COVER SHEET

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S.E.C Registration Number

PHILIPPINE

SEVEN

CORPORATION

(Company's full Name)

7th Flr. The Columbia Tower

Ortigas Ave. Mandaluyong City

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

Atty. Evelyn S. Enriquez
Corporate Secretary

Contact Person

724-44-41 to 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

2ND QUARTER REPORT

Secondary License Type, if Applicable

Dept. Requiring this Doc. Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders Domestic Foreign

To be accomplished by SEC personnel concerned

File Number LCU

Document I.D. Cashier

STAMPS

Remarks = pls. use black ink for scanning purpose

SECURITIES AND EXCHANGE COMMISSION

FORM 17-Q

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

1. For the quarterly period ended June 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: July 19, 2012

Signature and Title: **PING-HUNG CHEN**
Chief Finance Officer

Date: July 19, 2012

July 19, 2012

SECURITIES AND EXCHANGE COMMISSION
SEC Building
EDSA, Quezon City

Gentlemen:

In connection with the financial statements of Philippine Seven Corporation as of June 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
Chief Finance Officer

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Philippine Seven Corporation is responsible for all information and representations contained in the consolidated unaudited financial statements for the quarter ended June 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
Chief Finance Officer

Part 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

Philippine Seven Corporation and Subsidiaries

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

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	As of June 30, 2012 (Unaudited)	As of December 31, 2011 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱ 319,561,921**	₱394,696,749
Short-term investment	**10,409,907**	10,409,907
Receivables (Note 5)	**254,760,671**	239,289,287
Inventories - at cost (Note 6)	**495,333,244**	519,258,936
Prepayments and other current assets (Note 7)	**341,315,439**	161,522,138
Total Current Assets	**1,421,381,183**	1,325,177,017
Noncurrent Assets		
Property and equipment (Note 8)	**2,086,136,865**	1,946,032,976
Deposits (Note 9)	**228,794,844**	215,964,826
Deferred income tax assets - net (Note 27)	**40,662,814**	40,662,817
Goodwill and other noncurrent assets (Note 10)	**194,752,398**	206,461,345
Total Noncurrent Assets	**2,550,346,921**	2,409,121,964
TOTAL ASSETS	**₱ 3,971,728,104**	₱3,734,298,981
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 11)	**368,444,445**	₱374,666,667
Accounts payable and accrued expenses (Note 12)	**1,202,569,430**	1,243,937,457
Income tax payable	**49,199,078**	73,922,196
Other current liabilities (Notes 13 and 25)	**356,239,276**	298,435,516
Total Current Liabilities	**1,976,452,228**	1,990,961,836
Noncurrent Liabilities		
Deposits payable (Note 14)	**272,816,220**	171,457,833
Net retirement obligations (Note 24)	**54,398,452**	65,192,720
Cumulative redeemable preferred shares (Note 15)	**6,129,375**	6,000,000
Deferred revenue - net of current portion (Note 16)	**1,044,040**	4,057,482
Total Noncurrent Liabilities	**334,388,087**	246,708,035
Total Liabilities	**2,310,840,316**	2,237,669,871

(Forward)

	As of June 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)	**1,019,726,885**	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
	1,663,811,034	1,499,552,356
Cost of 686,250 shares held in treasury	**(2,923,246)**	(2,923,246)
Total Equity	**1,660,887,788**	1,496,629,110
TOTAL LIABILITIES AND EQUITY	**₱ 3,971,728,104**	₱3,734,298,981

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30 (Unaudited)		
	2012	2011	2010
REVENUE			
Revenue from merchandise sales	**₱ 3,046,078,080**	₱ 2,263,786,132	₱1,995,886,384
Franchise revenue (Note 32)	**173,090,114**	134,193,738	113,892,580
Marketing income (Note 20)	**115,487,430**	84,038,478	55,857,832
Rent income (Note 26)	**18,064,436**	12,634,898	8,360,392
Commission income (Note 32)	**17,560,189**	8,903,727	6,849,409
Interest income (Notes 9, 22 and 26)	**823,781**	452,937	698,409
Other income (Note 32)	**4,846,703**	7,700,182	11,392,867
	3,375,950,732	2,511,710,094	2,192,937,490
EXPENSES			
Cost of merchandise sales (Note 18)	**2,269,208,385**	1,653,771,399	1,452,842,289
General and administrative expenses (Note 19)	**948,264,393**	744,078,720	617,296,661
Interest expense (Notes 11 and 21)	**3,624,068**	4,163,415	4,043,725
Other expenses	**690,943**	(9,194,416)	1,267,714
	3,221,787,789	2,392,819,118	2,075,450,389
INCOME BEFORE INCOME TAX	**154,162,943**	118,890,976	117,487,101
PROVISION FOR INCOME TAX	**46,248,883**	37,255,348	36,764,987
NET INCOME	**107,914,060**	81,635,628	80,722,114
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE INCOME	**107,914,060**	81,635,628	80,722,114
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	**0.31**	0.24	0.23

