,000
Royalty	16,305,559	-	-	16,305,559
Service fees payable	-	10,381,467	-	10,381,467
Others	-	10,561,844	-	10,561,844
	<b>87,016,561</b>	<b>388,417,406</b>	<b>-</b>	<b>475,433,967</b>
<b>Cumulative redeemable preferred shares</b>	<b>6,000,000</b>	<b>-</b>	<b>-</b>	<b>6,000,000</b>
	<b>₱2,315,720,050</b>	<b>₱598,417,406</b>	<b>₱-</b>	<b>₱2,914,137,456</b>

	2012			Total
	Three months or less	More than three months to one year	More than one year	
<b>Bank loans</b>	<b>₱457,777,778</b>	<b>₱20,000,000</b>	<b>₱-</b>	<b>₱477,777,778</b>
<b>Accounts payable and accrued expenses</b>				
Trade payable	1,077,213,586	-	-	1,077,213,586
Utilities	55,148,912	-	-	55,148,912
Rent	51,355,557	-	-	51,355,557
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
Bank charges	3,361,310	-	-	3,361,310
Security services	3,860,300	-	-	3,860,300
Interest	1,522,329	-	-	1,522,329
Others	22,769,788	-	-	22,769,788
	<b>1,261,289,989</b>	<b>-</b>	<b>-</b>	<b>1,261,289,989</b>
<b>Other current liabilities</b>				
Non-trade accounts payable	47,226,209	375,957,634	-	423,183,843
Retention payable	-	24,673,598	-	24,673,598
Employee related liabilities	2,481,125	-	-	2,481,125
Royalty	12,579,753	-	-	12,579,753
Service fees payable	-	20,586,182	-	20,586,182
Others	-	4,990,644	-	4,990,644
	<b>62,287,087</b>	<b>426,208,058</b>	<b>-</b>	<b>488,495,145</b>
<b>Cumulative redeemable preferred shares</b>	<b>6,000,000</b>	<b>-</b>	<b>-</b>	<b>6,000,000</b>
	<b>₱1,787,354,854</b>	<b>₱446,208,058</b>	<b>₱-</b>	<b>₱2,233,562,912</b>

#### *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:

	2013	2012
Due in less than one year	<b>₱560,000,000</b>	₱477,777,778
Rate	<b>2.5%-3.3%</b>	3.30%-3.75%

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):

	2013		2012	
	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	(₱5,600,000)	+100	(₱4,777,778)
	-100	₱5,600,000	-100	4,777,778

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 each balance sheet date are summarized below.

	2013		2012	
	Dollar	Peso	Dollar	Peso
Cash in banks	<b>\$94,533</b>	<b>₱4,197,265</b>	\$141,607	₱5,812,967
Receivables	-	-	27,049	1,110,362
	<b>\$94,533</b>	<b>₱4,197,265</b>	\$168,656	₱6,923,329

As at December 31, 2013 and 2012, the closing functional currency exchange rate is ₱ 44.40 and ₱41.05 to US\$1, respectively.

The following table represents the impact on the Group's income before income tax brought about by reasonably possible changes in Peso to Dollar exchange rate

(holding all other variables constant) as at December 31, 2013 and 2012 until its next financial reporting date:

	Change in Peso to Dollar Exchange Rate	Effect on Income before Income Tax
<b>2013</b>	<b>Increase by 8.16%</b>	<b>(P342,497)</b>
	<b>Decrease by 8.16%</b>	<b>342,497</b>
2012	Increase by 6.36%	(P440,323)
	Decrease by 6.36%	440,323

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% to 50% in relation to its total assets. The Group's net worth ratio is 43% and 42% as at December 31, 2013 and 2012, respectively. No changes were made in the objectives, policies and processes during the year.

