

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 March 31, 2014.
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: Use Only)
7. Address of registrant's principal office : 7TH Floor, The Columbia Tower
Ortigas Avenue, Mandaluyong City
1550
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 : 458,435,323
Warrants : -0-

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

Yes [] No []

Stock Exchange:

Class/es of Securities listed

Philippine Stock Exchange

-

Common

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 [] No []

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

Yes [] 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: May 09, 2014



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

Date: May 09, 2014

May 09, 2014

SECURITIES AND EXCHANGE COMMISSION

SEC Building
EDSA, Quezon City

Gentlemen:

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

1. We are responsible for the fair presentation of the financial statements in conformity with the generally accepted accounting principles.
2. There have been no:
 - a. Irregularities involving management or employees who have significant roles in the system or internal accounting control.
 - b. Irregularities involving other employees that could have a material effect on financial statements.
 - c. Communication from regulatory agencies concerning non-compliance with or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
3. There are no:
 - a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
4. The accounting records underlying the financial statements accurately and fairly reflect the transactions of the company.
5. The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
6. Provision has been made for any material loss to be sustained.
7. We have complied with all respects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.



PING-HUNG CHEN
Treasurer and CFO



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
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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 March 31, 2014. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment with an appropriate consideration to materiality.

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

JOSE VICTOR P. PATERNO
President and CEO

PING-HUNG CHEN
Treasurer and CFO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
DATE: **MAY 09 2014**
PLACE OF SIGNING: **MANILA**
SIGNER'S NAME: **JOSE VICTOR P. PATERNO**
ID NO.

ATTY. RAMON L. CARIPIO
NOTARY PUBLIC
UNTIL DEC. 31, 2014
ROLL NO. 22 172 TIN 106-918-897
MCLE NO. IV-000230018P NO. 954268
STR NO. 982922, JAN. 3, 2014 PASIG CITY

JUL NO. **321**
PAGE NO. **65**
BOOK NO. **0011**
SERIES OF **2014**

Part 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Pages 51-58)

Philippine Seven Corporation and Subsidiaries

Unaudited Consolidated Financial Statements
As at March 31, 2014 and December 31, 2013
and for the Quarters Ended March 31, 2014, 2013 and 2012

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4, 29 and 30)	₱725,784,904	₱973,002,633	₱415,285,569
Short-term investment (Notes 4, 29 and 30)	10,810,229	10,810,229	10,632,115
Receivables (Notes 5, 29 and 30)	339,088,184	450,668,446	374,597,843
Inventories (Note 6)	843,596,961	900,849,891	726,986,563
Prepayments and other current assets (Note 7)	500,198,587	270,748,698	259,007,887
Total Current Assets	₱2,419,478,865	2,606,079,897	1,786,509,977
Noncurrent Assets			
Property and equipment (Note 8)	2,783,383,773	2,746,672,621	2,276,921,044
Deposits (Note 9)	331,220,454	313,888,467	249,418,061
Deferred income tax assets - net (Note 27)	63,203,126	63,203,127	50,477,480
Goodwill and other noncurrent assets (Note 10)	238,054,837	231,929,220	208,489,602
Total Noncurrent Assets	3,415,862,189	3,355,693,435	2,785,306,187
TOTAL ASSETS	₱ 5,835,341,054	₱5,961,773,332	₱4,571,816,164
LIABILITIES AND EQUITY			
Current Liabilities			
Bank loans (Notes 11, 29 and 30)	₱ 560,000,000	₱560,000,000	₱477,777,778
Accounts payable and accrued expenses (Notes 12, 29 and 30)	1,611,934,243	1,872,703,489	1,261,289,989
Income tax payable	152,650,565	109,792,774	105,144,142
Other current liabilities (Notes 13 and 25)	558,632,957	571,066,689	541,881,392
Total Current Liabilities	2,883,217,766	3,113,562,952	2,386,093,301
Noncurrent Liabilities			
Deposits payable (Note 14)	208,506,383	202,888,935	181,901,238
Net retirement obligations (Note 24)	93,956,369	96,481,142	86,012,693
Cumulative redeemable preferred shares (Note 15)	6,000,000	6,000,000	6,000,000
Deferred revenue - net of current portion (Note 16)	2,422,063	1,607,183	2,643,179
Total Noncurrent Liabilities	310,884,815	306,977,260	276,557,110
Total Liabilities	₱ 3,194,102,581	₱3,420,540,212	₱2,662,650,411

(Forward)