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six Months Ended June 30 (Unaudited)		
	2012	2011	2010
REVENUE			
Revenue from merchandise sales	**₱ 5,721,835,425**	₱ 4,195,236,897	₱ 3,693,665,963
Franchise revenue (Note 32)	**315,343,479**	248,002,009	210,464,998
Marketing income (Note 20)	**215,161,817**	158,436,623	111,305,496
Rent income (Note 26)	**25,723,416**	22,434,672	16,560,240
Commission income (Note 32)	**29,821,618**	17,563,741	13,251,555
Interest income (Notes 9, 22 and 26)	**1,379,501**	1,065,612	1,380,118
Other income (Note 32)	**16,323,907**	29,367,246	19,769,784
	6,325,589,165	4,672,106,800	4,066,398,153
EXPENSES			
Cost of merchandise sales (Note 18)	**4,267,723,743**	3,071,563,430	2,690,598,066
General and administrative expenses (Note 19)	**1,810,815,646**	1,426,245,210	1,174,783,698
Interest expense (Notes 11 and 21)	**7,198,144**	7,818,654	8,467,811
Other expenses	**5,196,376**	(7,796,543)	2,222,975
	6,090,933,910	4,497,830,751	3,876,072,550
INCOME BEFORE INCOME TAX	**234,655,255**	174,276,050	190,325,603
PROVISION FOR INCOME TAX	**70,396,578**	55,537,495	59,511,559
NET INCOME	**164,258,677**	118,738,555	130,814,044
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE INCOME	**164,258,677**	118,738,555	130,814,044
BASIC/DILUTED EARNINGS PER SHARE (Note 28)	**0.47**	0.34	0.38

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2012 (As compared with JUNE 30, 2011)

	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			164,258,677		164,258,677		164,258,677
							-
BALANCES AS OF JUNE 30, 2012 (Unaudited)	**347,329,216**	**293,525,037**	**1,019,726,885**	**3,229,895**	**1,663,811,033**	**(2,923,246)**	**1,660,887,787**
BALANCES AS OF JUNE 30, 2011 (Unaudited)	**302,114,918**	**293,525,037**	**693,220,939**	**3,229,895**	**1,210,455,161**	**(2,923,246)**	**1,289,167,543**

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30 (Unaudited)		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**154,162,943**	118,890,976	117,487,101
Adjustments for:			
Depreciation and amortization	**120,541,533**	89,762,958	61,565,413
Interest expense	**3,624,068**	4,163,415	4,043,725
Interest income	**823,781**	452,937	(698,026)
Net retirement obligations	**(3,722,078)**	1,875,619	447,797
Amortization of:			
Software and other program costs	**372,619**	788,219	773,041
Operating income before working capital changes	**275,802,867**	215,934,123	183,619,049
Decrease (increase) in:			
Receivables	**(66,733,955)**	16,370,650	4,153,326
Inventories	**29,542,154**	(54,079,961)	38,468,360
Prepayments and other current assets	**(34,771,201)**	(10,383,483)	13,523,368
Increase (decrease) in:			
Accounts payable and accrued expenses	**39,449,175**	168,650,618	(48,317,650)
Other current liabilities	**82,747,571**	103,417,566	172,243,439
Deposits payable	**69,221,146**	6,286,479	5,886,751
Deferred Revenue (Notes 16 and 32)		594	
Cash generated from operations	**395,257,757**	446,196,586	369,576,644
Income taxes paid	(21,443,420)	(46,626,366)	(50,648,300)
Interest received	(823,781)	(452,937)	698,026
Net cash from operating activities	**372,990,556**	399,117,283	319,626,370
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to (Amortization of):			
Property and equipment	**(204,120,337)**	(183,545,637)	(165,238,797)
Software and other program costs	**(372,619)**	(788,219)	(773,041)
Decrease (increase) in:			
Deposits	**(10,810,440)**	(9,514,302)	(5,595,383)
Goodwill and other noncurrent assets	**(99,938,677)**	762,578	852,045
Net cash used in investing activities	**(315,242,074)**	(193,085,579)	(170,755,176)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans			
Payments of bank loans	**(4,222,222)**	(11,333,333)	(60,000,000)
Interest paid	**(3,624,068)**	(4,163,415)	(4,043,725)
Cash dividends paid	-	-	-
Net cash used in financing activities	**(7,846,290)**	(15,496,748)	(64,043,725)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**49,902,191**	190,534,956	84,827,470
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**269,659,729**	213,523,888	294,978,957
CASH AND CASH EQUIVALENTS AT END OF SECOND QUARTER	**319,561,921**	404,058,844	379,806,427

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30 (Unaudited)		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**234,655,254**	174,276,050	190,325,603
Adjustments for:			
Depreciation and amortization	**236,307,887**	175,622,466	117,685,255
Interest expense	**7,198,144**	7,818,654	8,467,811
Interest income	**1,379,501**	1,065,612	(1,380,118)
Amortization of:			
Software and other program costs	**745,238**	1,576,438	1,543,648
Operating income before working capital changes	**480,286,024**	360,359,219	316,642,199
Decrease (increase) in:			
Receivables	**(15,471,384)**	81,471,566	51,045,773
Inventories	**23,925,692**	14,466,084	69,066,631
Prepayments and other current assets	**(179,793,301)**	(57,172,212)	(41,086,469)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(41,368,027)**	(100,592,641)	(196,720,059)
Other current liabilities	**56,303,934**	58,418,303	122,506,449
Deposits payable	**101,358,387**	26,656,178	43,227,239
Net Retirement Obligations	**(10,794,268)**	3,857,840	(2,388,581)
Deferred Revenue (Notes 16 and 32)		594	
Cash generated from operations	**414,447,057**	387,464,932	362,293,182
Income taxes paid	(95,119,695)	(46,626,367)	(50,697,269)
Interest received	(1,379,501)	(1,065,612)	1,380,118
Net cash from operating activities	**317,947,861**	339,772,953	312,976,031
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to (Amortization of):			
Property and equipment	**(376,411,777)**	(342,015,192)	(297,306,291)
Software and other program costs	**(745,238)**	(1,576,438)	(1,543,648)
Decrease (increase) in:			
Deposits	**(12,830,018)**	(27,810,287)	(18,666,274)
Goodwill and other noncurrent assets	**10,324,710**	6,110,262	3,983,532
Net cash used in investing activities	**(379,662,323)**	(365,291,656)	(313,532,681)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans			
Payments of bank loans	**(6,222,222)**	(78,666,667)	(60,000,000)
Interest paid	**(7,198,144)**	(7,818,654)	(8,467,811)
Cash dividends paid	**-**	-	-
Net cash used in financing activities	**(13,420,366)**	70,848,013	(68,467,811)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(75,134,828)**	45,329,310	(69,024,461)
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	**319,561,921**	404,058,844	379,806,427