	2013	2012 (As restated - Note 2)
Common stock	<b>P459,121,573</b>	P399,325,661
Additional paid-in capital	<b>293,525,037</b>	293,525,037
Retained earnings	<b>1,810,521,305</b>	1,227,553,509
	<b>2,563,167,915</b>	1,920,404,207
Less cost of shares held in treasury	<b>2,923,246</b>	2,923,246
	<b>P2,560,244,669</b>	P1,917,480,961
Total assets	<b>P5,961,773,332</b>	P4,571,816,164
Net worth	<b>43%</b>	42%

As at December 31, 2013 and 2012, the Group was able to meet its objective.

### 32. Significant Agreements

#### a. Franchise Agreements

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

	2013	2012	2011
Franchise revenue	<b>₱1,265,753,174</b>	₱602,379,025	₱478,827,511
Franchise fee	<b>101,500,115</b>	81,193,802	55,198,201
	<b>₱1,367,253,289</b>	₱683,572,827	₱534,025,712

Receivable from franchisees as at December 31, 2013 and 2012 amounted to ₱ 379,544,124 and ₱184,444,213, respectively (see Notes 5, 29, and 30). The Company also has outstanding deposits payable to franchisees amounting to ₱ 99,370,298 and ₱89,860,690 as at December 31, 2013 and 2012, respectively (see Note 14).

b. Service Agreements

The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services shown as part of "Outside services in "General and administrative expenses" amounted to ₱140,848,888 in 2013, ₱231,622,046 in 2012 and ₱174,464,102 in 2011 (see Note 19).

c. Commission Income

The Group has entered into agreements with a phone card supplier and various third parties. Under the arrangements, the Group earns commission on the sale of phone cards and collection of bills payments based on a certain percentage of net sales and collections for the month and a fixed monthly rate. Commission income amounted to ₱43,402,035, ₱67,396,391 and ₱37,236,539 in 2013, 2012 and 2011, respectively.

d. 2010 Exclusivity Contract

The Group has also entered into a 3-year exclusivity contract with a Third Party soda manufacturer in the Philippines effective April 2010 to March 2013. The contract indicates that the Third Party soda manufacturer will exclusively supply all slurpee products of 7-Eleven. The Group received a one-time signing bonus amounting to ₱4,464,286 upon the effectivity of the exclusivity supply contract amortized over three years. Income from exclusivity contract included as part of "Marketing support funds" under "Marketing income" in profit or loss amounted to ₱372,023, ₱1,488,095 and ₱1,488,095 in 2013, 2012 and 2011, respectively (see Note 20). Deferred revenue as at December 31, 2013 and 2012 amounted to nil and ₱372,024, respectively (see Note 16).

e. 2010 Signing Bonus

In 2010, the Group collected a signing bonus amounting to ₱2,232,143 from one of the Group's food suppliers for awarding half of the Group's existing Hotdog Stock Keeping Units (SKUs) to the food supplier for the next five years starting January 1, 2010. Income from exclusivity contract included as part of "Marketing support funds" under "Marketing income" in profit or loss amounted to ₱446,429 in 2013, 2012 and 2011 (see Note 20). Deferred revenue as at December 31, 2013 and 2012 amounted to ₱446,429 and ₱892,857, respectively (see Note 16).

f. MOA with Chevron Philippines, Inc.

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

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

As at December 31, 2013 and 2012, the Group has already opened 32 and 37 franchised serviced stations, respectively.

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**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 Group's identified operating segments below are consistent with the segments reported to the BOD, which is the Chief Operating Decision Maker of the Group.

The products and services from which the store operations derive its revenues from are as follows:

- Merchandise sales
- Franchise revenue
- Marketing income
- Rental income
- Commission income
- Interest income

The aforementioned revenues are all revenues from external customers.