March 31, 2014	2013 (As restated - Note 2)	2012 (As restated - Note 2)
Equity		
Common stock (Notes 17 and 31) - ₱1 par value		
Authorized - 600,000,000 shares as at December 31, 2013 and 2012 and 400,000,000 shares as at December 31, 2011		
Issued - 459,121,573 and 399,325,661 shares as at December 31, 2013 and 2012, respectively [held by 650 and 656 equity holders in 2013 and 2012, respectively (Note 1)]		
₱459,121,573	₱459,121,573	₱399,325,661
Additional paid-in capital (Note 31)	293,525,037	293,525,037
293,525,037	293,525,037	293,525,037
Retained earnings (Notes 17 and 31)	1,810,521,305	1,227,553,509
1,910,526,658	1,810,521,305	1,227,553,509
Other comprehensive income (loss):		
Remeasurements loss on net retirement obligations - net of deferred income tax asset (Notes 24 and 27)		
(22,241,444)	(22,241,444)	(11,545,103)
Revaluation increment on land - net of deferred income tax liability (Notes 8 and 27)		
3,229,895	3,229,895	3,229,895
2,644,161,719	2,544,156,366	1,912,088,999
Cost of 686,250 shares held in treasury (Note 17)		
(2,923,246)	(2,923,246)	(2,923,246)
Total Equity	2,641,238,473	1,909,165,753
TOTAL LIABILITIES AND EQUITY	₱ 5,835,341,054	₱4,571,816,164

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31 (Unaudited)		
	2014	2013 (As restated)	2012 (As restated)
REVENUES			
Revenue from merchandise sales	₱3,611,421,806	₱3,442,940,564	₱2,675,757,345
Franchise revenue (Notes 20 and 32)	347,851,648	284,407,280	142,253,365
Marketing income (Note 20)	80,637,127	64,123,105	47,003,596
Commission income (Note 32)	8,914,527	18,371,249	12,261,429
Rental income (Note 26)	3,987,356	9,334,982	7,658,981
Interest income (Notes 4, 9, 22 and 26)	593,032	798,333	555,720
Other income	65,198,322	39,686,604	12,212,991
	4,118,603,818	3,859,662,117	2,897,703,427
EXPENSES			
Cost of merchandise sales (Note 18)	2,769,512,208	2,611,386,748	1,947,430,109
General and administrative expenses (Notes 19 and 32)	1,200,282,998	1,077,700,952	860,965,711
Interest expense (Notes 11, 15 and 21)	3,684,754	5,053,287	3,574,075
Other expenses	2,201,119	2,830,582	5,241,221
	3,975,681,079	3,696,971,569	2,817,211,116
INCOME BEFORE INCOME TAX	142,922,739	162,690,549	80,492,311
PROVISION FOR INCOME TAX (Note 27)	42,917,386	48,807,165	24,147,694
NET INCOME	100,005,353	113,883,383	56,344,617
OTHER COMPREHENSIVE INCOME	-	-	-
TOTAL COMPREHENSIVE INCOME	₱100,005,353	₱ 113,883,384	₱ 56,344,617
BASIC/DILUTED EARNINGS			
PER SHARE (Note 28)	₱ 0.22	₱ 0.25	₱ 0.12

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 and 2012 AND FIRST QUARTERS ENDED 2014 AND 2013 (UNAUDITED)

	Common Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)	Other Comprehensive Income (Loss)		Total	Treasury Stock (Note 17)	Total
				Remeasurements Loss on Net Retirement Obligations - Net of Tax (Note 2)	Revaluation Increment on Land - Net of Tax			
Balances at January 1, 2013 as previously stated	₱399,325,661	₱293,525,037	₱1,233,432,997	₱-	₱3,229,895	₱1,929,513,590	(₱2,923,246)	₱1,926,590,344
Effect of adoption of the revised PAS 19 (Note 2)	-	-	(5,879,488)	(11,545,103)	-	(17,424,591)	-	(17,424,591)
Balances at January 1, 2013, as restated	399,325,661	293,525,037	1,227,553,509	(11,545,103)	3,229,895	1,912,088,999	(2,923,246)	1,909,165,753
Net income during the year	-	-	682,627,649	-	-	682,627,649	-	682,627,649
Other comprehensive loss	-	-	-	(10,696,341)	-	(10,696,341)	-	(10,696,341)
Total comprehensive income	-	-	682,627,649	(10,696,341)	-	671,931,308	-	671,931,308
Stock dividends (Note 17)	59,795,912	-	(59,795,912)	-	-	-	-	-
Cash dividends (Note 17)	-	-	(39,863,941)	-	-	(39,863,941)	-	(39,863,941)
Balances at December 31, 2013	₱459,121,573	₱293,525,037	₱1,810,521,305	(₱22,241,444)	₱3,229,895	₱2,544,156,366	(₱2,923,246)	₱2,541,233,120
Net income during the Quarter	-	-	100,000,353	-	-	100,000,353	-	100,000,353
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	100,000,353	-	-	100,000,353	-	100,000,353
Stock dividends (Note 17)	-	-	-	-	-	-	-	-
Cash dividends (Note 17)	-	-	-	-	-	-	-	-
Balances at March 31, 2014	₱459,121,573	₱293,525,037	₱1,910,526,658	(₱22,241,444)	₱3,229,895	₱2,644,161,720	(₱2,923,246)	₱2,641,238,473
Balances at March 31, 2013	₱399,325,661	₱293,525,037	₱1,347,316,379	-	₱3,229,895	₱2,043,396,972	(₱2,923,246)	₱2,040,473,726

