111272012000337

SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills,Mandaluyong City, Metro Manila,Philippines
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Company Information

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

Document Information

Document ID	111272012000337
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
Document Code	17-Q
Period Covered	September 30, 2012
No. of Days Late	0
Department	CFD
Remarks	Amendment

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	-	Q

FORM TYPE

0	7		3rd Thursday

Month Day
Annual Meeting

AMENDED 3RD QUARTER REPORT

Secondary License Type, if Applicable

Dept. Requiring this Doc.
Number/Section

Amended Articles

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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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

November 27, 2012

CORPORATION FINANCE DEPARTMENT
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills,
Mandaluyong City

Attention: **JOCELYN C. VILLAR-ALTAMIRA**
Officer-In-Charge

Re: **Amended 3rd Quarter Report SEC Form 17-Q**

Dear Ms. Villar-Altamira:

We refer to your letter dated November 13, 2012 addressed to the Treasurer and CFO, Mr. Ping-Hung Chen, which we received last November 22, 2012 regarding our submission of 3rd Quarter Report last November 5, 2012 and directing the company to file a duly accomplished 3rd Quarter Report (SEC Form 17-Q) in accordance with the checklist provided by the Commission within 5 days from receipt of the letter.

In view of the above, we submit PSC's reply to your comments (Annex A) together with the Amended 3rd Quarter Report (SEC Form 17-Q) incorporating our reply.

We hope that you will find everything in order.

Thank you.

Very truly yours,

PHILIPPINE SEVEN CORPORATION
By:

ATTY. EVELYN S. ENRIQUEZ
Corporate Secretary

ANNEX "A"

SEC FORM 17-Q			
CHECKLIST OF REQUIRED DISCLOSURES			
REGISTRANT: PHILIPPINE SEVEN CORPORATION			
For the Quarter Ended: September 30, 2012			
SUMMARY OF COMMENTS	**Page No.**	**SEC Remarks**	**PSC's Response**
General Instruction: If any of the following is not applicable, please state/explain in a separate covering letter.			
PART I – FINANCIAL INFORMATION			
Item 2. Management's Discussion and Analysis (MDA) of Financial Condition and results of Operations [Part III, Par. (A)(2)(b)].			
3. Discussion and analysis of material event/s and uncertainties known to management that would address the past and would have an impact on future operations of the following:			
d. Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures;		Disclose, if any	Complied. We already disclosed in the Amended 3 Q Report. Please refer to page 66 item #5 of Discussion and analysis of material events and uncertainties
f. Any significant elements of income or loss that did not arise from the issuer's continuing operations;			Complied. Already disclosed in the 3 Q Report submitted last Nov. 5, 2012. Please refer to page 66 item #3 of Discussion & analysis of material events & uncertainties.
g. The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item; and			Complied. We already disclosed in the Amended 3 Q Report. Please refer to page 66 item #2 of Discussion & analysis of material events & uncertainties.
The term "material" in this section shall refer to changes or items amounting to five percent (5%) of the relevant accounts or such lower amount, which the registrant deems material on the basis of other factors.			
ADDITIONAL REQUIREMENTS (SRC Rule 68, as amended October 2011)			
A schedule showing financial soundness indicators in two comparative period as follows: 1) current/liquidity ratios; 2) solvency ratios, debt-to-equity ratio; 3) asset-to-equity ratio; 4) interest rate coverage ratio; 5) profitability ratio and 6) other relevant ratio as the Commission may prescribe.		Not complied with	Complied. Please refer to page 67 of the Amended 3Q Report.
SIGNATURES			
1. Duly authorized representative of the issuer (Signature, Title and Date)			
2. **Principal Financial/Accounting Officer/Controller** (Signature. Title and Date)		Incomplete. Comply with the highlighted portion	Complied, we already provided the signature of PSC's Finance & Accounting Services Division Manager.

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended September 30, 2012

2. Commission identification number

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

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

   PHILIPPINE SEVEN CORPORATION

5. Country of incorporation : **PHILIPPINES**

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

7. Address of registrant's principal office : 7TH Floor, The Columbia Tower
   Ortigas Avenue, Mandaluyong City
   1501

8. Telephone number : (632) 724-44-41 to 51

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

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

	No. of Shares of Common Stock
Shares Outstanding - Common :	**346,642,966**
Warrants :	-0-

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

    Yes [**X**] No [ ]

    Stock Exchange: *Class/es of Securities listed*

    Philippine Stock Exchange - Common

12. Indicate by check mark whether the registrant:

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

    Yes [**X**] No [ ]

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

Yes [**X**] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the attached.

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

Please refer to the attached

PART II - OTHER INFORMATION

N/A

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

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

Date: November 27, 2012

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

Date: November 27, 2012

November 27, 2012

SECURITIES AND EXCHANGE COMMISSION
SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of September 30, 2012, which will be submitted to the Philippine Stock Exchange (PSE), we confirm to the best of our knowledge and belief, the following:

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

2. There have been no:

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

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

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

3. There are no:

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

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

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

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

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

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

PING-HUNG CHEN
Treasurer and CFO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended September 30, 2012. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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

JOSE VICTOR P. PATERNO
President and CEO

PING-HUNG CHEN
Treasurer and CFO

Part 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations in 2012 (Pages 61-67).

Philippine Seven Corporation and Subsidiaries

Unaudited Consolidated Financial Statements
As of September 30, 2012 and 2011 and for the
Quarters Ended September 30, 2012, 2011 and 2010

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of September 30, 2012 (Unaudited)	As of December 31, 2011 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱ 277,579,726**	₱394,696,749
Short-term investment	**10,409,907**	10,409,907
Receivables (Note 5)	**281,881,454**	239,289,287
Inventories - at cost (Note 6)	**481,363,086**	519,258,936
Prepayments and other current assets (Note 7)	**357,709,380**	161,522,138
Total Current Assets	**1,408,943,553**	1,325,177,017
Noncurrent Assets		
Property and equipment (Note 8)	**2,149,312,546**	1,946,032,976
Deposits (Note 9)	**238,469,551**	215,964,826
Deferred income tax assets - net (Note 27)	**40,662,814**	40,662,817
Goodwill and other noncurrent assets (Note 10)	**95,026,334**	206,461,345
Total Noncurrent Assets	**2,523,471,244**	2,409,121,964
TOTAL ASSETS	**₱ 3,932,414,798**	₱3,734,298,981

LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 11)	**₱ 573,111,111**	₱374,666,667
Accounts payable and accrued expenses (Note 12)	**1,015,403,727**	1,243,937,457
Income tax payable	**30,561,135**	73,922,196
Other current liabilities (Notes 13 and 25)	**347,059,828**	298,435,516
Total Current Liabilities	**1,966,135,801**	1,990,961,836
Noncurrent Liabilities		
Deposits payable (Note 14)	**219,070,623**	171,457,833
Net retirement obligations (Note 24)	**54,623,374**	65,192,720
Cumulative redeemable preferred shares (Note 15)	**6,194,063**	6,000,000
Deferred revenue - net of current portion (Note 16)	**-**	4,057,482
Total Noncurrent Liabilities	**279,888,059**	246,708,035
Total Liabilities	**2,246,023,860**	2,237,669,871

(Forward)

	As of September 30, 2012 (Unaudited)	As of December 31, 2011 (Audited)
Equity		
Capital stock (Note 17) - ₱1 par value Authorized - 400,000,000 shares Issued – 347,329,216 and 302,114,918 shares as of December 31, 2011 and 2010, respectively [held by 666 and 684 equity holders in 2011 and 2010, respectively (Note 1)]	**₱ 347,329,216**	₱347,329,216
Additional paid-in capital	**293,525,037**	293,525,037
Retained earnings (Note 17)	**1,045,230,035**	855,468,208
Other component of equity - revaluation increment on land [net of deferred income tax liability (Notes 8 and 27)]	**3,229,895**	3,229,895
	1,689,314,184	1,499,552,356
Cost of 686,250 shares held in treasury	**(2,923,246)**	(2,923,246)
Total Equity	**1,686,390,938**	1,496,629,110
TOTAL LIABILITIES AND EQUITY	**₱ 3,932,414,798**	₱3,734,298,981

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30 (Unaudited)		
	2012	2011	2010
REVENUE			
Revenue from merchandise sales	**₱ 2,762,429,823**	₱ 2,202,798,398	₱1,842,321,476
Franchise revenue (Note 32)	**172,058,319**	132,810,517	115,032,054
Marketing income (Note 20)	**131,578,247**	113,132,343	81,405,413
Rent income (Note 26)	**17,270,200**	16,839,021	7,697,382
Commission income (Note 32)	**18,393,363**	9,268,651	7,566,187
Interest income (Notes 9, 22 and 26)	**693,352**	487,586	802,563
Other income (Note 32)	**29,228,356**	16,990,118	25,075,217
	3,131,651,660	2,492,326,634	2,079,900,292
EXPENSES			
Cost of merchandise sales (Note 18)	**2,085,463,026**	1,623,174,773	1,352,498,999
General and administrative expenses (Note 19)	**958,125,827**	780,913,600	652,881,445
Interest expense (Notes 11, 15 and 21)	**4,231,826**	3,933,287	3,824,166
Other expenses	**(2,122,512)**	1,847,041	1,016,458
	3,045,698,166	2,409,868,701	2,010,221,068
INCOME BEFORE INCOME TAX	**85,953,494**	82,457,933	69,679,224
PROVISION FOR INCOME TAX (Note 27)	**25,786,048**	26,451,154	22,509,304
NET INCOME	**60,167,446**	56,006,779	47,169,920
TOTAL COMPREHENSIVE INCOME	**₱ 60,167,446**	₱ 56,006,779	₱ 47,169,920
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	**₱ 0.17**	₱ 0.16	₱ 0.14

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months Ended September 30 (Unaudited)		
	2012	2011	2010
REVENUE			
Revenue from merchandise sales	**₱ 8,484,265,248**	₱ 6,398,035,295	₱ 5,535,987,439
Franchise revenue (Note 32)	**487,401,798**	380,812,526	325,497,052
Marketing income (Note 20)	**346,740,064**	271,568,966	192,710,909
Rent income (Note 26)	**42,993,616**	39,273,693	24,257,622
Commission income (Note 32)	**48,214,981**	26,832,392	20,817,742
Interest income (Notes 9, 22 and 26)	**2,072,854**	1,553,198	2,182,681
Other income (Note 32)	**45,552,263**	46,357,364	44,845,003
	9,457,240,825	7,164,433,434	6,146,298,446
EXPENSES			
Cost of merchandise sales (Note 18)	**6,353,186,769**	4,694,738,202	4,043,097,065
General and administrative expenses (Note 19)	**2,768,941,473**	2,207,158,810	1,827,665,143
Interest expense (Notes 11, 15 and 21)	**11,429,969**	11,751,941	12,291,977
Other expenses	**3,073,864**	(5,949,502)	3,239,433
	9,136,632,076	6,907,699,451	5,886,293,618
INCOME BEFORE INCOME TAX	**320,608,749**	256,733,983	260,004,827
PROVISION FOR INCOME TAX (Note 27)	**96,182,625**	81,988,649	82,020,863
NET INCOME	**224,426,124**	174,745,334	177,983,964
TOTAL COMPREHENSIVE INCOME	**₱ 224,426,124**	₱ 174,745,334	₱ 177,983,964
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	**₱ 0.65**	₱ 0.50	₱ 0.59

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 and 2011 (Unaudited)