The segment's relevant financial information is as follows:

	2013	2012 (As restated - Note 2)	2011 (As restated - Note 2)
<b>Revenue</b>			
Revenue from merchandise sales	<b>₱14,133,649,192</b>	₱11,713,760,468	₱9,435,604,073
Franchise revenue	<b>1,367,253,289</b>	683,572,827	534,025,712
Marketing income	<b>346,135,947</b>	375,768,257	239,888,660
Rental income	<b>48,341,871</b>	45,751,718	44,143,593
Commission income	<b>43,402,035</b>	67,396,391	37,236,539
Interest income	<b>7,165,804</b>	5,377,093	5,864,713
Other income	<b>214,886,062</b>	123,025,663	99,300,756
	<b>16,160,834,200</b>	13,014,652,417	10,396,064,046
<b>Expenses</b>			
Cost of merchandise sales	<b>10,626,971,610</b>	8,523,151,274	6,844,562,019
General and administrative expenses:			
Depreciation and amortization	<b>709,518,959</b>	527,786,925	378,355,521
Others	<b>3,810,866,107</b>	3,257,088,253	2,633,222,071
Interest expense	<b>16,247,890</b>	16,596,830	16,024,647
Other expenses	<b>13,799,871</b>	14,595,186	4,806,251
	<b>15,177,404,437</b>	12,339,218,468	9,876,970,509
<b>Income Before Income Tax</b>	<b>983,429,763</b>	675,433,949	519,093,537
<b>Provision for Income Tax</b>	<b>300,802,114</b>	210,257,926	162,330,278
<b>Segment Profit</b>	<b>₱682,627,649</b>	₱465,176,023	₱356,763,259
<b>Segment Assets</b>	<b>₱5,961,773,332</b>	₱4,571,816,164	₱3,741,817,964
<b>Segment Liabilities</b>	<b>₱3,420,540,212</b>	₱2,662,650,411	₱2,262,733,149
<b>Capital Expenditure for the Year</b>	<b>₱1,179,270,536</b>	₱858,674,993	₱717,091,736

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**34. Provisions and Contingencies**

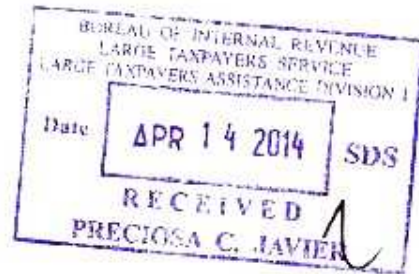
The Group is a party to various litigations and claims. All cases are in the normal course of business and are not deemed to be considered as material legal proceedings. Further, the cases are either pending in courts or under protest, the outcome of which are not presently determinable. Management and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

As at December 31, 2013 and 2012, the Group has provisions amounting to ₱13,704,073 and ₱7,066,290, respectively.

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**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).



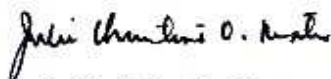


## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors  
Philippine Seven Corporation  
7th Floor, The Columbia Tower  
Ortigas Avenue, Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine Seven Corporation and Subsidiaries (the Group) as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated February 20, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Julie Christine O. Mateo  
Partner

CPA Certificate No. 93542  
SEC Accreditation No. 0780-AR-1 (Group A),  
February 2, 2012, valid until February 1, 2015  
Tax Identification No. 198-819-116  
BIR Accreditation No. 08-001998-68-2012,  
April 11, 2012, valid until April 10, 2015  
PTR No. 4225200, January 2, 2014, Makati City

February 20, 2014



**Philippine Seven Corporation**  
**Schedule of Receivables**

ANNEX 1

	<b>2013</b>	2012
Franchisees (Note 32)	<b>₱379,544,124</b>	₱184,444,213
Suppliers	<b>48,657,689</b>	139,512,975
Employees	<b>14,936,783</b>	12,993,209
Store operators	<b>12,547,006</b>	19,452,194
Rent	<b>4,760,464</b>	5,638,673
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	<b>3,118,978</b>	1,637,912
Current portion of:		
Lease receivable - net of unearned interest income amounting to ₱96,445 and ₱197,221 as at December 31, 2013 and 2012, respectively (Notes 10 and 26)	<b>3,086,114</b>	1,394,060
Notes receivable (Notes 10, 29 and 30)	<b>1,033,914</b>	1,403,344
Insurance receivable	<b>585,057</b>	614,135
Others	<b>1,358,499</b>	15,734,389
	<b>469,628,628</b>	382,825,104
Less allowance for impairment	<b>18,960,182</b>	8,227,261
	<b>₱450,668,446</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.
- Franchisee - 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.