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31 (Unaudited)		
	2014	2013 (As restated)	2012 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱142,863,144	₱162,690,549	₱80,492,311
Adjustments for:			
Depreciation and amortization (Notes 8 and 19)	194,031,251	152,353,152	115,766,354
Net retirement benefits cost (Notes 23 and 24)	(2,524,773)	394,904	(7,072,190)
Interest expense (Notes 11, 15, and 21)	3,684,754	5,053,287	3,574,075
Interest income (Notes 4, 9, 22 and 26)	593,032	798,333	555,720
Amortization of:			
Software and other program costs (Notes 10 and 19)	372,619	372,619	372,619
Operating income before working capital changes	339,020,028	321,662,843	193,688,889
Increase in:			
Receivables	111,580,262	42,814,079	51,453,872
Inventories	57,252,930	(117,873,606)	(5,616,463)
Prepayments and other current assets	(229,449,888)	(356,527,208)	(273,079,384)
Increase (decrease) in:			
Accounts payable and accrued expenses	(260,769,246)	46,741,562	(63,842,472)
Other current liabilities	(11,618,850)	186,516,865	83,324,194
Deposits payable	5,617,448	16,605,582	32,137,241
Cash generated from operations	11,632,682	139,940,117	18,065,878
Income taxes paid			(73,676,275)
Interest received	(593,032)	(798,333)	(555,720)
Net cash provided by operating activities	11,039,650	139,141,783	-56,166,118
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property and equipment (Note 8)	(230,742,403)	(207,194,450)	(172,291,439)
Software and other program costs (Note 10)	(372,619)	(372,619)	(372,619)
Increase in:			
Deposits	(17,331,987)	(7,761,668)	(2,019,578)
Goodwill and other noncurrent assets	(6,125,616)	106,674,670	111,386,809
Net cash used in investing activities	(254,572,625)	(108,654,067)	(63,296,827)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bank loans (Note 11)		₱104,666,667	₱ (2,000,000)
Payments of bank loans (Note 11)			
Interest paid	(3,684,754)	(5,053,287)	(3,574,075)
Cash dividends paid (Note 17)			
Net cash provided by financing activities	(3,684,754)	99,613,380	(5,574,076)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
NET INCREASE IN CASH AND CASH EQUIVALENTS	(247,217,729)	130,101,096	(125,037,021)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	973,002,633	415,285,569	394,696,749
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱725,784,904	₱545,386,665	₱269,659,728

See accompanying Notes to Consolidated Financial Statements.

PHILIPPINE SEVEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Corporate Information

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

The Company is controlled by President Chain Store (Labuan) Holdings, Ltd., an investment holding company incorporated in Malaysia, which owns 51.56% of the Company’s outstanding shares. The remaining 48.44% of the shares are widely held. The ultimate parent of the Company is President Chain Store Corporation (PCSC), which is incorporated in Taiwan, Republic of China.

The Company has its primary listing on the Philippine Stock Exchange. As at December 31, 2013 and 2012, the Company has 650 and 656 equity holders, respectively.

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

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

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

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the

consolidated financial statements. An additional balance sheet as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies [see discussion on Changes in Accounting Policies - Philippine Accounting Standard (PAS) 19, *Employee Benefits* (Revised)]

Statement of Compliance

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

Changes in Accounting Policies

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

This is presented separately for financial assets and financial liabilities recognized at the end of the balance sheet period. The amendments affect disclosures only and have no impact on the Group's financial position or performance. The additional disclosures required by the amendments are presented in Note 29 to the consolidated financial statements.