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Revaluation Increment on Land	Total	Treasury Stock	Total
BALANCES AS OF DECEMBER 31, 2009	**₽287,761,172**	**₽293,525,037**	**₽326,309,628**	**₽3,229,895**	**₽910,825,732**	**₽(2,923,246)**	**₽907,902,486**
Stock dividends (Note 17)	14,353,746	-	(14,353,746)	-	-	-	-
Cash dividends (Note 17)	-	-	(14,353,746)	-	(14,353,746)	-	(14,353,746)
Total comprehensive income for the year	-	-	276,880,248	-	276,880,248	-	276,880,248
BALANCES AS OF DECEMBER 31, 2010	**302,114,918**	**293,525,037**	**574,482,384**	**3,229,895**	**1,173,352,234**	**(2,923,246)**	**1,170,428,988**
Stock dividends (Note 17)	45,214,298		(45,214,298)				-
Cash dividends (Note 17)			(30,142,867)		(30,142,867)		(30,142,867)
Total comprehensive income for the year	-	-	356,342,989	-	356,342,989	-	356,342,989
BALANCES AS OF DECEMBER 31, 2011	**347,329,216**	**293,525,037**	**855,468,208**	**3,229,895**	**1,499,552,356**	**(2,923,246)**	**1,496,629,110**
Total comprehensive income for the Quarter			224,426,124		215,426,124		215,426,124
Payment of Cash Dividends (Note 17)			(34,664,297)		(34,664,297)		(34,664,297)
BALANCES AS OF SEPTEMBER 30, 2012	**₽347,329,216**	**₽293,525,037**	**₽1,045,230,035**	**₽3,229,895**	**₽1,689,314,183**	**₽(2,923,246)**	**₽1,686,390,937**
BALANCES AS OF SEPTEMBER 30, 2011	**₽347,329,216**	**₽293,525,037**	**₽673,870,552**	**₽3,229,895**	**₽1,317,954,700**	**₽(2,923,246)**	**₽1,315,031,454**

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30 (Unaudited)		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱ 85,953,494**	₱ 82,457,933	₱ 69,679,224
Adjustments for:			
Depreciation and amortization	**130,685,364**	96,093,131	70,926,172
Interest expense	**4,231,826**	3,933,287	4,043,725
Interest income	**693,352**	487,586	(802,563)
Amortization of:			
Deferred revenue on exclusivity contract	**-**	2,519,070	-
Software and other program costs	**372,619**	1,113,062	773,041
Operating income before working capital changes	**222,161,577**	186,591,992	144,938,105
Decrease (increase) in:			
Receivables	**(27,120,783)**	(128,530,890)	(740,260)
Inventories	**13,970,158**	(1,190,937)	33,460,591
Prepayments and other current assets	**(16,393,941)**	(76,801,500)	2,867,259
Increase (decrease) in:			
Accounts payable and accrued expenses	**(187,165,704)**	(21,874,449)	(256,536,425)
Other current liabilities	**(10,158,801)**	48,736,695	51,069,109
Deposits payable	**(53,745,598)**	96,973,090	(51,527,318)
Deferred Revenue (Notes 16 and 32)			
Cash generated from operations	**(58,453,090)**	103,904,000	(76,468,939)
Income taxes paid	**(44,423,991)**	(44,949,143)	(26,129,389)
Interest received	**(693,352)**	(487,586)	802,563
Net cash from operating activities	**(103,570,433)**	58,467,270	(101,795,764)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to (Amortization of):			
Property and equipment	**(193,861,044)**	(165,804,326)	(150,863,257)
Software and other program costs	**(372,619)**	(1,113,061)	(773,041)
Decrease (increase) in:			
Deposits	**(9,674,707)**	(7,149,425)	(8,222,200)
Goodwill and other noncurrent assets	**99,726,064**	(175,780)	(3,350,160)
Net cash used in investing activities	**(104,182,306)**	(174,242,592)	(163,208,659)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of bank loans	**210,000,000**	-	-
Payments of bank loans	**(5,333,333)**	(2,000,000)	80,000,000
Interest paid	**(4,231,826)**	(3,933,287)	(4,043,725)
Cash dividends paid	**(34,664,297)**	(30,142,867)	(14,353,746)
Net cash used in financing activities	**165,770,544**	(36,076,155)	61,602,529
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(41,982,194)**	(151,851,477)	(203,401,894)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**319,561,921**	404,058,844	379,806,427
CASH AND CASH EQUIVALENTS AT END OF SECOND QUARTER	**₱ 277,579,726**	₱ 252,207,367	₱ 176,404,533

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30 (Unaudited)		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₽ 320,608,748**	₽ 256,733,983	₽ 260,004,827
Adjustments for:			
Depreciation and amortization	**366,993,251**	271,715,597	188,611,427
Interest expense	**11,429,969**	11,751,941	12,291,977
Interest income	**11,072,854**	1,553,198	(2,182,681)
Amortization of:			
Deferred revenue on exclusivity contract	**-**	2,519,663	-
Software and other program costs	**1,117,856**	2,226,122	2,316,688
Operating income before working capital changes	**711,222,679**	546,500,504	461,042,238
Decrease (increase) in:			
Receivables	**(42,592,167)**	(47,059,324)	50,305,513
Inventories	**37,895,850**	13,275,147	102,527,222
Prepayments and other current assets	**(196,187,242)**	(133,973,712)	(38,219,210)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(228,533,730)**	(122,467,090)	(453,256,484)
Other current liabilities	**46,145,133**	105,770,758	173,575,558
Deposits payable	**47,612,790**	123,629,268	(8,300,079)
Net Retirement Obligations	**(10,569,346)**	3,845,762	(2,070,074)
Cash generated from operations	**364,993,966**	489,521,313	285,604,685
Income taxes paid	**(139,543,685)**	(91,575,510)	(76,826,658)
Interest received	**(11,072,854)**	(1,553,198)	2,182,681
Net cash from operating activities	**214,377,427**	396,392,605	210,960,707
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to (Amortization of):			
Property and equipment	**(570,272,821)**	(507,819,518)	(448,169,548)
Software and other program costs	**(1,117,856)**	(2,226,122)	(2,316,688)
Decrease (increase) in:			
Deposits	**(22,504,725)**	(34,959,712)	(26,888,474)
Goodwill and other noncurrent assets	**110,050,774**	7,318,722	633,371
Net cash used in investing activities	**(483,844,628**	(537,686,631)	(476,741,339)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans	**210,000,000**	-	80,000,000
Payments of bank loans	**(11,555,556)**	76,666,667	(60,000,000)
Interest paid	**(11,429,969)**	(11,751,941)	(12,291,977)
Cash dividends paid	**(34,664,297)**	(30,142,867)	(14,353,746)
Net cash used in financing activities	**152,350,178**	34,771,859	(6,645,723)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(117,117,023)**	(106,522,167)	(272,426,355)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**394,696,749**	358,729,534	448,830,888
CASH AND CASH EQUIVALENTS AT END OF SECOND QUARTER	**P 277,579,726**	P 252,207,367	176,404,533

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for Issuance of Financial Statements

Corporate Information

Philippine Seven Corporation (the Company or PSC) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on November 29, 1982. The Company and its subsidiaries (collectively referred to as "the Group"), are primarily engaged in the business of retailing, merchandising, buying, selling, marketing, importing, exporting, franchising, acquiring, holding, distributing, warehousing, trading, exchanging or otherwise dealing in all kinds of grocery items, dry goods, food or foodstuffs, beverages, drinks and all kinds of consumer needs or requirements and in connection therewith, operating or maintaining warehouses, storages, delivery vehicles and similar or incidental facilities. The Group is also engaged in the management, development, sale, exchange, and holding for investment or otherwise of real estate of all kinds, including buildings, houses and apartments and other structures.

The Company is controlled by President Chain Store (Labuan) Holdings, Ltd., an investment holding company incorporated in Malaysia, which owns 55.35% of the Company's outstanding shares. The remaining 44.65% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC, incorporated in Taiwan, Republic of China).

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 2011 and 2010, the Company has 666 and 684 equity holders, respectively.

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

Authorization for Issuance of the Financial Statements

The consolidated financial statements as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Directors (BOD) on February 10,. 2012.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements are prepared under the historical cost basis, except for parcels of land, which are carried at revalued amount. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency.

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).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations, which became effective on January 1, 2011. Except as otherwise indicated, the adoption of the new and amended Standards and Interpretations,did not have a significant impact on the consolidated financial statements.

- Amendment to PAS 24, *Related Party Disclosures*
  This Amendment clarifies the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity.

  In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
  This Amendment alters the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*
  This Amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  This Interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRSs
The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Except otherwise stated, the adoption of these amendments did not have significant impact on the consolidated financial statements.

- Amendment to PFRS 3, *Business Combinations (Revised)*
  This Amendment clarifies that the Amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32 and PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items* that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- Amendment to PFRS 7, *Financial Instruments: Disclosures*
  This Amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- Amendment to PAS 1, *Presentation of Financial Statements*
  This Amendment clarifies that an entity will present an analysis of other comprehensive income (OCI) for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- Amendment to PAS 27, *Consolidated and Separate Financial Statements*
  This Amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- Amendment to PAS 34, *Interim Financial Reporting*
  This Amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:
  a) The circumstances likely to affect fair values of financial instruments and their classification;
  b) Transfers of financial instruments between different levels of the fair value hierarchy;
  c) Changes in classification of financial assets; and
  d) Changes in contingent liabilities and assets.

- Amendment to Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

New Accounting Standards, Interpretations, and Amendments to <u>Existing Standards Effective Subsequent to December 31, 2011</u>
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 2012

- Amendments to PAS 1, *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income*
  This Amendment changed the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and will have no impact on the Group's financial position or performance.

- Amendment to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
  The Amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments require additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the entity's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- Amendment to PAS 12, *Income Taxes*, *Deferred Tax: Recovery of Underlying Assets*
  This Amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property,* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

Effective 2013

- Amendment to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  The Amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. 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. 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. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  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 statement of financial position;
  c) The net amounts presented in the statement of financial position;
  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.

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27 that 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. The Group is currently assessing the full impact that this standard will have on the financial position and performance.

- PFRS 11*, Joint Arrangements*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. It replaces PAS 31, *Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It also removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

- PFRS 12, *Disclosure of Interest with Other Entities*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. It includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement*
  This Standard becomes effective for annual periods beginning on or after January 1, 2013. It establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

- Amendment to PAS 19, *Employee Benefits*
  This Amendment becomes effective for annual periods beginning on or after January 1, 2013. The Amendment provides changes which range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments.

- Amendment to PAS 27, *Separate Financial Statements (Revised)*
  This Amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence 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 separate financial statements.

  Amendment to PAS 28, *Investments in Associates and Joint Ventures (Revised)*
  This Amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence 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.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation becomes effective for annual periods beginning on or after January 1, 2013. 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 will have no impact on the Group's financial statements.

Effective 2014

- Amendments to PAS 32, *Offsetting Financial Assets and Financial Liabilities*
  These Amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2014. It clarifies 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 Group is currently assessing the impact of these amendments.

Effective 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*
  This Standard becomes effective for annual periods beginning on or after January 1, 2015. The Standard, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

  As of September 30, 2012, the Company did not conduct an evaluation of the impact of PFRS 9, *Financial Instruments: Classification and Measurement,* in its financial statements. The Company does not also intend to adopt PFRS 9 in its December 31, 2012 annual consolidated financial statements. The Company will assess the financial impact of PFRS in its financial statements upon completion of all the phases of PFRS 9.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by 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. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. This interpretation will have no impact on the Group's financial statements.

Basis of Consolidation

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

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting year 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 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.

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 financial (AFS) 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 this designation at every balance sheet date.

Financial Assets

a. Financial Assets at FVPL

Financial assets at FVPL include financial assets held-for-trading and those designated upon initial recognition as at FVPL.

Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial assets are designated as at FVPL on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial asset contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are accounted for directly in profit or loss. Interest earned is recorded as interest income, while dividend income is recognized according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2011 and 2010, the Group has no financial assets at FVPL.

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Re-assessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An embedded derivative is separated from the host financial or non-financial asset contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid or combined instrument is not recognized as FVPL.
- Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in profit or loss.

As of December 31, 2011 and 2010, the Group has no outstanding embedded derivatives.

b. HTM Financial Assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. HTM financial assets are subsequently carried either at cost or amortized cost in the consolidated balance sheet. Amortization is determined by using the effective interest rate method. Assets under this category are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2011 and 2010, the Group has not designated any financial asset as HTM.

c. AFS Financial Assets
AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are accounted for in the consolidated statement of comprehensive income until the financial asset is derecognized or until the financial asset is determined to be impaired at which time the cumulative gain or loss previously reported in the consolidated statement of comprehensive income is recognized in profit or loss. AFS financial assets 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 AFS financial assets consist of unquoted investments in preferred shares of a public utility company included as part of "Others" under "Goodwill and other noncurrent assets" in the consolidated balance sheets as of December 31, 2011 and 2010.

d. 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 consist of cash and cash equivalents, short-term investments, receivables and deposits as of December 31, 2011 and 2010.