Receivable from suppliers are non-interest bearing and are generally on 30 to 90 days terms.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**DECEMBER 31, 2013**

The reconciliation of retained earnings available for dividend declaration as of December 31, 2013 follows:

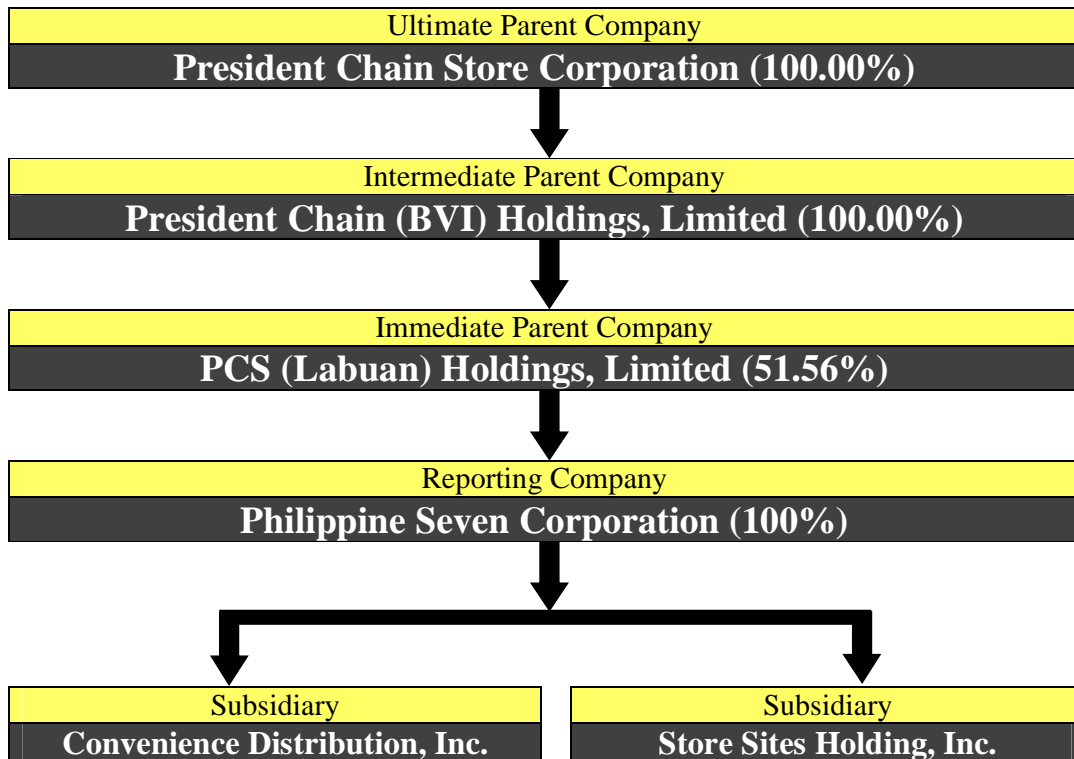
<b>Unappropriated retained earnings as of December 31, 2012</b>		<b>₱1,172,941,755</b>
Less: Deferred income tax asset		(46,288,815)
Non-actual/unrealized income, net of tax		
Accretion of interest income*		(6,990,361)
Treasury shares		(2,923,246)
Unrealized foreign exchange gain		(684)
<b>Unappropriated retained earnings as adjusted, December 31, 2012</b>		<b>1,116,738,649</b>
Net income during the year closed to retained earnings	654,001,042	
Less: Non-actual unrealized income, net of tax		
Accretion of interest income	(1,139,998)	
Movement in deferred income tax asset	(16,266,413)	
Net income actually earned during the year		636,594,631
Less: Dividend declarations during the year		(99,659,853)
<b>Unappropriated retained earnings as adjusted, December 31, 2013</b>		<b>₱1,653,673,427</b>

\*Based on accretion of income per PAS 39 from 2005-2011.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**FINANCIAL SOUNDNESS INDICATORS**  
**DECEMBER 31, 2013**