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 56.59% of the Company's outstanding shares. The remaining 43.41% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC, incorporated in Taiwan, Republic of China).

The Company has its primary listing on the Philippine Stock Exchange. As of December 31, 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.

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.

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

Value-Added Tax (VAT)
Input VAT is the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services, including lease or use of property, from a VAT-registered entity. For acquisition of capital goods over ₱1,000,000, the related input taxes are deferred and amortized over the useful life 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.

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.

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).

<u>Borrowing Costs</u>

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.

<u>Foreign Currency-denominated Transactions</u>

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.

<u>Income Tax</u>

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.

<u>Earnings (Loss) Per Share</u>

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.

Judgments

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

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

	JUN 2012	DEC 2011
Cash on hand and in banks	**₱319,561,921**	₱394,696,749
Cash equivalents	**–**	
	₱319,561,921	₱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.).

5. **Receivables**

	JUN 2012	DEC 2011
Suppliers	**₱ 74,453,539**	₱99,035,030
Franchisee	**113,502,536**	89,638,852
Insurance receivable	**319,208**	319,208
Employees	**13,590,861**	15,407,124
Store operators	**3,343,433**	₱15,683,186
Rent	**6,298,455**	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)	**504,436**	1,300,075
(forward)		

Deposits	**1,009,864**	1,009,864
Due from Philseven Foundation, Inc. (PFI) (Note 25)	**414,052**	173,945
Others	**48,762,769**	17,092,477
	262,199,154	246,727,770
Less allowance for impairment	**7,438,483**	7,438,483
	₱ 254,760,671	₱239,289,287

6. **Inventories**

	JUN 2012	DEC 2011
At cost (Note 18):		
Warehouse merchandise	**₱ 260,311,141**	₱271,683,488
Store merchandise	**235,022,104**	247,575,448
	₱ 495,333,244	₱519,258,936

7. **Prepayments and Other Current Assets**

	JUN 2012	DEC 2011
Deferred input VAT	**₱ 150,031,934**	₱43,844,078
Advances to suppliers	**78,426,896**	47,628,097
Prepaid rent	**39,950,881**	36,729,050
Advances for expenses	**19,992,903**	5,176,635
Prepaid uniform	**1,790,637**	2,145,413
Supplies	**934,505**	1,825,459
Current portion of deferred lease (Notes 10 and 26)	**2,425,557**	2,425,557
Others	**47,762,126**	21,747,849
	₱ 341,315,439	₱161,522,138

8. **Property and Equipment**

Movements in property and equipment are as follows:

	JUN 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	206,418,476	52,938,461	805,000	17,770,222	90,504,618		376,411,778
Reclassifications		-	-	-	-	-	2,259,857	(2,259,857)	-
Ending balances	44,481,000	118,154,849	1,513,444,978	507,044,758	39,793,602	194,129,437	1,071,398,711	70,546,893	3,558,994,229
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)	-	2,432,095	121,433,152	36,416,562	2,769,890	15,211,582	58,044,607		236,307,888
Ending balances	-	67,390,189	546,543,259	231,138,016	18,453,084	120,494,434	488,838,381	-	1,472,857,363
Net Book Values	44,481,000	50,764,659	966,901,719	275,906,742	21,340,519	73,635,003	582,560,330	70,546,893	2,086,136,866

9. **Deposits**

	JUN 2012	DEC 2011
Rent	**₱ 167,409,794**	₱155,379,984
Utilities	**30,994,456**	29,267,868
Refundable	**26,789,004**	26,789,004
Others	**3,601,590**	4,527,970
	₱ 228,794,844	₱215,964,826

10. **Goodwill and Other Noncurrent Assets**

	JUN 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	**105,435,358**	6,241,465
Software and program cost	**1,738,889**	2,484,126
Lease receivable - net of current portion (Note 26)	**3,747,773**	3,448,336
AFS financial assets	**-**	-
Others	**2,996,066**	9,494,488
	₱ 194,752,398	₱ 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.

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:

	JUN 2012	DEC 2011
Beginning balance	**₱ 374,666,667**	₱ 320,000,000
Availment	**-**	230,000,000
Payments	**(6,222,222)**	(175,333,333)
Ending balance	**₱ 368,444,445**	₱ 374,666,667

Interest expense from these bank loans amounted to ₱ 7,198,144, ₱7,818,654, and ₱ 8,467,811 for the quarter ended June 30, 2012, 2011 and 2010 (see Note 21). Interest payable amounted to ₱ 648,657 and ₱ 1,174,528 as of June 30, 2012 and December 31, 2011, respectively (see Note 12).