Financial Liabilities

a. Financial Liabilities at FVPL
Financial liabilities at FVPL include financial liabilities held-for-trading and those designated upon recognition at FVPL.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial liabilities are designated as at FVPL on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- the liabilities are part of a group of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value are accounted for directly in profit or loss. Interest incurred is recorded as interest expense.

As of December 31, 2011 and 2010, the Group has not designated any financial liability as at FVPL.

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, deposits payable and cumulative redeemable preferred shares as of December 31, 2011 and 2010.

Determination of Fair Values
Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

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.

Financial Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset.

Financial Assets Carried at Fair Value
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from the consolidated statement of comprehensive income to profit or loss.

In case of equity securities classified as AFS financial asset, objective evidence would include a significant or prolonged decline in the fair value of the financial assets below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than six months. In addition, the Group evaluates other factors, including normal volatility in share price for unquoted equities.

Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as AFS financial asset are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In case of debt securities classified as AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of comprehensive income. If, in subsequent year, the fair value of a debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial Assets

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

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

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

Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

<u>Inventories</u>

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

<u>Value-Added Tax (VAT)</u>

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 or 60 months, whichever is shorter, commencing on the date of acquisition. Deferred input VAT which is expected to be utilized 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.

Advances to Suppliers

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.

Property and Equipment

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

Land is carried at revalued amount less any impairment in value. The difference between cost and revalued amount goes to the equity section of the consolidated balance sheet. The revalued amount is determined by a professionally qualified independent appraiser.

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

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

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

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

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

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

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

Fully depreciated assets are retained in the books until disposed.

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.

Impairment of Property and Equipment and Software and Program Cost

The Group assesses at each balance sheet date whether there is an indication that a nonfinancial asset 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 in those expense categories consistent with the function of the impaired asset.

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.

Deposits

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

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.

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 cashgenerating 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.

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

Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued and outstanding.

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

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

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

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

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

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

Marketing
Marketing income is recognized when service is rendered. In case of marketing support funds, revenue is recognized upon achievement of the minimum purchase requirement of the suppliers.

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

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

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

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

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

Retirement Benefits
Retirement benefits cost is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the present value of the retirement obligations and the fair value of the net plan assets as of that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.
Past service cost is recognized as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested following the introduction of, or changes to the plan, past service cost is recognized immediately

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

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

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

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

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

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

Borrowing Costs

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

Foreign Currency-denominated Transactions

Transactions in foreign currency are initially recorded at the exchange rate at the date of transaction. Outstanding foreign currency-denominated monetary assets and liabilities are translated using the applicable exchange rate at balance sheet date. Exchange differences arising from translation of foreign currency monetary items at rates different from those at which they were originally recorded are recognized in profit or loss.

Income Tax

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 on 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 deferred income tax assets against deferred income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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.

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.

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

Determination of Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Peso. The Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenue, costs and expenses of the Company.
Classification of Financial Instruments
The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, liability or equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

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

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

The Group's financial instruments include loans and receivables, AFS financial assets 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. SSHI also entered into lease agreements on properties which it owns. The Company and SSHI 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 Property and Equipment and Software and Program Costs
The Group determines whether its items of property and equipment and software and program costs are impaired on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the assets are allocated. The preparation of the estimated future cash flows in determining value-in-use involves significant judgment, estimation and assumption.

While management believes that the assumptions made are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

The carrying value of property and equipment and software and program costs amounted to ₱2,150,678,816 and ₱1,948,517,102 as of September 30, 2012 and December 31, 2011, respectively (see Notes 8 and 10). Based on management's judgment, there were no indicators of impairment of the Group's nonfinancial assets, thus, no impairment loss were recognized in 2011, 2010 and 2009.

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

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

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

Note 29 presents the fair values of the financial instruments and the methods and assumptions used in estimating their fair values.

Impairment of Loans and Receivables
The Group reviews its loans and receivables at each balance sheet date to assess whether a provision for impairment should be recognized in profit or loss or loans and receivables balance should be written off. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Moreover, management evaluates the presence of objective evidence of impairment which includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization.

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

The carrying value of loans and receivables amounted to ₱637,094,383 and ₱708,505,045 as of September 30, 2012 and December 31, 2011, respectively (see Note 29). Allowance for impairment on loans and receivables amounted to ₱7,438,483 as of September 30, 2012 and December 31, 2011 ,

respectively (see Notes 5 and 30).Provision for impairment amounted to ₱ 3,810,991, ₱1,622,883 and ₱9,798,327 in 2011, 2010 and 2009, respectively (see Notes 5 and 19).

Impairment of AFS Financial Assets
In determining the fair values of financial assets, management evaluates the presence of significant and prolonged decline in the fair value of share price below its cost, the normal volatility in the share price, the financial health of the investee and the industry and sector performance like changes in operational and financial cash flows. Any indication of deterioration in these factors can have a negative impact on their fair value. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more of the original cost of investment, and "prolonged" as greater than six months.

The carrying value of AFS financial assets included as part of "Others" under "Goodwill and other noncurrent assets" amounted to nil as of December 31, 2011 and ₱ 1,320,575 as of December 31, 2010. (see Notes 10 and 29). No impairment losses were recognized in 2011, 2010 and 2009.

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 ₱ 481,363,086 and ₱ 519,258,936 as of September 30, 2012 and December 31, 2011, respectively (see Note 6). No provisions for decline in inventory value were recognized in 2011, 2010 and 2009.

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.

Property and equipment, net of accumulated depreciation and amortization, amounted to ₱2,149,312,546 and ₱1,946,032,976 as of September 30, 2012 and December 31, 2011, respectively (see Note 8). The carrying amount of software and program cost amounted to ₱1,366,270 and ₱2,484,126 as of September 30, 2012 and December 31, 2011, respectively (see Note 10).

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.

The carrying value of goodwill amounted to ₱65,567,524 as of September 30, 2012 and December 31, 2011. No impairment losses were recognized in 2011, 2010 and 2009 (see Note 10). Based on the assessment made by the Group, there is no impairment of goodwill as the recoverable amount of the cash-generating units exceeds the carrying amount of the unit, including goodwill as of December 31, 2011 and 2010.

Estimation of Retirement Benefits
The determination of the obligation and retirement benefits is dependent on management's assumptions used by the actuary in calculating such amounts. Those assumptions are described in

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

The Group's net retirement obligations amounted to ₱54,623,374 and ₱65,192,720 as of September 30, 2012 and December 31, 2011, respectively. Retirement benefits cost amounted to ₱12,368,401, ₱11,220,501 and ₱21,979,689 in 2011, 2010 and 2009, respectively. Further details about the assumptions used are disclosed in Note 24.

Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision and contingency is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions and contingencies are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision and contingency is being re-assessed at least on an annual basis to consider new relevant information.

As of December 31, 2011 and 2010, the Group has provision for litigation losses amounting to ₱7,066,290 and is reported under "Accounts payable and accrued expenses" in the consolidated balance sheets. 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 ₱47,717,236 and ₱46,653,929 as of December 31, 2011 and 2010, respectively (see Note 27).

4.Cash and Cash Equivalents and Short-Term Investment

	SEP 2012	DEC 2011
Cash on hand and in banks	**₱277,579,726**	₱394,696,749
Cash equivalents	**–**	
	₱277,579,726	₱394,696,749

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 of December 31, 2011 and 2010, SSHI's short-term investment, which pertains to time deposit which has maturity date of more than 90 days, amounted to ₱ 10,409,907 and ₱10,141,555, respectively.

Interest income from savings and deposits accounts and short-term investment amounted to ₱2,072,854, ₱1,553,198 and ₱2,182,681 in September 2012, 2011 and 2010, respectively (see Note 22).

5. **Receivables**

	SEP 2012	DEC 2011
Suppliers	**₱ 92,022,755**	₱99,035,030
Franchisee	**105,199,447**	89,638,852
Insurance receivable	**469,272**	319,208
Employees	**14,448,016**	15,407,124
Store operators	**6,126,509**	₱15,683,186
Rent	**6,512,066**	7,068,009
Current portion of lease receivable - net of unearned interest income amounting to ₱291,204 and ₱378,850 as of December 31, 2011 and 2010, respectively (Note 26)	**106,616**	1,300,075
Deposits	**1,009,864**	1,009,864
Due from Philseven Foundation, Inc. (PFI) (Note 25)	**969,478**	173,945
Others	**62,455,913**	17,092,477
	289,319,937	246,727,770
Less allowance for impairment	**7,438,483**	7,438,483
	₱ 281,881,454	₱239,289,287

The classes of receivables of the Group are as follows:

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

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

The Company collected ₱10,858,906 and ₱8,606,678 in 2011 and 2010, respectively, from the insurance company as insurance proceeds for the Company's properties destroyed by the typhoon

"Ondoy". As of December 31, 2011, there is no outstanding receivable from the insurance company related to the claim. The gain amounting to ₱19,465,584 is included as "Other income" in the 2010 consolidated statement of comprehensive income.

Movements in allowance for impairment are as follows:

	SEP 2012		
	Suppliers	**Others**	**Total**
Beginning balances	**1,777,954**	**5,660,529**	**7,438,483**
Provision for the year (Note 19)	-	-	-
Write-off	-	-	-
Recovery of bad debts	-	-	-
Ending balances	**1,777,954**	**5,660,529**	**7,438,483**

	DEC 2011		
	Suppliers	Others	Total
Beginning balances	381,786	3,245,706	3,627,492
Provision for the year (Note 19)	1,396,168	2,414,823	3,810,991
Write-off		–	
Recovery of bad debts			
Ending balances	1,777,954	5,660,529	7,438,483

6. Inventories

	SEP 2012	DEC 2011
At cost (Note 18):		
Warehouse merchandise	**₱ 230,099,569**	₱271,683,488
Store merchandise	**251,263,518**	247,575,448
	₱ 481,363,086	₱519,258,936

7. Prepayments and Other Current Assets

	SEP 2012	DEC 2011
Deferred input VAT	**₱ 165,194,620**	₱43,844,078
Advances to suppliers	**82,679,771**	47,628,097
Prepaid rent	**43,005,157**	36,729,050
Advances for expenses	**19,961,552**	5,176,635
Prepaid uniform	**1,698,315**	2,145,413
Supplies	**927,469**	1,825,459
Current portion of deferred lease (Notes 10 and 26)	**2,425,557**	2,425,557
Others	**41,816,939**	21,747,849
	₱ 357,709,380	₱161,522,138

8. **Property and Equipment**

Movements in property and equipment are as follows:

	SEP 2012								
			Store	Office					
		Buildings and	Furniture and	Furniture and	Transportation	Computer	Leasehold	Construction	
	Land	Improvements	Equipment	Equipment	Equipment	Equipment	Improvements	In-Progress	Total
Costs/Revalued Amount									
Beginning balances	44,481,000	110,179,849	1,307,026,502	454,106,297	38,988,602	176,359,215	978,634,236	72,806,750	3,182,582,451
Additions		7,975,000	326,561,196	65,296,679	3,714,822	21,035,730	144,429,123	1,260,271	570,272,821
Disposals									-
Reclassifications		-	-	-	-	-			-
Ending balances	44,481,000	118,154,849	1,633,587,698	519,402,976	42,703,424	197,394,945	1,123,063,359	74,067,021	3,752,855,272
Accumulated Depreciation									
and Amortization									
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)	-	3,836,233	185,134,144	56,314,771	2,735,020	21,836,375	89,559,287	7,577,420	366,993,250
Disposals	-							-	-
Reclassifications	-	-	-	-	-	-	-	-	-
Ending balances	-	68,794,327	610,244,251	251,036,225	18,418,214	127,119,227	520,353,061	7,577,420	1,603,542,725
Net Book Values	44,481,000	49,360,522	1,023,343,447	268,366,751	24,285,210	70,275,718	602,710,298	66,489,601	2,149,312,546

The carrying value of the Group’s capitalized interest amounted to ₱13,130 and ₱1,677,864 as of December 31, 2011 and 2010.