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

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

- **PFRS 11, *Joint Arrangements***
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group has no existing arrangements with other entities that falls within the scope of this standard. This standard has no impact in the Group's financial position or performance.

- *PFRS 12, Disclosure of Interest with Other Entities*
 PFRS 12 includes all of the disclosures related to consolidated financial statements that were a previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. Adoption of PFRS 12 affects disclosures only and has no impact on the Group's financial position or performance (see discussion on Accounting Policies -Basis of Consolidation).
- *Amendments to PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI*
 These amendments change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI. The amendments affect presentation only and have no impact on the Group's financial position or performance.
- *PAS 19, Employee Benefits (Revised)*
 PAS 19 ranges from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

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

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

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

The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected

timing of settlement rather than the employee's entitlement to the benefits. In addition, the revised standard modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

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

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard.

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

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

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

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

- PAS 27, *Separate Financial Statements* (Revised)
As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and

associates in the separate financial statements. This amendment has no significant impact on the Group's financial statements.

- *PAS 28, Investments in Associates and Joint Ventures (Revised)*
As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed *PAS 28, Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. This amendment has no significant impact on the Group's financial statements.

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

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

Initial Recognition and Measurement

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

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

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

As at December 31, 2013 and 2012, the Group has no financial assets or liabilities at FVPL, HTM financial assets and AFS financial assets.

The Group's financial instruments are as follows:

a. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently carried either at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest rate method. Loans and receivables are classified as current assets if maturity is within 12 months from balance sheet date. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables consists of cash and cash equivalents, short-term investment, receivables and deposits (excluding rent deposits) as at December 31, 2013 and 2012 (see Note 29).

b. Other Financial Liabilities

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

Other financial liabilities are classified as current liabilities if maturity is within the normal operating cycle of the Company and it does not have unconditional right to

defer settlement of the liability for at least 12 months from balance sheet date. Otherwise, these are classified as noncurrent liabilities.

The Group's other financial liabilities consist of bank loans, accounts payable and accrued expenses, other current liabilities (excluding statutory liabilities), and cumulative redeemable preferred shares as at December 31, 2013 and 2012 (see Note 29).

Determination of Fair Value

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

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

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

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

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

Day-1 Difference

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

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

Financial Liabilities

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

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

Inventories

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

Prepayments and Other Current Assets

Prepayments and other current assets are primarily comprised of advances to suppliers, deferred input value-added tax (VAT), prepaid rent and prepaid store expenses. Prepayments and other current assets that are expected to be realized for no more than 12 months after the balance sheet date are classified as current assets; otherwise, these are classified as other noncurrent assets.

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

Property and Equipment

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

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

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

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

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

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

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

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

Fully depreciated assets are retained in the books until disposed.

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

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

Deposits

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

Intangible Assets

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

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

Software and Program Cost

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

Goodwill

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

Impairment of Non-financial Assets

The Group assesses at each balance sheet date whether there is an indication that its non-financial assets such as property and equipment, deposits and intangible assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash generating unit’s fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. For land, the asset’s recoverable amount is the land’s net selling price, which may be obtained from its sale in an arm’s length transaction. For goodwill, the asset’s recoverable amount is its value-in-use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Impairment losses, if any, are recognized in profit or loss, except for revalued property and equipment when revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For non-financial assets, excluding goodwill, an assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in previous years. Such reversal is recognized in profit or loss, unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation charge is adjusted in the future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Deposits Payable

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

Cumulative Redeemable Preferred Shares

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

Deferred Revenue

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

Equity

Common Stock

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

Additional Paid-in Capital

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

Retained Earnings

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

Treasury Stock

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

OCI

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

Revenue Recognition

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

except for its sale of consigned goods. The following specific recognition criteria must also be met before revenue is recognized:

Merchandise Sales

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

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

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

Franchise

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

Marketing

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

Rental

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

Commission

Commission income is recognized upon the sale of consigned goods.