12. **Accounts Payable and Accrued Expenses**

	JUN 2012	DEC 2011
Trade payable	**₱ 1,006,171,627**	₱ 1,066,740,769
Rent (Notes 26 and 34)	**49,964,243**	47,263,813
Employee benefits	**16,350,012**	23,954,117
Utilities	**42,501,323**	38,219,462
Advertising and promotion	**36,565,024**	16,054,548
Outsourced services	**13,352,983**	12,461,025
Security services	**3,023,773**	3,054,419
Bank charges	**4,132,940**	2,278,700
Interest (Notes 11 and 15)	**778,032**	1,174,528
Others	**29,729,473**	32,736,076
	₱1,202,569,431	₱1,243,937,457

13. **Other Current Liabilities**

	JUN 2012	DEC 2011
Non-trade accounts payable	**₱ 276,441,120**	₱188,758,358
Output VAT	**4,782,271**	19,205,290
Withholding taxes	**19,575,134**	22,974,557
Retention payable	**16,306,665**	18,688,531
Service fees payable	**17,108,786**	19,370,472
Royalty (Note 25)	**9,567,246**	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)	**589,567**	589,567
Others (Note 25)	**9,933,962**	16,560,884
	₱ 356,239,276	₱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**

	JUN 2012	DEC 2011
Franchisees	**₱ 182,190,395**	₱ 88,795,094
Service agreements	**77,081,981**	69,260,533
Rent	**13,543,844**	13,402,206
	₱ 272,816,220	₱ 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.

16. **Deferred Revenue**

	JUN 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	**5,956,853**	1,515,203
	₱12,957,746	₱ 4,057,482

17. **Equity**

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 the same date, the Company's BOD approved the declaration of cash dividend in the amount of 10 centavos per share on its outstanding 301,428,666 shares. The record date for entitlement to said cash dividend is August 19, 2011. Cash dividends amounted to ₱30,142,867.

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 the same date, the Company's BOD approved the declaration of cash dividend in the amount of five centavos per share on its outstanding 287,074,922 shares. The record date for entitlement to said cash dividend is August 27, 2010. Cash dividends amounted to ₱14,353,746.

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:

	JUN 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**

	JUN 2012	JUN 2011	JUN 2010
Merchandise inventory, beginning	**₱ 519,258,936**	₱ 402,419,577	₱ 415,652,671
Net purchases	**4,243,798,052**	3,057,097,345	2,621,531,435
	4,763,056,988	3,459,516,922	3,037,184,106
Less merchandise inventory, ending	**495,333,244**	387,953,493	346,586,040
	₱ 4,267,723,744	₱ 3,071,563,430	₱ 2,690,598,066

19. **General and Administrative Expenses**

	JUN 2012	JUN 2011	JUN 2010
Communication, light and water	**₱ 376,386,180**	282,045,227	253,860,323
Outside services (Note 32)	**311,971,602**	241,589,786	169,947,709
Rent (Note 26)	**233,454,606**	202,257,950	169,428,569
Depreciation and amortization	**236,307,887**	175,622,466	117,685,255
Personnel costs (Note 23)	**150,529,204**	154,466,078	156,301,003
Advertising and promotion	**79,492,374**	42,974,210	35,696,562
Royalties (Note 25)	**65,077,995**	50,384,174	44,179,591
Trucking services	**3,402,453**	54,109,695	43,222,082
Repairs and maintenance	**55,348,272**	47,234,361	37,885,572
Supplies	**56,083,460**	40,756,394	30,955,920
Taxes and licenses	**37,783,929**	38,565,025	35,228,975
Warehousing services	**118,015,659**	32,184,428	28,081,043
Entertainment, amusement and recreation	**2,747,164**	2,986,547	3,498,007
Transportation and travel	**17,050,951**	9,989,348	9,751,760
Inventory losses	**37,123,187**	26,194,926	20,459,201
Dues and subscription	**4,489,832**	2,784,302	2,200,381
Insurance	**4,067,291**	2,403,543	2,605,197
Amortization of software and program costs	**1,305,055**	1,576,438	1,543,648
Others	**20,178,546**	18,120,310	12,252,900
	1,810,815,646	₱ 1,426,245,210	1,174,783,698

20. **Marketing Income**

	JUN 2012	**JUN 2011**	**JUN 2010**
Display charges	**₱ 103,744,943**	**₱ 81,330,255**	**₱ 61,219,610**
Promotions	**84,617,695**	**47,343,250**	**23,735,207**
Marketing support funds	**26,799,179**	**29,763,118**	**26,350,680**
	₱ 215,161,817	**₱ 158,436,623**	**₱ 111,305,496**

21. **Interest Expense**

	JUN 2012	JUN 2011	JUN 2010
Interest on Bank loans	**₱ 7,158,769**	₱ 7,700,153	₱ 8,285,351
Guaranteed preferred dividends	**39,375**	118,500	182,460
	₱ 7,198,144	₱ 7,818,654	₱ 8,467,811

22. **Interest Income**

	JUN 2012	JUN 2011	JUN 2010
Interest on:			
Bank deposits (Note 4)	**₱ 1,379,501**	₱ 1,065,612	₱ 1,380,118
Finance lease (Note 26)	-	-	-
Accretion of refundable deposits	-	-	-
Accretion of notes receivable	-	-	-
	₱1,379,501	₱ 1,065,612	₱1,380,118