The cost of fully depreciated property and equipment that are still being used in operations amounted to ₱45,007,187 and ₱585,711,873 as of December 31, 2011 and 2010, respectively. No property and equipment are pledged nor treated as security to the outstanding liabilities, as of December 31, 2011 and 2010.

9. **Deposits**

	SEP 2012	DEC 2011
Rent	**₱174,994,028**	₱155,379,984
Utilities	**32,809,854**	29,267,868
Refundable	**26,789,004**	26,789,004
Others	**3,876,665**	4,527,970
	₱ 238,469,551	₱215,964,826

10. **Goodwill and Other Noncurrent Assets**

	SEP 2012	DEC 2011
Goodwill	**₱ 65,567,524**	₱ 65,567,524
Deferred input vat-net of current portion		103,958,618
Deferred lease - net of current portion (Note 26)	**15,266,788**	15,266,788
Garnished accounts	**5,197,560**	6,241,465
Software and program cost	**1,366,270**	2,484,126
Lease receivable - net of current portion (Note 26)	**3,747,773**	3,448,336
AFS financial assets	**-**	-
Others	**3,880,419**	9,494,488
	₱ 95,026,334	₱ 206,461,345

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.

The recoverable amount of the goodwill was estimated based on the value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to cash flow projections is 10.22% in 2011 and 10.65% in 2010. The cash flows beyond the five-year period are extrapolated using a 3% growth rate in 2011 and 2010 that is the same as the long-term average growth rate for the retail industry.

No store acquired from Jollimart was closed in 2011 and 2010. In 2009, the Group has closed one store out of the 25 remaining stores it purchased from Jollimart. No impairment loss was recognized in 2011, 2010 and 2009.

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 2011 and 2010 follow:

Sales and Cost Ratio

Sales and cost ratio are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. Sales are projected to increase by two to three percent per annum while the cost ratio is set at 68.00% - 70.00% of sales per annum.

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

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 0.52% and 2.20% in the discount rates, or a reduction of growth rates by 1.00% and 2.00%, would give a value in use equal to the carrying amount of the cash generating units in 2011 and 2010, respectively.

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

Movements in deferred lease are as follows:

	SEP 2012	DEC 2011
Beginning balance	**₱17,692,345**	₱11,855,967
Additions	**-**	8,616,062
Amortization (Note 26)	**-**	(2,779,684)
Refunded	**-**	-
Ending balance	**17,692,345**	17,692,345
Less current portion	**2,425,557**	2,425,557
Noncurrent portion	**₱15,266,788**	₱15,266,788

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).

Software and Program Cost
Movements in software and program cost are as follows:

	SEP 2012	DEC 2011
Cost		
Beginning balance	**₱ 14,661,985**	₱14,661,985
Acquisition	**-**	-
Ending balance	**14,661,985**	14,661,985
Accumulated Amortization		
Beginning balance	**12,177,859**	9,579,118
Amortization (Note 19)	**1,117,856**	2,598,741
Ending balance	**13,295,715**	12,177,859
Net Book Values	**₱ 1,366,270**	₱2,484,126

11. **Bank Loans**

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2011 and 2010 with annual interest rates ranging from 3.50% to 4.25%, 4.20% to 5.20% and 4.90% to 5.50% in 2011, 2010 and 2009, 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:

	SEP 2012	DEC 2011
Beginning balance	**₱ 374,666,667**	₱ 320,000,000
Availment	**210,000,000**	230,000,000
Payments	**(11,555,556)**	(175,333,333)
Ending balance	**₱ 573,111,111**	₱ 374,666,667

Interest expense from these bank loans amounted to ₱ 11,429,969, ₱11,751,941, and ₱ 12,291,977 for the quarter ended September 30, 2012, 2011 and 2010 (see Note 21). Interest payable amounted to ₱ 970,551 and ₱ 1,174,528 as of September 30, 2012 and December 31, 2011, respectively (see Note 12).

12. Accounts Payable and Accrued Expenses

	SEP 2012	DEC 2011
Trade payable	**₱ 870,225,251**	₱ 1,066,740,769
Rent (Notes 26 and 34)	**45,536,486**	47,263,813
Employee benefits	**15,209,304**	23,954,117
Utilities	**43,896,673**	38,219,462
Advertising and promotion	**12,475780**	16,054,548
Outsourced services	**14,742,072**	12,461,025
Security services	**3,552,927**	3,054,419
Bank charges	**3,172,353**	2,278,700
Interest (Notes 11 and 15)	**1,164,613**	1,174,528
Others	**5,428,267**	32,736,076
	₱1,015,403,727	₱1,243,937,457

13. Other Current Liabilities

	SEP 2012	DEC 2011
Non-trade accounts payable	**₱ 244,354,436**	₱188,758,358
Output VAT	**13,386,185**	19,205,290
Withholding taxes	**19,671,495**	22,974,557
Retention payable	**21,264,298**	18,688,531
Service fees payable	**16,383,627**	19,370,472
Royalty (Note 25)	**9,718,583**	10,353,333
Current portion of deferred revenue on:		
Exclusivity contract (Notes 16 and 32)	**1,934,524**	1,934,524
Finance lease (Notes 16 and 26)	**1,866,964**	589,567
Others (Note 25)	**18,479,717**	16,560,884
	₱ 347,059,828	₱298,435,516

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

14. Deposits Payable

	SEP 2012	DEC 2011
Franchisees	**₱ 125,977,150**	₱ 88,795,094
Service agreements	**79,437,487**	69,260,533
Rent	**13,655,985**	13,402,206
	₱ 219,070,623	₱ 171,457,833

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 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 ₱ 327,000, ₱ 364,920 and ₱412,380 in 2011, 2010 and 2009, respectively (see Note 21). Interest payable included under "Accounts payable and accrued expenses" in the consolidated balance sheets amounted to ₱194,063 and ₱327,000 as of September 30, 2012 and December 31, 2011, respectively.

16. Deferred Revenue

	SEP 2012	DEC 2011
Deferred revenue on exclusivity contract (Note 32)	**₱5,133,929**	₱ 1,264,881
Deferred revenue on finance lease (Note 26)	**1,866,964**	1,277,398
Deferred revenue - others	**4,022,329**	1,515,203
	₱11,023,222	₱ 4,057,482

17. **Equity**

On July 24, 2012, the Company's BOD approved the declaration of cash dividend in the amount of 10 centavos per share on its outstanding 346,642,966 shares. The record date for entitlement to said cash dividend is August 22, 2012. Cash dividends amounted to ₱34,664,296.

On July 21, 2011, the Company's BOD and at least 2/3 of the Company's stockholders approved the recommendation for a stock dividend declaration corresponding to 15% of the outstanding common shares of the Company of 301,428,666. Record date of entitlement is August 19, 2011.

On July 29, 2010, the Company's BOD and at least 2/3 of the Company's stockholders approved the recommendation for a stock dividend declaration corresponding to 5% of the outstanding common shares of the Company of 287,074,922 shares. Record date of entitlement is August 27, 2010.

On June 25, 2009, the Company's BOD approved the recommendation for a stock dividend declaration corresponding to 10% of the outstanding common shares of the Company of 260,977,200. The stock dividends approved by the Company's BOD were approved by at least 2/3 of the Company's stockholders on July 16, 2009. Record date of entitlement is August 14, 2009.

There are 686,250 shares that are in the treasury amounting to ₱ 2,923,246 as of December 31, 2011 and 2010. There are no movement in the Group's treasury shares in 2011 and 2010.

The Company's retained earnings is restricted to the extent of ₱ 56,484,212 and ₱36,014,643 as of December 31, 2011 and 2010, respectively for the undistributed earnings of subsidiaries and ₱2,923,246 as of December 31, 2011 and 2010 for the cost of treasury shares.

The Group was listed with the Philippine Stock Exchange on February 4, 1998 with total listed shares of 71,382,000 common shares consisting of 47,000,000 shares for public offering and 24,382,000 shares for private placement. The Parent Company offered the share at a price of ₱4.40. As of December 31, 2011, the Parent Company has a total of 666 shareholders on record.

Movements in the number of shares issued are as follows:

	SEP 2012	DEC 2011
Beginning balance	**347,329,216**	**302,114,918**
Issuance of stock dividends	**-**	**45,214,298**
Ending balance	**347,329,216**	**347,329,216**

18. **Cost of Merchandise Sales**

	SEP 2012	SEP 2011	SEP 2010
Merchandise inventory, beginning	**₱ 519,258,936**	402,419,577	415,652,671
Net purchases	**6,315,290,919**	4,681,463,055	3,940,569,843
	6,834,549,855	5,083,882,632	4,356,222,514
Less merchandise inventory, ending	**481,363,086**	389,144,430	313,125,449
Total Cost of Sales	**₱ 6,353,186,769**	4,694,738,202	4,043,097,065

19. **General and Administrative Expenses**

	SEP 2012	SEP 2011	SEP 2010
Communication, light and water	**₱ 605,212,723**	441,577,713	377,111,250
Outside services (Note 32)	**472,544,116**	375,235,934	261,910,209
Rent (Note 26)	**362,189,052**	310,726,747	258,687,803
Depreciation and amortization	**366,993,251**	271,715,597	188,611,427
Personnel costs (Note 23)	**208,491,243**	224,723,202	230,043,385
Advertising and promotion	**89,707,757**	77,844,140	72,955,842
Royalties (Note 25)	**96,461,732**	76,612,036	66,167,013
Trucking services	**5,321,229**	4,550,695	65,060,932
Repairs and maintenance	**87,245,572**	74,235,225	52,733,583
Supplies	**82,376,797**	63,582,238	58,640,283
Taxes and licenses	**66,799,579**	56,552,479	54,075,039
Warehousing services	**181,426,722**	133,402,846	42,688,799
Entertainment, amusement and recreation	**4,617,859**	4,847,484	15,173,838
Transportation and travel	**27,858,266**	17,377,687	5,024,145
Inventory losses	**63,238,085**	41,240,540	30,563,964
Dues and subscription	**6,674,361**	4,369,566	3,451,331
Insurance	**6,495,998**	3,538,014	3,480,443
Amortization of software and program costs	**2,095,801**	2,283,624	2,316,688
Provision for impairment of receivables	**-**	-	-
Others	**33,191,330**	22,743,043	38,969,169
	2,768,941,473	2,207,158,810	1,827,665,143

20. Marketing Income

	SEP 2012	SEP 2011	SEP 2010
Display charges	**₱ 149,846,897**	129,131,742	86,042,943
Promotions	**157,185,678**	75,979,473	70,741,335
Marketing support funds	**39,707,488**	66,457,751	35,926,631
	₱ 346,740,064	271,568,966	192,710,909

21. Interest Expense

	SEP 2012	SEP 2011	SEP 2010
Interest on Bank loans	**₱ 11,325,907**	11,574,191	12,018,287
Guaranteed preferred dividends	**104,063**	177,750	273,690
	₱ 11,429,969	11,751,941	12,291,977

22. Interest Income

	SEP 2012	SEP 2011	SEP 2010
Interest on:			
Bank deposits (Note 4)	**₱ 2,072,854**	1,553,198	2,182,681
Finance lease (Note 26)	-	-	-
Accretion of refundable deposits	-	-	-
Accretion of notes receivable	-		
	₱2,072,854	1,553,198	2,182,681

23. Personnel Costs

	SEP 2012	SEP 2011	SEP 2010
Salaries and wages	**₱ 111,727,121**	124,669,190	131,458,753
Employee benefits	**89,643,857**	92,503,247	92,140,866
Retirement benefits cost (Note 24)	**7,120,267**	7,550,765	6,443,766
	₱ 208,491,245	224,723,202	230,043,385