Ratios	Formula	In Php	2013	2012	% Change
<b>Current Ratio</b>	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{2,606,079,897}{3,113,562,952}$	0.84	0.75	12.00%
<b>Debt-to-equity ratio</b>	$\frac{\text{Total liabilities}}{\text{Total stockholders' equity}}$	$\frac{3,420,540,212}{2,541,233,120}$	1.35	1.39	-2.88%
<b>Asset-to-equity ratio</b>	$\frac{\text{Total assets}}{\text{Total stockholders' equity}}$	$\frac{5,961,773,332}{2,541,233,120}$	2.35	2.39	-1.67%
<b>Interest rate coverage ratio</b>	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$	$\frac{999,677,653}{16,247,890}$	61.53	41.70	47.55%
<b>Net income margin</b>	$\frac{\text{Net income}}{\text{Revenue from Merchandise Sales}}$	$\frac{682,627,649}{14,133,649,192}$	4.83%	3.97%	21.66%
<b>Return on equity</b>	$\frac{\text{Net income}}{\text{Ave. Total stockholders' equity}}$	$\frac{682,627,649}{(2,541,233,120 + 1,909,165,753)/2}$	30.68%	27.46%	11.72

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**MAP OF THE RELATIONSHIP OF THE COMPANIES WITHIN**  
**THE GROUP**  
**DECEMBER 31, 2013**



**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE**  
**STANDARDS AND INTERPRETATIONS**  
**AS OF DECEMBER 31, 2013**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
<b>PFRSs Practice Statement Management Commentary</b>		√		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	√		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	√		√
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	√		√
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	√		√
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	√		√
	Amendments to PFRS 1: Government Loans	√		√
	Amendment to PFRS 1: Meaning of Effective PFRSs	√		√
<b>PFRS 2</b>	Share-based Payment	√		√
	Amendments to PFRS 2: Vesting Conditions and Cancellations	√		√
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	√		√
	Amendment to PFRS 2: Definition of Vesting Condition*	Not Early Adopted		
<b>PFRS 3 (Revised)</b>	Business Combinations	√		√
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination*	Not Early Adopted		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements*	Not Early Adopted		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2013		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PFRS 4</b>	Insurance Contracts	√		√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	√		√
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	√		√
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources	√		√
<b>PFRS 7</b>	Financial Instruments: Disclosures	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	√		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	√		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
<b>PFRS 8</b>	Operating Segments	√		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*	Not Early Adopted		
<b>PFRS 9</b>	Financial Instruments *	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
<b>PFRS 10</b>	Consolidated Financial Statements	√		
	Amendments to PFRS 10: Investment Entities*	Not Early Adopted		
<b>PFRS 11</b>	Joint Arrangements	√		√
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	√		√
	Amendments to PFRS 12: Investment Entities*	Not Early Adopted		
<b>PFRS 13</b>	Fair Value Measurement	√		
	Amendment to PFRS 13: Short-term Receivables and Payables	√		
	Amendment to PFRS 13: Portfolio Exception*	Not Early Adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	√		√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	√		
<b>PAS 2</b>	Inventories	√		
<b>PAS 7</b>	Statement of Cash Flows	√		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	√		
<b>PAS 10</b>	Events after the Reporting Period	√		
<b>PAS 11</b>	Construction Contracts	√		
<b>PAS 12</b>	Income Taxes	√		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	√		
<b>PAS 16</b>	Property, Plant and Equipment	√		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation*	Not Early Adopted		
<b>PAS 17</b>	Leases	√		
<b>PAS 18</b>	Revenue	√		
<b>PAS 19</b>	Employee Benefits	√		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	√		
<b>PAS 19 (Amended)</b>	Employee Benefits	√		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution*	Not Early Adopted		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance	√		√
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	√		
	Amendment: Net Investment in a Foreign Operation	√		√
<b>PAS 23 (Revised)</b>	Borrowing Costs	√		√
<b>PAS 24 (Revised)</b>	Related Party Disclosures	√		
	Amendments to PAS 24: Key Management Personnel*	Not Early Adopted		