23. **Personnel Costs**

	JUN 2012	JUN 2011	JUN 2010
Salaries and wages	**₱ 73,793,518**	₱ 85,365,765	₱ 87,722,320
Employee benefits	**71,947,841**	64,066,469	64,282,839
Retirement benefits cost (Note 24)	**4,787,844**	5,033,844	4,295,844
	₱ 150,529,204	₱ 154,466,078	₱ 156,301,003

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

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 ₱65,077,995, ₱50,384,174 and ₱44,179,591 in June 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 ₱9,567,246 and ₱10,353,333 as of June 30, 2012 and December 31, 2011, respectively.

b. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI. Amounts due from PFI amounted to ₱414,052 and ₱173,945 as of June 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 June 30, 2012 and December 31, 2011, respectively.

c. Compensation of key management personnel are as follows:

	JUN 2012	**JUN** 2011	**JUN** 2010
Short-term employee benefits	**₱ 20,908,933**	₱ 8,099,859	₱ 7,312,173
Post-employment benefits	**1,750,000**	140,000	310,000
Other long-term benefits	**-**	-	-
	₱ 22,658,933	₱ 8,239,859	₱ 7,622,173

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

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**

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

	JUN 2012	**JUN 2011**	**JUN 2010**
a. Net income	**₱ 164,258,677**	₱ 118,738,555	₱ 130,814,044
b. Weighted average number of shares issued	**347,329,216**	302,114,918	287,761,172
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**	346,642,966	346,642,966
e. Basic/diluted earnings per share **(a/d)**	**₱ 0.47**	₱ 0.34	₱ 0.38

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:

	JUN 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	**319,561,921**	**319,561,921**	394,696,749	394,696,749
	319,561,921	**319,561,921**	394,696,749	394,696,749
Short-term investments	**10,409,907**	**10,409,907**	10,409,907	10,409,907
Receivables:				
Suppliers	**72,675,585**	**72,675,585**	97,257,076	97,257,076
Franchisee	**113,502,536**	**113,502,536**	89,683,852	89,683,852
Insurance claims	**319,208**	**319,208**	319,208	319,208
Employees	**13,590,861**	**13,590,861**	15,407,124	15,407,124
Store operators	**3,343,433**	**3,343,433**	15,638,186	15,638,186
Rent*	**6,298,455**	**6,298,455**	7,068,009	7,068,009
Current portion of lease receivable	**504,436**	**504,436**	1,300,075	1,563,950
Deposits	**1,009,864**	**1,009,864**	0	0
Due from PFI	**414,052**	**414,052**	173,945	173,945
Others	**43,102,240**	**43,102,240**	12,441,812	12,441,812
	254,760,671	**254,760,671**	239,289,287	239,553,162
Utilities	**30,994,456**	**30,994,456**	29,267,868	29,267,868
Refundable	**26,789,004**	**27,301,992**	26,864,928	27,301,992
Others	**3,601,590**	**3,601,590**	4,527,970	4,527,970
	61,385,050	**61,898,038**	60,660,766	61,097,830
Other noncurrent assets - lease receivable (net of current portion)	**3,747,773**	**3,439,941**	3,448,336	3,439,941
Total Loans and Receivables	**649,865,322**	**650,070,478**	708,505,045	709,197,589
AFS Financial Assets	**-**	**-**	-	-
TOTAL FINANCIAL ASSETS	**649,865,322**	**650,070,478**	708,505,045	709,197,589

FINANCIAL LIABILITIES				
Other Financial Liabilities				
Bank loans	**368,444,445**	**368,444,445**	374,666,667	374,666,667
Accounts payable and accrued expenses:				
Trade payable	**1,006,171,627**	**1,006,171,627**	1,066,740,769	1,066,740,769
Employee benefits	**16,350,012**	**16,350,012**	23,954,117	23,954,117
Utilities	**42,501,323**	**42,501,323**	38,219,462	38,219,462
Advertising and promotion	**36,565,024**	**36,565,024**	16,054,548	16,054,548
Outsourced services	**13,352,983**	**13,352,983**	12,461,025	12,461,025
Security services	**3,023,773**	**3,023,773**	3,054,419	3,054,419
Bank charges	**4,132,940**	**4,132,940**	2,278,700	2,278,700
Interest	**778,032**	**778,032**	1,174,528	1,174,528
Others**	**29,729,473**	**29,729,473**	32,734,076	32,734,076
	1,152,605,187	**1,152,605,187**	1,196,671,644	1,196,671,644
Other current liabilities:				
Non-trade accounts payable	**276,441,120**	**276,441,120**	188,758,358	188,758,358
Retention payable	**16,306,665**	**16,306,665**	18,688,531	18,688,531
Service fees payable	**17,108,786**	**17,108,786**	19,370,472	19,370,472
Royalty	**9,567,246**	**9,567,246**	10,353,333	10,353,333
Others	**9,933,962**	**9,933,962**	12,700,219	12,700,219
	329,357,779	**329,357,779**	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	**1,856,407,411**	**1,856,407,411**	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 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:

	JUN 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	11,341,491	4,268,147	58,843,901	74,453,539	1,777,954	76,231,493
Others	-	-	-	-	5,660,529	5,660,529
	11,341,491	4,268,147	58,843,901	74,453,539	7,438,483	81,892,022

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

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

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

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

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.