24. Retirement Benefits

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

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

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

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

	2010		
	PSC	CDI	Total
Current service cost	₱3,706,434	₱705,342	₱4,411,776
Interest cost	6,749,595	520,065	7,269,660
Expected return on plan assets	(430,680)	(30,255)	(460,935)
Net retirement benefits cost	₱10,025,349	₱1,195,152	₱11,220,501

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

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

	2010		
	PSC	CDI	Total
Present value of retirement obligations	₱72,897,778	₱5,615,558	₱78,513,336
Less fair value of net plan assets	10,750,804	522,878	11,273,682
Unfunded retirement obligation	62,146,974	5,092,680	67,239,654
Unrecognized net actuarial gain (losses)	(10,337,337)	551,265	(9,786,072)
Net retirement obligations	₱51,809,637	₱5,643,945	₱57,453,582

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

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

	2010		
	PSC	CDI	Total
Beginning balances	₱62,438,440	₱4,864,964	₱67,303,404
Current service cost	3,706,434	705,342	4,411,776
Interest cost	6,749,595	520,065	7,269,660
Benefits paid	(6,248,673)	–	(6,248,673)
Actuarial losses (gains)	6,251,982	(474,813)	5,777,169
Ending balances	₱72,897,778	₱5,615,558	₱78,513,336

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

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

	2010		
	PSC	CDI	Total
Beginning balances	₱7,178,008	₱504,251	₱7,682,259
Expected return on plan assets	430,680	30,255	460,935
Contribution	9,434,042	–	9,434,042
Benefits paid	(6,248,673)	–	(6,248,673)
Actuarial losses	(43,253)	(11,628)	(54,881)
Ending balances	₱10,750,804	₱522,878	₱11,273,682

Breakdown of the Group’s net plan assets are as follows:

	2011	2010
Investments in trust and mutual funds	**46.00%**	41.90%
Investments in equity securities	**54.00%**	58.10%
	100.00%	100.00%

Actual return on plan assets amounted to ₱877,313 in 2011 and ₱387,427 in 2010 for PSC and ₱42,669 in 2011 and ₱18,627 in 2010 for CDI.

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

The Company expects to contribute ₱18,142,139 to its defined benefit plan in 2012.

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

	PSC		CDI	
	2011	2010	**2011**	2010
Number of employees	**655**	669	**20**	21
Discount rate per annum	**5.80%**	10.81%	**5.54%**	10.69%
Expected annual rate of return on plan assets	**5.50%**	6.00%	**5.50%**	6.00%
Salary increase rate	**5.50%**	6.00%	**5.50%**	6.00%

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

	2011		
	PSC	**CDI**	**Total**
Present value of retirement obligations	**₱96,296,328**	**₱6,764,360**	**₱103,060,688**
Fair value of net plan assets	**12,239,143**	**565,547**	**12,804,690**
Unfunded retirement obligation	**84,057,185**	**6,198,813**	**90,255,998**
Experience loss (gain) adjustments on retirement obligations	**324,950**	**(267,061)**	**57,889**
Experience gain adjustments on plan assets	**232,265**	**11,296**	**243,561**

	2010		
	PSC	CDI	Total
Present value of retirement obligations	₱72,897,778	₱5,615,558	₱77,762,742
Fair value of net plan assets	10,750,804	522,878	11,273,682
Unfunded retirement obligation	62,146,974	5,092,680	67,239,654
Experience gain adjustments on retirement obligations	(6,251,982)	(857,124)	(7,109,106)
Experience loss adjustments on plan assets	(43,253)	(11,628)	(54,881)

The discount rate of PSC and CDI as of December 31, 2011 are 5.80% and 5.54%, respectively, based on market rates consistent with the obligation of the defined benefit plan. Future annual increase in salary as of December 31, 2011 is 5.5%. Expected rate of return as of December 31, 2011 is 5.5%.

25. **Related Party Transactions**

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

Transactions with related parties consist of:

a. 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.

   Royalty fees recorded by the Group amounted to ₱96,461,732, ₱76,612,036 and ₱66,167,013 in September 30, 2012, 2011 and 2010, respectively. Royalty fees are paid on a monthly basis.

   Royalty payable included under “Other current liabilities” in the consolidated balance sheets amounted to ₱9,718,583 and ₱10,353,333 as of September 30, 2012 and December 31, 2011, respectively.

b. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of non interest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Amounts due from PFI amounted to ₱969,478 and ₱173,945 as of September 30, 2012 and December 31, 2011, respectively. Amount due to PFI included under others in “Other current liabilities” in the consolidated balance sheets amounted to ₱0.00 and ₱84,100 as of September 30, 2012 and December 31, 2011, respectively.

c. Compensation of key management personnel are as follows:

	SEP 2012	**SEP** 2011	**SEP** 2010
Short-term employee benefits	**₱ 19,915,967**	₱ 25,647,489	₱ 38,044,432
Post-employment benefits	**1,615,000**	1,127,000	372,500
Other long-term benefits	**-**	-	-
	₱ 21,530,967	₱ 26,774,489	₱ 38,416,932

26. **Leases**

Finance Lease as Lessor

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

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

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

	2011	2010
Within one year	**₱1,591,280**	₱1,591,280
After one year but not more than five years	**3,747,773**	5,339,053
Total minimum lease payments	**5,339,053**	6,930,333
Less unearned interest income	**590,642**	969,492
Present value of future minimum lease payments	**4,748,411**	5,960,841
Less current portion	**1,300,075**	1,212,430
Noncurrent portion	**₱3,448,336**	₱4,748,411

Collection of lease receivable amounted to ₱1,591,280 and ₱1,775,466 in 2011 and 2010, respectively.

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

	2011	2010
Within one year	**₱1,300,075**	₱1,212,430
After one year but not more than five years	**3,448,336**	4,748,411
Total minimum lease payments	**4,748,411**	5,960,841
Less current portion	**1,300,075**	1,212,430
Present value of future minimum lease payments	**₱3,448,336**	₱4,748,411

Unearned interest income as of December 31, 2011 and 2010 amounted to ₱590,642 and ₱969,492, respectively. Related interest income amounted to ₱378,850, ₱403,887 and ₱465,251 in 2011, 2010 and 2009, 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 traight-line basis over the lease term. The related deferred revenue amounted to ₱1,277,398 and ₱1,866,965 as of

December 31, 2011 and 2010, with current portion amounting to ₱589,567 in 2011 and 2010, and noncurrent portion amounting to ₱1,277,398 and ₱1,866,965 as of December 31, 2011 and 2010, respectively. Amortization of deferred revenue amounted to ₱589,567, ₱709,665 and ₱1,310,151, in 2011, 2010 and 2009, respectively.

Operating Lease as Lessee

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

   Rental expense related to these lease agreements amounted to ₱362,189,052, ₱310,726,747 and ₱258,687,803 in September 30, 2012, 2011 and 2010, respectively. Of the total rent expense, ₱ 281,115 in 2012, 2011 and 2010 pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to ₱ 1,689,184, ₱324,200 and ₱385,024 in 2011, 2010 and 2009, respectively.

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

	2011	2010
Within one year	**₱52,930,899**	₱48,966,221
After one year but not more than five years	**114,077,970**	93,993,928
More than five years	**–**	3,131,450
	₱167,008,869	₱146,091,599

b. CDI entered into a 15-year operating lease contract for the lease of its warehouse effective November 1, 2005. The lease is subject to an escalation rate of 7.0% after every two years starting on the third year of the lease.

   Rent expense related to this lease agreement amounted to ₱22,925,240 in 2011, 2010 and 2009. Amortization of deferred lease amounted to ₱1,090,500 in 2011, 2010 and 2009.

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

	2011	2010
Within one year	**₱31,879,766**	₱21,058,664
After one year but not more than five years	**138,038,344**	92,747,776
More than five years	**152,413,780**	130,516,307
	₱322,331,890	₱244,322,747

The Company also has other various short-term operating leases pertaining to rental of warehouse fixtures and equipments. Related rent expense amounted to ₱994,083, ₱2,448,678 and ₱2,397,929 in 2011, 2010 and 2009, respectively.

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 ₱42,993,616, ₱39,273,693 and ₱24,257,622 in September 2012, 2010 and 2010, respectively.

27. **Income Tax**

a. The components of the Group's provision for income tax are as follows:

	2011	2010	2009
Current:			
Regular corporate income tax	**₱161,398,364**	₱124,265,727	₱80,682,849
Final tax on interest income	**586,624**	693,335	627,617
	161,984,988	124,959,062	81,310,466
Deferred	**165,174**	3,796,610	(6,270,068)
	₱162,150,162	₱128,755,672	₱75,040,398

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

	2011			
	PSC	**CDI**	**SSHI**	**Total**
Deferred income tax assets:				
Net retirement obligations	**₱17,606,581**	**₱1,951,234**	**₱–**	**₱19,557,815**
Accrued rent	**7,951,803**	**6,227,340**	**–**	**14,179,143**
Unamortized discount on refundable deposit	**4,683,505**	**1,860,674**	**–**	**6,544,179**
Allowance for impairment on receivables	**2,231,545**	**–**	**–**	**2,231,545**
Provision for litigation losses	**2,119,887**	**–**	**–**	**2,119,887**
Unamortized past service cost	**1,766,126**	**35,681**	**–**	**1,801,807**
Deferred revenue on exclusivity agreement	**959,822**	**–**	**–**	**959,822**
Unearned income	**243,731**	**–**	**–**	**243,731**
Unamortized discount on receivable	**79,102**	**–**	**–**	**79,102**
Unrealized foreign exchange loss	**205**	**–**	**–**	**205**
	37,642,307	**10,074,929**	**–**	**47,717,236**
Deferred income tax liabilities:				
Deferred lease expense	**3,500,191**	**1,807,512**	**–**	**5,307,703**
Unamortized discount on purchase of refundable deposit	**343,393**	**–**	**–**	**343,393**
Unamortized capitalized interest	**3,937**	**–**	**–**	**3,937**
Unrealized foreign exchange gain	**–**	**15,145**	**–**	**15,145**
Revaluation increment in land	**–**	**–**	**1,384,241**	**1,384,241**
	3,847,521	**1,822,657**	**1,384,241**	**7,054,419**
Net deferred income tax assets (liability)	**₱33,794,786**	**₱8,252,272**	**(₱1,384,241)**	**₱40,662,817**

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:

	2011	2010	2009
Provision for income tax computed at statutory income tax rate	**₱155,509,791**	₱121,690,776	₱69,249,315
Adjustments for:			
Nondeductible expenses:			
Inventory losses	**5,972,026**	4,397,733	3,353,737
Interest expense and others	**955,165**	3,114,649	1,662,459
Tax effect of rate difference between final tax and statutory tax rate on bank interest income	**(286,820)**	(386,196)	(313,809)
Nontaxable other income	–	(61,290)	(112,855)
Loss from typhoon	–	–	985,551
Donation expense	–	–	216,000
	₱162,150,162	₱128,755,672	₱75,040,398

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 2011, 2010 and 2009.

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

	SEP 2012	**SEP 2011**	**SEP 2010**
a. Net income	**₱ 224,426,124**	₱ 174,745,334	₱ 177,983,964
b. Weighted average number of shares issued	**347,329,216**	347,329,218	302,114,918
c. Less weighted average number of shares held in treasury	**686,250**	686,250	686,250
d. Weighted average number of shares outstanding **(b-c)**	**346,642,966**	346,642,968	301,428,668
e. Basic/diluted earnings per share **(a/d)**	**₱ 0.65**	₱ 0.50	₱ 0.59

The Group does not have potentially dilutive common shares as of December 31, 2011, 2010 and 2009. Thus, the basic earnings per share is equal to the diluted earnings per share as of those dates.

The Group's outstanding common shares increased from 302,114,918 to 347,329,216 as a result of stock dividend issuance equivalent to 15% of the outstanding common shares of the Company of 301,428,666 shares approved on July 21, 2011 (see Note 17). Therefore, the calculation of basic/diluted earnings per share for all periods presented has been adjusted retrospectively.