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2013		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans	√		√
<b>PAS 27</b>	Consolidated and Separate Financial Statements	√		√
<b>PAS 27 (Amended)</b>	Separate Financial Statements	√		√
	Amendments to PAS 27: Investment Entities*	Not Early Adopted		
<b>PAS 28</b>	Investments in Associates	√		√
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	√		√
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies	√		√
<b>PAS 31</b>	Interests in Joint Ventures	√		√
<b>PAS 32</b>	Financial Instruments: Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	√		√
	Amendment to PAS 32: Classification of Rights Issues	√		√
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	√		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities*	Not Early Adopted		
<b>PAS 33</b>	Earnings per Share	√		
<b>PAS 34</b>	Interim Financial Reporting	√		
<b>PAS 36</b>	Impairment of Assets	√		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets*	Not Early Adopted		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	√		
<b>PAS 38</b>	Intangible Assets	√		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization*	Not Early Adopted		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	√		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	√		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	√		√
	Amendments to PAS 39: The Fair Value Option	√		√

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2013		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	√		√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	√		√
	Amendment to PAS 39: Eligible Hedged Items	√		√
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting*	Not Early Adopted		
<b>PAS 40</b>	Investment Property	√		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*	Not Early Adopted		
<b>PAS 41</b>	Agriculture	√		√
<b>Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities	√		√
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments	√		√
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	√		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	√		√
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	√		√
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	√		√
<b>IFRIC 8</b>	Scope of PFRS 2	√		√
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	√		√
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives	√		√
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	√		√
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions	√		√
<b>IFRIC 12</b>	Service Concession Arrangements	√		√
<b>IFRIC 13</b>	Customer Loyalty Programmes	√		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2013		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	√		√
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	√		√
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate*	Not Early Adopted		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation	√		√
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners	√		√
<b>IFRIC 18</b>	Transfers of Assets from Customers	√		√
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	√		√
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine*	√		√
<b>IFRIC 21</b>	Levies (IFRIC 21)*	Not Early Adopted		
<b>SIC-7</b>	Introduction of the Euro	√		√
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities	√		√
<b>SIC-15</b>	Operating Leases - Incentives	√		√
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	√		√
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	√		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures	√		√
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services	√		√

\* Standards and interpretations which will become effective subsequent to December 31, 2013.

**PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULES REQUIRED BY ANNEX 68-E**  
**DECEMBER 31, 2013**

**Schedule A. Financial Assets**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotations at end of reporting period	Income received and accrued
<b>Loans and Receivables</b>				
Cash and cash equivalents	N/A	₱973,002,633	N/A	₱4,154,524
Short-term investment	N/A	10,810,229	N/A	195,561
Receivables	N/A	450,668,446	N/A	88,851
Deposits	N/A	81,868,003	N/A	2,529,649
Other current assets	N/A	559,441	N/A	–
		<b>₱1,516,908,752</b>		<b>₱6,968,585</b>

**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts collected	Amounts Written off	Current	Non Current	Balance at end of period
AUDIT - Internal Cont	₱182,998	₱4,085	₱19,122	₱-	₱61,829	₱106,132	₱167,961
AUDIT - Inventory	100,089	2,181	7,784	-	23,713	70,773	94,486
BDD - Common	47,644	2,241	37,786	-	12,092	7	12,099
BDD - Const & Design	607,684	13,119	59,858	-	179,727	381,218	560,945
BDD - Fran Mktg & Plng	577,387	12,527	71,196	-	219,343	299,375	518,718
BDD - Site Acqui North	526,106	12,134	72,483	-	170,206	295,551	465,757
BDD - Site Acqui South	658,814	14,599	61,253	-	205,274	406,886	612,160
FIN - Accounting	250,240	5,575	18,683	-	55,649	181,483	237,132
FIN - Finl Mngt	-	302,250	6,228	-	50,122	245,900	296,022
FIN - Tax	-	286,283	11,711	-	47,482	227,090	274,572
HRAD - Common	326,392	7,165	31,138	-	102,210	200,209	302,419
HRAD - ESD	214,144	4,684	13,701	-	37,871	167,256	205,127
HRAD - Labor Rel & Plang	187,481	4,104	11,832	-	32,464	147,289	179,753