	JUN 2012	DEC 2011
Capital stock	**₱ 347,329,216**	**₱347,329,216**
Additional paid-in capital	**293,525,037**	**293,525,037**
Retained earnings	**1,019,726,885**	**855,468,208**
	1,660,581,139	**1,496,322,461**
Less cost of shares held in treasury	**2,923,246**	**2,923,246**
	₱ 1,657,657,893	**₱1,493,399,215**
Total assets	**₱ 3,971,728,104**	**₱3,734,298,981**
Net worth	42%	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 ₱33,951,666, ₱36,631,990 and ₱24,430,037, respectively, and franchise revenue for the 7-Eleven charge amounted to ₱281,391,813, ₱211,370,018 and ₱186,034,961 for the quarters ended June 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 ₱117,318,961,
₱81,463,030 and ₱62,658,115 for the quarters ended June 30, 2012, 2011 and 2010, respectively.

c. On April 1, 2011, CDI has entered into a Memorandum of Agreement (MOA) with TAIT Marketing and Distribution Co., Ltd., a corporation duly organized and existing under the laws of the Republic of China (ROC) with principal office at Taiwan, ROC. The contract indicates that CDI shall provide consumer goods and products from Philippine Suppliers that meet the needs and specifications of TAIT. Revenue from merchandise sold to TAIT amounted to ₱11,974,766 in 2011 with associated cost of goods sold amounted to ₱9,986,582.

d. 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.

e. 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.

   On October 15, 2010, the said agreement was extended for another 3 years. The Company received ₱29,000,000 as a result of the extension.

f. 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.

g. In 2010, the Group collected a signing bonus amounting to ₱2,232,143 from one of the Group’s food suppliers for awarding half of the Company's existing Hotdog Stock Keeping Units (SKUs) to the food supplier for the next five years starting January 1, 2010. Income from exclusivity contract included as part of “Marketing support funds” under “Marketing income” in profit or loss amounted to ₱446,429 both in 2011 and 2010.

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:

	JUN 2012	**JUN** 2011	**JUN** 2010
REVENUE			
Revenue from merchandise sales	**₱5,721,835,425**	4,195,236,897	3,693,665,963
Franchise revenue	**315,343,479**	248,002,009	210,464,998
Marketing income	**215,161,817**	158,436,623	111,305,496
Rent income	**25,723,416**	22,434,672	16,560,240
Commission income	**29,821,618**	17,563,741	13,251,555
Interest income	**1,379,501**	1,065,612	1,380,118
Other income	**16,323,907**	29,367,246	19,769,784
	6,325,589,164	4,672,106,800	4,066,398,153
EXPENSES			
Cost of merchandise sales	**4,267,723,743**	3,071,563,430	2,690,598,066
General and administrative expenses:			
Depreciation and amortization	**236,307,887**	175,622,466	117,685,255
Others	**1,574,507,759**	1,250,622,744	1,057,098,443
(forward)			

Interest expense	**7,198,144**	7,818,654	8,467,811
Impairment loss on goodwill	**-**	-	-
Other expenses	**5,196,376**	(7,796,543)	2,222,975
	6,090,933,910	4,497,830,751	3,876,072,550
INCOME BEFORE INCOME TAX	**234,655,254**	174,276,050	190,325,603
PROVISION FOR INCOME TAX	**70,396,578**		
SEGMENT PROFIT	**₱ 164,258,676**	55,537,495	59,511,559
		118,738,555	130,814,044
SEGMENT ASSETS	**₱3,971,728,104**	3,287,829,983	2,756,929,316
SEGMENT LIABILITIES	**₱2,310,840,316**	1,998,662,440	1,718,212,786

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

Schedule of Receivables

	As of June 30, 2012 (Unaudited)	As of December 31, 2011 (Audited)
Suppliers	**₱ 74,453,539**	₱99,035,030
Franchisee	**113,502,536**	89,638,852
Insurance receivable	**319,208**	319,208
Employees	**13,590,861**	15,407,124
Store operators	**3,343,433**	₱15,683,186
Rent	**6,298,455**	7,068,009
Deposits	**1,009,864**	1,009,864
Others	**48,762,769**	17,092,477
	262,199,154	246,727,770
Less allowance for impairment	**7,438,483**	7,438,483
	₱ 254,760,671	₱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.
- Franchisee - pertains to receivables for the inventory loans obtained by the franchisees at the start of their store operations.
- Employees - includes car loans, salary loans and cash shortages from stores which are charged to employees.
- Rent - pertains to receivables from sublease agreements with third parties, which are based on an agreed fixed monthly rate or as agreed upon by the parties.
- Store operators - pertains to the advances given to third party store operators under service agreements.