29. **Financial Instruments**

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

	SEP 2012		DEC 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Loans and Receivables				
Cash and cash equivalents				
Cash on hand and in banks	**277,579,726**	**277,579,726**	394,696,749	394,696,749
Cash equivalents	**0**	**0**		
	277,579,726	**277,579,726**	**394,696,749**	**394,696,749**
Short-term investments	**10,409,907**	**10,409,907**	10,409,907	10,409,907
Receivables:				
Suppliers	**90,244,801**	**90,244,801**	97,257,076	97,257,076
Franchisee	**105,199,447**	**105,199,447**	89,683,852	89,683,852
Insurance claims	**469,272**	**469,272**	319,208	319,208
Employees	**14,448,016**	**14,448,016**	15,407,124	15,407,124
Store operators	**6,126,509**	**6,126,509**	15,638,186	15,638,186
Rent*	**6,512,066**	**6,512,066**	7,068,009	7,068,009
Current portion of lease receivable	**106,616**	**106,616**	1,300,075	1,563,950
Deposits	**1,009,864**	**1,009,864**	0	0
Due from PFI	**969,478**	**969,478**	173,945	173,945
Others	**56,795,384**	**56,795,384**	12,441,812	12,441,812
	281,881,454	**281,881,454**	**239,289,287**	**239,553,162**

Deposits:				
Utilities	**32,809,854**	**32,809,854**	29,267,868	29,267,868
Refundable	**26,789,004**	**26,789,004**	26,864,928	27,301,992
Others	**3,876,665**	**3,876,665**	4,527,970	4,527,970
	63,475,523	**63,475,523**	**60,660,766**	**61,097,830**
Other noncurrent assets - lease receivable (net of current portion)	**3,747,773**	**3,747,773**	3,448,336	3,439,941
Total Loans and Receivables	**637,094,383**	**637,094,383**	**708,505,045**	**709,197,589**
AFS Financial Assets	**-**	**-**	**-**	**-**
TOTAL FINANCIAL ASSETS	**637,094,383**	**637,094,383**	**708,505,045**	**709,197,589**

FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	**573,111,111**	**573,111,111**	374,666,667	374,666,667
Accounts payable and accrued expenses:				
Trade payable	**870,225,251**	**870,225,251**	1,066,740,769	1,066,740,769
Employee benefits	**15,209,304**	**15,209,304**	23,954,117	23,954,117
Utilities	**43,896,673**	**43,896,673**	38,219,462	38,219,462
Advertising and promotion	**12,475,780**	**12,475,780**	16,054,548	16,054,548
Outsourced services	**14,742,072**	**14,742,072**	12,461,025	12,461,025
Security services	**3,552,927**	**3,552,927**	3,054,419	3,054,419
Bank charges	**3,172,353**	**3,172,353**	2,278,700	2,278,700
Interest	**1,164,613**	**1,164,613**	1,174,528	1,174,528
Others**	**14,428,267**	**14,428,267**	32,734,076	32,734,076
	978,867,240	**978,867,240**	**1,196,671,644**	**1,196,671,644**
Other current liabilities:				
Non-trade accounts payable	**244,354,436**	**244,354,436**	188,758,358	188,758,358
Retention payable	**21,264,298**	**21,264,298**	18,688,531	18,688,531
Service fees payable	**16,383,627**	**16,383,627**	19,370,472	19,370,472
Royalty	**9,718,583**	**9,718,583**	10,353,333	10,353,333
Others	**18,479,717**	**18,479,717**	12,700,219	12,700,219
	310,200,660	**310,200,660**	**249,870,913**	**249,870,913**
Deposit Payable			**171,457,833**	**171,457,833**
Cumulative redeemable preferred shares	**6,000,000**	**6,000,000**	**6,000,000**	**6,000,000**
TOTAL FINANCIAL LIABILITIES	**1,868,179,012**	**1,868,179,012**	**1,998,667,057**	**1,998,667,057**

**Includes short-term refundable deposits amounting to ₱216,000 as of December 31, 2011 and 2010, respectively, reported under "Prepayments and other current assets" in the consolidated balance sheet.*
***Excludes withholding taxes payable amounting to ₱2,000 as of December 31, 2011 and 2010.*

Fair Value Information

Current Financial Assets and Financial Liabilities

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

Lease Receivables
The fair value of lease receivable is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2011 and 2010, which is 3.80% and 4.64%, respectively.

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

Refundable Deposits
The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as of December 31, 2011 and 2010 ranging from 1.66% to 5.30% and 2.74% to 6.09%, respectively.

AFS Financial Assets
The fair value of unquoted AFS financial assets is not reasonably determinable, thus, balances are presented at cost.
The fair value of unquoted AFS financial assets is not reasonably determinable, thus, balances are presented at cost.

Bank Loans and Deposit Payables
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
As of December 31, 2011 and 2010, the Group has no financial instruments measured at fair value.

30. Financial Risk Management Objectives and Policies

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

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

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

	SEP 2012	DEC 2011
Cash and cash equivalents:		
Cash in bank (excluding cash on hand)	134,889,855	277,117,736
Cash equivalents	0	-
	134,889,855	277,117,736
Short-term investments	10,409,907	10,409,907
Receivables:		
Suppliers	92,022,755	99,035,030
Franchisee	105,199,447	89,638,852
Insurance claims	469,272	319,208
Employees	14,448,016	15,407,124
Store operators	6,126,509	15,683,186
Rent*	6,512,066	7,068,009
Current portion of lease receivables	106,616	1,300,075
Deposits	1,009,864	-
Due from PFI	969,478	173,945
Others	62,455,913	18,102,341
	289,319,937	246,727,770
Deposits:		
Utilities	32,809,854	29,267,868
Refundable	26,789,004	26,864,928
Others	3,876,665	4,527,970
	63,475,523	60,660,766
Other noncurrent assets:		
Lease receivables - net of current portion	3,747,773	3,448,336
AFS financial assets	0	0
	3,747,773	3,448,336
	491,433,088	587,954,608

**Includes short-term refundable deposits amounting to ₱216,000 as of December 31, 2011 and 2010 reported under "Prepayments and other current assets" in the consolidated balance sheet*

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:

	SEP 2012			
	Neither Past Due nor Impaired		Past Due	
		Standard	or	
	High Grade	Grade	Impaired	Total
Cash and cash equivalents				
Cash in bank	134,889,855	–	–	134,889,855
Cash equivalents	-	–	–	-
	134,889,855	-	-	134,889,855
Short-term investments	10,409,907	–	–	10,409,907
Receivables				
Suppliers	–	7,777,701	84,245,054	74,453,539
Franchisee	–	105,199,447	–	113,502,536
Insurance claims	–	469,272	–	319,208
Employees	–	14,448,016	–	13,590,861
Store operators	–	6,126,509	–	3,343,433
Rent	–	6,512,066	–	6,298,455
Current portion of lease receivables	–	106,616	–	504,436
Deposits	–	1,009,864	–	1,009,864
Due from PFI	–	969,478	–	414,052
Others	–	56,795,384	5,660,529	48,762,769
	10,409,907	199,414,354	89,905,583	272,609,061
Deposits				
Utilities	–	32,809,854	–	30,994,456
Refundable	–	26,789,004	–	26,789,004
Others	–	3,876,665	–	3,601,590
	-	63,475,523	-	61,385,050
Other noncurrent assets				
Lease receivables - net of current portion	–	3,747,773	–	3,747,773
AFS financial assets	–	-	–	-
	-	3,747,773	-	3,747,773
	145,299,762	266,637,650	89,905,583	501,842,995

	DEC 2011			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Past Due Or Impaired	Total
Cash and cash equivalents				
Cash in bank	₱277,117,736	₱–	₱–	₱277,117,736
Short-term investments	10,409,907	–	–	10,409,907
Receivables				
Suppliers	–	14,789,976	84,245,054	99,035,030
Franchisee	–	89,638,852	–	89,638,852
Store operators	–	15,683,186	–	15,683,186
Employees		15,407,124		15,407,124
Rent	–	7,068,009	–	7,068,009
Notes	–	1,328,983	–	1,328,983

	DEC 2011			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Past Due Or Impaired	Total
Current portion of lease receivables	–	1,300,075	–	1,300,075
Insurance claims	–	319,208	–	319,208
Due from PFI	–	173,945	–	173,945
Others		11,112,829	5,660,529	16,773,358
	–	156,822,187	89,905,583	246,727,770
Deposits				
Utilities	–	29,267,868	–	29,267,868
Refundable	–	26,864,928	–	26,864,928
Others	–	4,527,970	–	4,527,970
	–	60,660,766	–	60,660,766
Other noncurrent assets				
Lease receivables - net of current portion	–	3,448,336	–	3,448,336
	₱287,527,643	₱220,931,289	₱89,905,583	₱598,364,515

The Group uses the following criteria to rate credit quality:

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

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

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

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

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

	SEP 2012					
	Aging analysis of financial assets past due but not impaired				Past due and	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						
Suppliers	**29,189,784**	**12,630,191**	**50,202,780**	**92,022,755**	**1,777,954**	**93,800,709**
Others	-	-	-	-	**5,660,529**	**5,660,529**
	29,189,784	**12,630,191**	**50,202,780**	**92,022,755**	**7,438,483**	**99,461,238**

	DEC 2011					
	Aging analysis of financial assets past due but not impaired				Past due and	
	31 to 60 days	61 to 90 days	> 90 days	Total	impaired	Total
Receivables:						
Suppliers	3,565,821	3,058,308	75,842,971	82,467,100	1,777,954	84,245,054
Others	-	-	-	-	5,660,529	5,660,529
	3,565,821	3,058,308	75,842,971	82,467,100	7,438,483	89,905,583

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

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

Liquidity Risk

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

	SEP 2012				
		More than	More than		
	Three months	three months	one year	More than	
	or less	to one year	to five years	five years	Total
Cash and cash equivalents					
Cash	277,579,726	–	–	–	277,579,726
Cash equivalents	-	–	–	–	-
	277,579,726	-	-	-	277,579,726
Short-term investments	-	10,409,907	-	-	10,409,907
Receivables					
Suppliers	14,401,830	75,842,971	1,777,954	–	92,022,755
Franchisee	105,199,447	–	–	–	105,199,447
Insurance claims	–	469,272	–	–	469,272
Employees	14,448,016	–	–	–	14,448,016
Store operators	6,126,509	–	–	–	6,126,509
Rent	6,512,066	–	–	–	6,512,066
Current portion of lease receivables	-	106,616	–	-	106,616
Deposits		1,009,864	–	–	1,009,864
Due from subsidiaries	–	969,478	–	–	969,478
Others	56,795,384	5,660,529	–	–	62,455,913
	203,483,252	94,468,638	1,777,954	-	299,729,844
Deposits					
Utilities	–	–	32,809,854	–	32,809,854
Refundable	–	–	26,789,004	–	26,789,004
Others	–	–	3,876,665	–	3,876,665
	-	-	63,475,523	-	63,475,523
Other noncurrent assets					
Lease receivables - net of					
current portion ((forward)	-	–	3,747,773	–	3,747,773
AFS financial assets	–	–	-	-	-
	-	-	3,747,773	-	3,747,773
	481,062,978	104,878,545	69,001,250	-	644,532,866

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

	SEP 2012			
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	-	573,111,111	-	573,111,111
Accounts payable and accrued expenses				
Trade payable	870,225,251	–	–	870,225,251
Employee benefits	15,209,304	–	–	15,209,304
Utilities	43,896,673	–	–	43,896,673
Advertising and promotion	12,475,780	–	–	12,475,780
Outsourced services	14,742,072	–	–	14,742,072
Security services	3,552,927	–	–	3,552,927
Bank charges	3,172,353	–	–	3,172,353
Interest	1,164,613	–	–	1,164,613
Others	18,479,717	–	–	18,479,717
	982,918,691	-	-	982,918,691
Other current liabilities				
Non-trade accounts payable	–	244,354,436	–	244,354,436
Retention payable	–	21,264,298	–	21,264,298
Service fees payable	16,383,627	-	–	16,383,627
Royalty	9,718,583	–	–	9,718,583
Others	-	18,479,717	–	18,479,717
	26,102,210	284,098,450	-	310,200,660
Cumulative redeemable preferred shares	-	-	6,000,000	6,000,000
	1,009,020,901	857,209,561	6,000,000	1,872,230,462