Name and Designation of debtor	Balance of Beginning of Period	Additions	Amounts collected	Amounts Written off	Current	Non Current	Balance at end of period
MIS - Bus Systems	₱291,910	₱6,296	₱18,683	₱-	₱52,420	₱227,103	₱279,523
MIS - IT Support	228,169	5,032	18,683	-	57,768	156,750	214,518
MKTG - Common	221,226	4,914	53,670	-	122,244	50,226	172,470
MKTG - Food Cat	685,177	17,046	51,634	-	150,513	500,076	650,589
MKTG - Food Service	446,073	187,371	49,192	-	168,762	415,490	584,252
MKTG - Masterdata	91,122	2,238	19,122	-	71,903	2,335	74,238
MKTG - Non Food Cat	267,037	182,295	33,653	-	131,418	284,261	415,679
MKTG - Support	75,709	1,679	4,982	-	13,979	58,427	72,406
OPS - Central	95,003	2,127	11,155	-	37,214	48,761	85,975
OPS - Common	175,238	3,962	31,871	-	118,848	28,481	147,329
OPS - East	-	480,796	13,493	-	79,579	387,724	467,303
OPS - North1	28,546	178,381	23,201	-	39,949	143,777	183,726
OPS - North2	282,033	6,312	21,796	-	65,528	201,021	266,549
OPS - North3	98,424	177,192	11,155	-	65,944	198,517	264,461
OPS - South	489,242	8,157	33,773	-	108,405	355,221	463,626
OPS - South2	119,727	178,945	10,898	-	64,001	223,773	287,774
OPS - Support	122,442	2,694	10,898	-	34,720	79,518	114,238
OPS - West	205,077	4,618	18,683	-	59,520	131,492	191,012
OPS - Zone 1	154,397	3,309	19,122	-	65,311	73,273	138,584
OPS - Zone 2	45,555	178,536	26,388	-	54,431	143,272	197,703
OTP - Corp Planning	203,794	4,431	15,235	-	45,381	147,609	192,990
PRD - Common	400,294	5,892	127,590	-	107,161	171,435	278,596
VR - Visayas Region	672,504	13,269	136,665	-	279,880	269,228	549,108
Various Employees Loan	3,915,531	4,243,744	3,102,309	-	-	-	4,716,976
<b>TOTAL</b>	<b>₱12,993,209</b>	<b>₱6,570,183</b>	<b>₱4,286,626</b>	<b>₱-</b>	<b>₱3,192,861</b>	<b>₱7,026,939</b>	<b>₱14,936,783</b>

**Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements**

Name and Designation of Debtor	Balance of Beginning of Period	Additions	Amounts collected	Amounts Written off	Current	Non Current	Balance at end of period
CONVENIENCE DISTRIBUTION,INC. -Subsidiary	₱919,338	₱4,619,626	₱1,871,676	-	₱3,667,288	-	₱3,667,288
STORE SITES HOLDINGS,INC.- Subsidiary	218,848	954,411	797,173	-	376,086	-	376,086

**Schedule D. Intangible Assets - Other Assets**

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other Charges additions (deductions)	Ending balance
Software & Program Cost	₱1,183,651	₱3,019,195	₱1,316,561	₱-	₱-	₱2,886,285
Goodwill	65,567,524	-	-	-	-	65,567,524

**Schedule E. Long Term Debt**

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption " Long Term Debt" in related balance sheet"
NONE	-	-	-

**Schedule F. Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

	Balance of beginning of period	Balance of end of period
NONE	-	-

**Schedule G. Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of Guarantee
NONE	-	-	-	<b>SCHEDULE V</b>

**Schedule H. Capital Stock**

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
COMMON STOCK	600,000,000	458,435,323	-	236,376,070	14,313,785	207,745,468