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

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

	Three Months Ended June 30 (Unaudited)		Six Months Ended June 30 (Unaudited)	
	2012	**2011**	**2012**	**2011**
SYSTEMWIDE SALES	₱ 3,467,317	₱ 2,719,900	₱ 6,533,534	₱ 5,061,864
Statement of Income Data:				
Revenues and other income				
Sales of merchandise	₱ 3,046,078	₱ 2,263,786	₱ 5,721,835	₱ 4,195,237
Franchise revenue	173,090	134,194	315,343	248,002
Marketing income	115,487	84,038	215,162	158,437
Rent income	18,064	12,635	25,723	22,435
Others (net)	23,231	17,057	47,525	47,997
Cost and expenses				
Cost of merchandise sold	2,269,208	1,653,771	4,267,724	3,071,563
General & admin expenses	948,264	744,079	1,810,816	1,426,245
Interest expense	3,624	4,163	7,198	7,819
Net income	107,914	81,636	164,259	118,739
Earnings per share	0.31	0.24	0.47	0.34
Cash Flow Data:				
Net cash from operating activities	372,991	399,117	317,948	339,773
Net cash used in investing activities	(315,242)	(193,086)	(379,662)	(365,292)
Net cash (used)/from financing activities	(7,846)	(15,497)	(13,420)	70,848
Balance Sheet Data:				
Total assets	₱ 3,971,728	₱3,734,299	₱ 3,971,728	₱3,734,299
Total liabilities	2,310,840	2,237,670	2,310,840	2,237,670
Total stockholders' equity	1,660,888	1,496,629	1,660,888	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 7-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 at that time, 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 June 30, 2012, 7-Eleven Convenience Stores has a store count of 746, as it was able to open 59 new stores and closed 2 stores during the first six months of the year. The retail chain of convenience stores is sustained by a manpower complement of 654 employees engaged in corporate store operations and in various support service units. Despite of growing competition, PSC maintains its leadership in the CVS industry.

The Company recognized the need to develop and expand its market coverage in order to sustain revenue stream and provide more value to its shareholders. In this regard, 7-Eleven has been exerting efforts to penetrate areas outside Luzon where it can offer its products and services to convenience customers. One market that PSC has been seriously looking into is Metro Cebu, the major city in the Visayas. This trade area is considered vital and necessary to be dominant in this region.

At the end of June, the Company has nearly completed all programs and activities that will enable it to achieve its market development strategy of opening its first ten stores in Cebu City. In the longer term, PSC is planning to effectively use its resources to dominate this market and leave competition behind.

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

PSC 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.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS DURING THE 1ST HALF OF 2012.

Results of Operations

For the Second Quarter

Net income generated in the second quarter rose by 32.2 percent to P107.9 million from P81.6 million registered in the same period last year.

The improvement in earnings was mainly due to the significant increase in operating income, which grew by almost five times to P52.9 million at the end of second quarter from P10.8 million a year ago. This can be attributed to growth in sales generated by mature stores and better margin resulting from increasing share of higher yielding categories.

Marketing income, on the other hand, continues to enhance the bottom-line by posting growth of 37.4% to P115.5 million. This represents suppliers' support from various promotions programs 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.

Systemwide sales which pertains to retail sales of all corporate and franchise operated stores grew by 27.5 percent during the April to June period. This is largely driven by the increase in sales of mature stores and opening of new 7-Eleven outlets. At the end of first half, new stores opened reached 59 to end the period with 746 stores.

At the end of June, the Company has substantially completed its plans and programs that will enable it to fulfill its market development strategy of expanding in Cebu City. PSC has recognized the opportunity to be present in other emerging markets in order to sustain revenue stream and profitability. The Company shall effectively utilize its resources so that it can extend its domination in key trade areas outside Luzon and minimize adverse impact of threats brought about by competition.

As can be seen from the favorable financial results, PSC remains on track towards meeting it store expansion and profit goals for the year. This shall enable 7-Eleven in protecting its strong hold in the fast growing CVS industry and allowing it to enhance shareholder value.

For the Six Months Ended June 30

During the first six months of 2012, net income posted an increase of 38.3 percent from P118.7 million last year to P164.3 million at the end of June 2012. This translated into an earnings per share of P0.47, an improvement compared to the June 2011 EPS which is pegged at P0.34 per share.

Systemwide sales went up by 29.1 percent to P6.5 billion at the end of first half from P5.1 billion last year. This was driven mainly by the increase in store base and improved average sales registered by mature stores. Higher average sales can be attributed to external factors such as, solid economic growth and good weather conditions. Internally, a new inventory management system was implemented and effective execution of promotion programs contributed favorably.

New franchise operators boosted franchise revenues as it grew by 27.1 percent to P315.3 million from P248.0 million a year ago. This also increased the ratio of franchise stores to 66 percent of all stores from 62 percent at the end of H1 last year.

Marketing income posted growth of 35.8 percent to end the period at about P215.0 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.

Moreover, cost of goods sold and store and administrative expenses went up by 35.1 percent to P6.1 billion. The rate of increase is slower compared to the 36.4 percent rise in revenues resulting into an improvement in average store income that contributed positively to the bottom-line.

EBITDA (earnings before interest, taxes, depreciation and amortization) at the end of June 2012 likewise grew by 35.6 percent to P469.1 million. EBITDA margin was pegged at 7.2 percent from 6.8 percent in the preceding year.

At the end of June, the Company has substantially completed its plans and programs that will enable it to fulfill its market development strategy of expanding in Cebu City. PSC has recognized the opportunity to be present in other emerging markets in order to sustain revenue stream and profitability. The Company shall effectively utilize its resources so that it can extend its domination in key trade areas outside Luzon and minimize adverse impact of threats brought about by competition.

As can be seen from the favorable first half results, PSC remains on track towards meeting it store expansion and profit goals for the year. This shall enable 7-Eleven in protecting its strong hold in the fast growing CVS industry and allowing it to enhance shareholder value.

Revenue and Gross Margin

The Company registered total revenue from merchandise sales of P3.1 billion in 2Q 2012, an increase of 35% percent compared to P2.3 billion in 2011. Cost of merchandise sold rose by P615.4 million to P2.3 billion during 2Q 2012.

Gross Profit stood at P776.9 million, while GP in relation to sales went down by 1.44% 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 0.6 percentage points compared to the level a year ago.