	DEC 2011			
	Three months or less	More than three months to one year	More than one year	Total
Bank loans	₱293,389,375	₱83,335,278	₱–	₱376,724,653
Accounts payable and accrued expenses				
Trade payable	1,066,740,769	–	–	1,066,740,769
Utilities	38,219,462	–	–	38,219,462
Employee benefits	23,954,117	–	–	23,954,117
Advertising and promotion	16,054,548	–	–	16,054,548
Outsourced services	12,461,025	–	–	12,461,025
Security services	3,054,419	–	–	3,054,419
Bank charges	2,278,700	–	–	2,278,700
Interest	₱1,174,528	₱–	₱–	₱1,174,528
Others	32,736,076	–	–	32,736,076
	1,196,673,644	–	–	1,196,673,644

(Forward)

Other current liabilities				
Non-trade accounts payable	23,253,171	165,505,187	–	188,758,358
Service fees payable	–	19,370,472	–	19,370,472
Retention payable	–	18,688,531	–	18,688,531
Royalty	10,353,333	–	–	10,353,333
Others	–	12,700,219	–	12,700,219
	33,606,504	216,264,409	–	249,870,913
Cumulative redeemable preferred shares	6,000,000	–	–	6,000,000
	₱1,529,669,523	₱299,599,687	₱–	₱1,829,269,210

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:

	2011	2010
Due in less than one year	**₱374,666,667**	₱320,000,000
Rate	**3.50%-4.25%**	4.20%-5.20%

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):

	2011		2010	
	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**	**(3,746,667)**	+100	(3,200,000)
	-100	**3,746,667**	-100	3,200,000

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 exchage rates. The Group's foreign exchange exposure arises from holding foreign currency denominated rates.cash and cash equivalents, loans and receivables and merchandise sale to foreign entity. In order to balance this exposure, the Group has some sales denominated in foreign currency and maintains a foreign currency accounts in a reputable commercial bank. The Group does not enter into derivatives to hedge the exposure. The Group's cash and receivables denominated in foreign currency and converted into Peso using the closing exchange rates at the reporting dates are summarized below.

	2011		2010	
	Dollar	**Peso**	Dollar	Peso
Cash	**$59,634**	**₱2,614,355**	$35,718	₱1,565,877
Receivables	**90,349**	**3,960,900**	–	–
	$149,983	**₱6,575,255**	$35,718	₱1,565,877

As of December 31, 2011 and 2010, the closing functional currency exchange rate is ₱43.84.

The following table represents the impact on the Group's income before income tax brought about by a reasonably possible changes in Peso to Dollar exchange rate (holding all other variables constant) as of December 31, 2011 and 2010 until its next financial reporting date:

	Change in Peso to Dollar Exchange Rate	Effect on Income before Income Tax
2011	**Increase by 3.00%**	**₱197,258**
	Decrease by 3.00%	**(197,258)**
2010	Increase by 1.00%	16,049
	Decrease by 1.00%	(16,049)

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

31. **Capital Management**

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% and 50% in relation to its total assets. The Group's net worth ratio is 40% and 38% as of December 31, 2011 and 2010, respectively. No changes were made in the objectives, policies and processes during the year.

	SEP 2012	**DEC 2011**
Capital stock	**₱ 347,329,216**	**₱347,329,216**
Additional paid-in capital	**293,525,037**	**293,525,037**
Retained earnings	**1,045,230,035**	**855,468,208**
	1,686,084,289	**1,496,322,461**
Less cost of shares held in treasury	**2,923,246**	**2,923,246**
	₱ 1,683,161,043	**₱1,493,399,215**
Total assets	**₱ 3,932,414,798**	**₱3,734,298,981**
Net worth	43%	40%

As of December 31, 2011 and 2010, the Group was able to meet its objective.

32. **Significant Agreements**

a. The Group has various store franchise agreements with third parties for the operation of certain stores. The agreement includes a one-time franchise fee payment and an annual 7-Eleven charge for the franchisee, which is equal to a certain percentage of the franchised store's gross profit. Franchise fee amounted to ₱ 50,540,500, ₱ 57,520,118 and ₱47,300,894, respectively, and franchise revenue for the 7-Eleven charge amounted to ₱ 422,757,161, ₱323,292,338 and ₱278,196,157 for the quarters ended September 30, 2012, 2011 and 2010, respectively.

b. The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services shown as part of "General and administrative expenses" in profit or loss amounted to ₱171,794,373, ₱125,071,687 and ₱ 95,866,060 for the quarters ended September 30, 2012, 2011 and 2010, respectively.

c. The Group has an agreement with its phone card supplier effective January 1, 2000. Under the arrangement, the Group earns commission on the sale of phone cards based on a certain percentage of net sales for the month and a fixed monthly rate. Commission income amounted to ₱37,236,539, ₱29,271,506 and ₱22,130,513 in 2011, 2010 and 2009, respectively.

d. The Group has entered into an exclusivity agreement with a Third Party Supplier in the Philippines on October 1, 2007. Upon the effectivity of the agreement, all existing branches of 7-Eleven shall exclusively carry the Third Party Supplier's products and 7-Eleven should not carry any other similar or parallel products. The agreement is for a period of three years starting October 1, 2007 and shall continue in force and effect until December 31, 2010. In June 2008, the Company received a total consideration of ₱11,741,071 in relation to the agreement, to be amortized over three years.

e. 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 consolidated statement of comprehensive income amounted to ₱1,488,095 and ₱1,116,071 in 2011 and 2010, respectively. Deferred revenue as of December 31, 2011 and 2010 amounted to ₱1,860,119 and ₱3,348,214, 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 products and services from which the store operations derive its revenues from are as follows:

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

The segment's relevant financial information is as follows:

	SEP 2012	SEP 2011	SEP 2010
REVENUE			
Revenue from merchandise sales	**₱8,484,265,248**	6,398,035,295	5,535,987,439
Franchise revenue	**487,401,798**	380,812,526	325,497,052
Marketing income	**346,740,064**	271,568,966	192,710,909
Rent income	**42,993,616**	39,273,693	24,257,622
Commission income	**48,214,981**	26,832,392	20,817,742
Interest income	**2,072,854**	1,553,198	2,182,681
Other income	**45,552,263**	46,357,364	44,845,003
	9,457,240,824	7,164,433,435	6,146,298,446
EXPENSES			
Cost of merchandise sales	**6,353,186,769**	4,694,738,202	4,043,097,065
General and administrative expenses:			
Depreciation and amortization	**366,993,251**	271,715,597	188,611,427
Others	**2,401,948,222**	1,935,443,212	1,639,053,716
Interest expense	**11,429,969**	11,751,941	12,291,977
Other expenses	**3,073,864**	(5,949,502)	3,239,433
	9,136,632,076	6,907,699,451	5,886,293,618
INCOME BEFORE INCOME TAX	**320,608,748**	256,733,983	260,004,827
PROVISION FOR INCOME TAX	**96,182,625**	81,988,649	82,020,863
SEGMENT PROFIT	**₱ 224,426,123**	174,745,334	177,983,964
SEGMENT ASSETS	**₱3,932,414,798**	3,418,153,993	2,594,921,982
SEGMENT LIABILITIES	**₱2,246,023,860**	2,103,122,536	1,523,389,278

34. **Provisions and Contingencies**

The Group is a party to various litigations involving, among others, employees suing for illegal dismissal, back wages and damage claims, lessors claiming for lease payments for the unexpired portion of the lease agreements in cases of pre-termination of lease agreements, claims arising from store operations and as co-respondents with manufacturers on complaints with the Bureau of Food and Drugs, specific performance and other civil claims. All such cases are in the normal course of business and are not deemed to be considered as material legal proceedings. Further, these cases are either pending in courts or under protest, the outcome of which are not presently determinable. Management and its legal counsel believe that the liability, if any, that may result from the outcome of these litigations and claims will not materially affect their financial position or financial performance.

As of December 31, 2011 and 2010, the Company has provisions amounting to ₱7,066,290 pertaining to probable loss on litigations.

The table below summarizes the movements in the Company's provision as of December 31:

	2011	2010
Beginning of the year	**₱7,066,290**	₱12,578,122
Provisions during the year	**–**	4,098,267
Payments during the year	**–**	(9,610,099)
	₱7,066,290	₱7,066,290

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).

ANNEX 1

Philippine Seven Corporation
Schedule of Receivables

	As of SEP 2012 (Unaudited)	As of DEC 2011 (Audited)
Suppliers	**₱ 92,022,755**	₱99,035,030
Franchisee	**105,199,447**	89,638,852
Insurance receivable	**469,272**	319,208
Employees	**14,448,016**	15,407,124
Store operators	**6,126,509**	₱15,683,186
Rent	**6,512,066**	7,068,009
Current portion of lease receivable	**106,616**	1,300,075
Deposits	**1,009,864**	1,009,864
Due from Philseven Foundation, Inc. (PFI)	**969,478**	173,945
Others	**62,455,913**	17,092,477
	289,319,937	246,727,770
Less allowance for impairment	**7,438,483**	7,438,483
	₱ 281,881,454	₱239,289,287

The classes of receivables of the Group are as follows:

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

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

Management's Discussion and Analysis of Results of Operations and Financial Condition
SELECTED FINANCIAL DATA

	Three Months Ended September 30 (Unaudited)		Nine Months Ended September 30 (Unaudited)	
	2012	2011	**2012**	2011
SYSTEMWIDE SALES	**₱ 3,152,543**	₱ 2,634,812	**₱ 9,686,077**	₱ 7,696,676
Statement of Income Data:				
Revenues and other income				
Sales of merchandise	**₱ 2,762,430**	₱ 2,202,798	**₱ 8,484,265**	₱ 6,398,035
Franchise revenue	**172,058**	132,811	**487,402**	380,812
Marketing income	**131,578**	113,132	**346,740**	271,569
Rent income	**17,270**	16,839	**42,994**	39,274
Others (net)	**48,315**	26,746	**95,840**	74,743
Cost and expenses				
Cost of merchandise sold	**2,085,463**	1,623,175	**6,353,187**	4,694,738
General & admin expenses	**958,126**	780,914	**2,768,941**	2,207,159
Interest expense	**4,232**	3,933	**11,430**	11,752
Net income	**60,167**	56,007	**224,426**	174,745
Earnings per share (₱)	**0.17**	0.16	**0.65**	0.50
Cash Flow Data:				
Net cash from (used in) operations	**(103,570)**	58,467	**214,377**	396,393
Net cash used in investments	**(104,182)**	(174,243)	**(483,845)**	(537,687)
Net cash from (used in) financing	**165,771**	(36,076)	**152,350**	34,772
Balance Sheet Data:				
Total assets	**₱ 3,932,415**	₱ 3,734,299	**₱ 3,932,415**	₱3,734,299
Total liabilities	**2,246,024**	2,237,670	**2,246,024**	2,237,670
Total stockholders' equity	**1,686,391**	1,496,629	**1,686,391**	1,496,629

(Amount in thousands, except EPS)

OVERVIEW

Philippine Seven Corporation (PSC or the Company) operates the largest convenience store network in the country. It acquired from Southland Corporation (now Seven Eleven Inc.) of Dallas, Texas the license to operate 7-Eleven stores in the Philippines in December 1982. Operations commenced with the opening of its first store in February 1984 at the corner of Kamias Road and EDSA Quezon City. In light of the country's economic condition in the eighties, the Company grew slowly in its first few years of existence. In 1993, PSC, encouraged by the resurgent national economy, stepped up its rate of expansion.

As of September 30, 2012, 7-Eleven Convenience Stores has a store count of 781, as it was able to open 95 new stores and closed 3 stores during the first nine months of the year.

The retail chain of convenience stores is sustained by a manpower complement of 2,699 employees engaged in corporate store operations and in various support service units. Despite of growing competition, PSC maintains its leadership in the CVS industry.

PSC derives its revenues principally from retail sales of merchandise, commissions, rental and franchising activities. The primary expenses consist of cost of goods, general and administrative expense and income taxes.

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

During the third quarter, PSC has successfully opened its first thirteen stores, and its second distribution center, in Cebu City. This is the Company's first venture outside Luzon, which is home to half the country's population as well as the capital of Metro Manila. It is a significant first step in the company's push to bring modern convenience wherever feasible to the rest of the archipelago – a more logistically complex market than the contiguous and highly urbanized Luzon.

Cebu is the 2nd largest city after Metro Manila, and, we believe, the key to the Visayas. It is a tourist favorite, has a fast growing BPO sector, and is rapidly urbanizing. Given the importance of this market, we invested heavily in advertising, and were rewarded with sales that exceeded our expectations. We intend to have 30 stores by the end of the year, and over a hundred on our 3rd year.

<u>FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE THIRD QUARTER OF 2012.</u>

<u>Results of Operations</u>

For the Third Quarter

Net income generated in the third quarter rose by 7.4 percent to P60.2 million from P56.0 million registered in the same period last year.

Systemwide sales, which represent sales of all corporate and franchise-operated stores, grew by 19.6 percent to P3.2 billion during the third quarter. This is largely driven by the opening of new branches, as same store sales growth slowed due to a wetter 3rd quarter. At the end of third quarter, new stores opened reached 95 to end the period with 781 stores.

Rain for the 3rd quarter was 30% over the same period last year. In August, severe flooding in many parts of Metro Manila and Luzon dampened sales and resulted in some store closures. Rain has a particularly severe effect on convenience store sales in the Philippines, with as much as a 25% difference between a sunny day and a rainy one, and can significantly affect quarterly results.

Net income grew at a slower pace compared to sales as a result of the weather and of our push into Cebu, where frontloaded advertising spend even before opening and high logistics costs from an underutilized warehouse drove up expenses. We expect the region to become profitable as we normalize ad spend and achieve scale, and view the initial expenses as a necessary investment to gain first mover advantage in the Visayas.

Several of the stores we opened in Cebu were converted Caltex convenience stores. PSC has renewed its strategic alliance with Chevron Philippines which make investment in conversions more viable. There are close to forty 7-Eleven outlets in various Caltex stations in Metro Manila and Cebu City as of September 30, and we expect this number to increase.

Marketing income, on the other hand, continues to enhance the bottom-line by posting growth of 16.3% to P131.6 million. This represents suppliers' support from various promotions and collection of display allowance. Historically, bulk of marketing income is earned during the latter part of the year since most of the activities are programmed at this time. Further, franchise revenues registered increase of 29.6% as we increased the number of stores.

Despite a slowdown in this quarter, management believes the Company is on track towards meeting store expansion and profit goals for the year, and has improved its position considerably for the years ahead. We intend to continue to do what is necessary in the short term to maintain our leadership in the convenience store industry in the long term, which in our experience strongly rewards first movers.

For the Nine Months Ended September 30

During the first nine months of 2012, net income posted an increased of 28.4 percent from P174.7 million last year to P224.4 million at the end of September 2012. This translated into earnings per share of P0.65; an improvement compared to the September 2011 EPS which is pegged at P0.50 per share.

Systemwide sales rose by 26 percent to P9.7 billion at the end of 3rd Quarter from P7.7 billion last year. This was driven mainly by the increase in store base and improved average sales registered by mature stores. Inventory management system and effective execution of promotion programs also contributed favorably.

New franchise operators boosted franchise revenues as it grew by 28 percent to P487.4 million from P380.8 million a year ago. To date, franchised stores occupy 41% of total stores compare to 39% same period last year.

Marketing income posted growth of 27.7 percent to end the period at about P346.7 million owing to the continuing support by the suppliers in various marketing activities. In addition, there was a change, which occurred in Q1, revising the recognition of certain marketing income accounts from cash basis to accrual basis of accounting.

EBITDA (earnings before interest, taxes, depreciation and amortization) at the end of September 2012 likewise grew by 29.4 percent to P699.0 million. EBITDA margin was pegged at 7.1 percent from 6.8 percent in the preceding year.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales of P2.8 billion in 3Q 2012, an increase of 25% percent compared to P2.2 billion in 2011. Cost of merchandise sold rose by P462.3 million to P2.1 billion during 3Q 2012.

Gross Profit stood at P677 million, while GP in relation to sales went down by 1.81% owing to the dilution brought about by the increase in Company's sales to franchise stores which are accounted for at zero mark-up. Notwithstanding this factor, real gross profit ratio to sales slightly went up by 0.5 percentage points compared to the level a year ago.

Along with its 24/7 convenience, PSC also offers services including bills payment, phone/call cards and sim packs, and 7-Connect that allows customers to pay for selected online purchases with cash through any 7-Eleven store. These products in the services category plus consigned goods form part of commission income which increased to P18.4 million during the third quarter.

We intend to grow services as new opportunities surface due to technological progress. In this quarter, we announced a partnership with Philippine Airlines that allows passengers to pay for tickets booked online at our stores. This latest innovation will be implemented in partnership with our third party payment processor ECPay.

Other Income

Other income mainly consists of marketing income, franchise fees and rentals. The Company's total other income increased by P58.1 million, to P320.9 million as a result of the following:

Marketing income grew by P18.4 million from the 3Q 2011 level. This is due to increased supplier-supported ad and promo spending, driven by system innovations that allow an increasing number of options for our supplier partners to build their brands in our stores. The goal is to leverage the convenience of our locations and the interconnectedness of our systems to become the preferred venue for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to P172.1 million from P132.8 million in 3Q 2011. This was the result of the increase in number of franchise-operated stores. Moreover, rent income related to the stores' subleased spaces increased by 3% to P17.3 million which was attributable to the increase in occupancy rate.

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

General and Administrative Expense

General and administrative expense which is comprised of store operating and selling expenses as well as headquarters expenses went up by 22.7% or P177.2 million and totaled to P958.1 million in 3Q 2012.

Communication, light & water were the highest contributor and accounted for 24% of the total G & A expenses. This is followed by outside services with 17% share, depreciation and amortization with 14% and 13% share for rent expense.

Personnel costs aggregated to P58.0 million, versus P70.3 million in 3Q 2011. Ratio to sales was 2.1% in 2012 and 3.2% in 2011. Personnel costs include salaries and wages at P37.9 million, employee benefits at P17.7 million and pension costs at P2.3 million. The Company continued to outsource store personnel and franchise stores to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Rent expense incurred is pegged at P128.7 million or 4.7% of sales against P108.5 million or 4.9% in 2011.

Interest Expense

Cost of debt servicing in 2012 totaled to P4.2 million, an increase of 8% compared with 3Q 2011 level of P3.9 million. Outstanding loan balance at the end of 3Q 2012 was pegged at P573.1 million, an increase of P198.4 million from P374.7 million beginning of 2012.

Net Income

Net income for the third quarter of 2012 increased by P4.2 million to ₱60.2 million mainly due to improved sales, higher margins and continued store expansion.

The net profit generated during the 3Q of 2012 translated into a 2.2% return on sales and 3.6% return on equity. EPS is pegged ₱0.17 and ₱0.16, in 3Q 2012 and 2Q 2011, respectively.

Financial Condition

Total assets went up by P198.1 million or 5.3% to P3.9 billion at the end of 3Q 2012. Cash and cash equivalents during the year decreased by P117 million from P394.7 million at the beginning of the year. Receivables went up by P42.6 million as the company leverages its balance sheet to provide collateralized financing to franchisees. Moreover, inventories went down by P37.9 million while prepayments were up by P196.2 million coming from advance rent paid for new stores and down payments to equipment vendors. The aforementioned factors resulted into a net increase in total current assets by P83.8 million from the start of the year.

Total current liabilities went down by P24.8 million or 1.2% mainly due to the decrease in income tax payable and accounts payable. Current ratio went up to 0.72 to 1 as of September 30, 2012 against 0.67 to 1 at the beginning of the year.

Property and equipment, net of accumulated depreciation increased by P203.3 million mainly due to capital expenditures spent in relation to store expansion and investment in store equipment to support new product lines.

Stockholders' equity at the third quarter of 2012 comprises 42.9% of total assets, compared to 40.1% at the beginning of the year. Debt to equity ratio is pegged at 1.33 for 3Q 2012 from 1.50 end of 2011.

Liquidity and Capital Resources

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

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

PSC has sufficient levels of cash generated by operating activities and adequate standby credit line from various banks that can be utilized to fund its investing and financing activities. The following are the discussion of the sources and uses of cash during the third quarter of 2012.

Cash Flows from Operating Activities

Net cash used from operating activities in 3Q 2012 amounted to P103.6 million, compared to P58.5million cash generated during comparable period from last year. The reduction in cash flow from operations is attributable to the timing effects of the total 251 million decrease in Accounts payable, deposits payable and other current liabilities compare to the net increase of 123.8 million in the same period last.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to P104.2 million in 3Q 2012 compared to net cash out flow of P174.2 million in 3Q 2011. Major cash outlay went to the procurement of store equipment, and new store constructions. There were 95 new stores opened as of September 30, 2012.

We have updated the look of our stores, and made them more energy efficient. Beginning this quarter, all new stores will be built to this standard, which requires slightly more capital expenditure than the previous but more profitable in the long run. We have also renovated 7 stores to date, and will be renovating more as they come due.

Funds for company's commitments for capital expenditures are expected to come from the anticipated increase in cash flows from retail operations and from additional borrowings if the need for such may arise.

Cash Flows from Financing Activities

Net cash used in financing activities reached P165.8 million, the company avail additional 210 million bank loan during the quarter. The company paid 34.7 million cash dividends, 5.3million bank loans, and 4.2million interest.

PSC expects to reduce the level of its debt within the next three years as internally generated cashflow exceeds the operationally sustainable rate of expansion.

Discussion and Analysis of Material Events and Uncertainties

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

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

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

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

5. The Company expects P1.0 billion capital expenditures in 2012 allotted for store expansion and remodeling.

6. The Company's financial risk management objectives and policies are discussed in Note 30 of the September 30, 2012 Notes to Unaudited Consolidated Financial Statements.

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

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

Revenue from Merchandise Sales

Revenue corresponds to the retail sales of corporate owned and sales made by stores under labor franchise. This also includes merchandise sales to franchise operated stores.

Net Income Margin

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

EBITDA Margin

The ratio of earnings before interest, taxes, depreciation and amortization over system-wide sales. This measures the level of free cash flow generated by retail operations and is an indicator of profitability.

Current Ratio

Measures a company's ability to pay short-term obligations calculated by dividing current assets over current liabilities.

Debt-to-Equity Ratio

A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Asset-to-Equity Ratio

Shows the relationship of the total assets of the firm to the portion owned by shareholders. It indicates a company's leverage, the amount of debt used to finance the firm.

Times Interest Earned Ratio

A measure of a company's ability to honor its debt payments. It is calculated by EBIT divided by the total interest payable.

Earnings per Share (EPS)

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

For the Quarter	**2012**	**2011**	**% change**
System wide Sales (in ‘000s)	3,152,543	2,634,812	19.65%
Revenue from Merchandise Sales (in ‘000s)	2,762,430	2,202,798	25.41%
Net Income Margin	2.18%	2.54%	-14.33%
Return on Equity	3.57%	3.74%	-4.66%
Times Interest Earned Ratio	21.31	21.96	-2.96%
Earnings Per Share	0.17	0.16	6.25%

Year-to-Date	**2012**	**2011**	**% change**
System wide Sales (in ‘000s)	9,686,077	7,696,676	25.85%
Revenue from Merchandise Sales (in ‘000s)	8,484,265	6,398,035	32.61%
Net Income Margin	2.65%	2.73%	-3.15%
Return on Equity	13.31%	11.68%	13.98%
Current Ratio	0.72	0.67	7.46%
Debt-to-equity ratio	1.33	1.5	-11.33%
Asset-to-equity ratio	2.33	2.5	-6.80%
Times Interest Earned Ratio	29.05	22.85	27.13%
Earnings Per Share	0.65	0.5	30.00%

SIGNATURE

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

Registrant: **PHILIPPINE SEVEN CORPORATION**

Jose Victor P. Paterno
President and CEO
November 27, 2012

Lawrence M. De Leon
Manager
Finance & Accounting Services Division
November 27, 2012