Products in the services category, which form part of commission income, are physical cards, bills payment and consigned goods. This increased to P17.6 million during the second quarter.

Filipino cell phone users actually developed a culture of texting as Philippines received the title, text messaging capital of the world. This is evidenced by a huge increase in sales of e-load and phone cards resulting to a higher commission received compared to same period last year. PSC also achieved success in providing a reliable and convenient payment collection service to the public evidenced by higher commission received from bills collection by 71% compare last year. Sales from consigned goods also increase by 25%.

Other Income

Other income is mainly consisting of marketing income, franchise fees and rentals. The Company's total other income increased by P75.8 million, to P306.6 million as a result of the following:

Marketing income grew by P31.4 million from the 2Q 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 become the preferred trade partner for manufacturer's brand building needs.

The Company's share in the gross profit of franchise-operated stores is recognized as franchise revenue and it climbed to P173 million from P134.2 million in 2Q 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 43% to P18 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 27.4% or P204 million and totaled to P948.3 million in 2Q 2012.

Communication, light & water were the highest contributor and accounted for 21% of the total G & A expenses. This is followed by outside services with 17% share, and 13% share for rent expense, depreciation and amortization.

Personnel costs aggregated to P75.5 million, versus P75.0 million in 2Q 2011. Ratio to sales was 2.5% in 2012 and 3.3% in 2011. Personnel costs include salaries and wages at P37.2 million, employee benefits at P35.8 million and pension costs at P2.4 million. The Company continued to outsource store personnel to contain costs. Combined personnel and outsourced services, net of service fees improved in relation to revenue.

Rent expense incurred is pegged at P122.4 million or 4% of sales against P105 million or 5% in 2011.

Interest Expense

Cost of debt servicing in 2012 totaled to P3.6 million, a decrease of 13% compared with 2Q 2011 level of P4.2 million. Outstanding loan balance at the end of 2Q 2012 was pegged at P368.4 million, a decrease of P6.2 million from P374.7 million beginning of 2012

Net Income

Net income for the second quarter of 2012 increased by P26.3 million to ₽107.9 million mainly due to improved sales, higher margins and continued store expansion.

The net profit generated during the 2Q of 2012 translated into a 3.5% return on sales and 6.5% return on equity. Moreover, EPS is pegged ₽0.31 and ₽0.24, in 2Q 2012 and 2Q 2011, respectively.

Financial Condition

Total assets went up by P237.4 million or 6.4% to P3.97 billion at the end of 2Q 2012. Cash and cash equivalents during the year decreased by P75 million from P319.6 million at the beginning of the year. Receivables went up by P15.5 million as the company provides financing schemes to franchisees. Moreover, inventories went down by P24 million while prepayments were up by P179.8 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 P96.0 million from the start of the year.

Total current liabilities went down by P14.5 million or 7.0% mainly due to the decrease in income tax payable and accounts payable. Current ratio went up to 0.72 to 1 as of June 30, 2012 against 0.67 to 1 at the beginning of the year.

Property and equipment, net of accumulated depreciation increased by P140.0 million mainly due to capital expenditures spent in relation to store expansion and investment on new equipment for new product lines that cater to the varying customers needs.

Stockholders' equity at the second quarter of 2012 comprises 41.8% of total assets, compared to 40.1% at the beginning of the year. Debt to equity ratio is pegged at 1.39 for 2Q 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 level 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 second quarter of 2012.

Cash Flows from Operating Activities

Net cash from operating activities in 2Q 2012 amounted to P373.0 million, compared to P399.0 million cash used during comparable period from last year. Such decrease is attributable to increase of receivables by P66.7 million and increase of P34.7 million in prepayments and other current assets during the quarter. A much lower increase from payables by P86.9 million compared last year caused the reduction in cash flow from operations.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to P315.2 million in 2Q 2012 compared to net cash out flow of P193 million in 2Q 2011. Major cash outlay went to the procurement of store equipment, and new store constructions. There were 59 new stores opened as of June 30, 2012.

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

Cash Flows from Financing Activities

Net cash used in financing activities reached P7.8 million representing payments of bank loans in the amount of P4.2 million and interest paid on outstanding bank loans totaling P3.6 million.

PSC expects to reduce the level of its debt within the next three years to minimize the impact of interest expense in the net income and consequently reduce the leverage ratios.

Discussion and Analysis of Material Events and Uncertainties

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

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

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

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

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

6. There are no other known trends, events and uncertainties that will have a material impact on the Company's liquidity.

DISCUSSION OF THE COMPANY'S KEY PERFORMANCE INDICATORS

System Wide Sales

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

Revenue from Merchandise Sales

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

Net Income Margin

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

EBITDA Margin

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

Earnings per Share (EPS)

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

For the Quarter	2012	2011	% change
System wide Sales (in '000s)	3,467,317	2,719,900	27.45%
Revenue from Merchandise Sales (in '000s)	3,046,078	2,263,786	34.56%
Net Income Margin	3.5%	3.6%	-1.8%
Return on Equity	6.7%	6.5%	2.7%
Earnings Per Share	0.31	0.24	29.2%

Year-to-Date	2012	2011	% change
System wide Sales (in '000s)	6,533,534	5,061,864	29.1%
Revenue from Merchandise Sales (in '000s)	5,721,835	4,195,237	36.4%
Net Income Margin	2.9%	2.8%	1.4%
Return on Equity	10.4%	9.66%	7.8%
Earnings Per Share	0.47	0.34	38.2%

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