Interest

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

Other Income

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

Costs and Expenses Recognition

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

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the

asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Net retirement benefits cost comprise the following:

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

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

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

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

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

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

Termination Benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an

employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

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

Employee Leave Entitlement

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

Leases

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

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

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

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing

costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign Currency-denominated Transactions

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

Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred Income Tax

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

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

Deferred income tax relating to items recognized directly in equity is recognized in profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

VAT

Input VAT is the 12% indirect tax paid by the Group in the course of the Group's trade or business on local purchase of goods or services, including lease or use of property, from a VAT-registered entity. For acquisition of capital goods over ₱1,000,000, the related input

taxes are deferred and amortized over the useful life of the asset or 60 months, whichever is shorter, commencing on the date of acquisition. Deferred input VAT which is expected to be utilized for more than 12 months after the balance sheet date is included under "Goodwill and other noncurrent assets" account in the consolidated balance sheet.

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

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

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

Earnings (Loss) Per Share

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

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

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

Segment Reporting

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is

used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Events after the Balance Sheet Date

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

3. Use of Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Determination of Functional Currency

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

Classification of Financial Instruments

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

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

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

The Group's financial instruments consist of loans and receivables and other financial liabilities (see Note 29).

Classification of Leases

a. Finance lease as lessor

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

b. Operating lease as lessee

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

c. Operating lease as lessor

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

Impairment of Goodwill

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

Based on the assessment made by the Group, there is no impairment of goodwill as the recoverable amount of the cash-generating units exceeds the carrying amount of the unit, including goodwill as at December 31, 2013 and 2012. The carrying value of goodwill amounted to ₱65,567,524 as at December 31, 2013 and 2012 (see Note 10). No impairment losses were recognized in 2013, 2012 and 2011.

Estimation of Retirement Benefits

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

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

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

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

Provisions and Contingencies

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

As at December 31, 2013 and 2012, the Group has provisions amounting to ₱13,704,073 and ₱7,066,290, respectively and is reported as part of "Others" under "Accounts payable and accrued expenses" in the consolidated balance sheets (see Note 12). Provisions and contingencies are further explained in Note 34.

Realizability of Deferred Income Tax Assets

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

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

4. Cash and Cash Equivalents and Short-Term Investment

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Cash on hand and in banks	₱722,661,053	₱922,422,571
Cash equivalents	3,123,851	50,580,062
	₱725,784,904	₱973,002,633

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

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Franchisees (Note 32)	₱154,413,609	₱379,544,124
Suppliers	156,790,690	48,657,689
Employees	13,617,282	14,936,783
Store operators	12,912,040	12,547,006
Rent	5,725,413	4,760,464
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	3,229,010	3,118,978
Current portion of:		
Lease receivable - net of unearned interest income amounting to ₱96,445 and ₱197,221 as at December 31, 2013 and 2012, respectively (Notes 10 and 26)	3,086,114	3,086,114
Notes receivable (Notes 10, 29 and 30)	981,834	1,033,914
Insurance receivable	1,436,253	585,057
Others	5,856,123	1,358,499
	358,048,368	469,628,628
Less allowance for impairment	18,960,182	18,960,182
	₱339,088,184	₱450,668,446

6. Inventories

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
At cost (Note 18):		
Warehouse merchandise	571,888,343	₱618,738,640
Store merchandise	271,708,618	282,111,251
	843,596,961	₱900,849,891

7. Prepayments and Other Current Assets

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Current portion of:		
Deferred input VAT	P234,361,782	P78,364,535
Deferred lease (Notes 10 and 26)	1,421,459	1,421,460
Deferred rent	74,578,091	
Prepaid:		
	2014	2013
Rent (Note 10)	713,000	63,373,604
Store expenses	36,651,088	P34,455,780
Uniform	5,826,745	6,066,259
Insurance	16,440,787	
Taxes	12,941,116	4,765,253
Repairs and maintenance	714,952	1,218,655
Advances to suppliers	46,544,041	55,761,777
Advances for expenses	20,028,484	13,788,613
Supplies	2,602,577	3,528,830
Dues and subscription	2,134,469	571,651
Others	45,239,994	7,432,281
	P500,198,587	P270,748,698

8. Property and Equipment

Movements in property and equipment are as follows:

	As of March 31, 2014 (Unaudited)								
	Land- at revalued amount	Buildings and Improvements	Store Furniture and Equipment	Office Furniture and Equipment	Transportation Equipment	Computer Equipment	Leasehold Improvements	Construction In-Progress	Total
Costs/Revalued Amount									
Beginning balances	P44,481,000	P118,154,849	P2,200,106,026	P621,678,527	P43,960,907	P244,985,364	P1,414,965,223	P95,198,923	P4,739,049,819
Additions		141,815,609	124,348,950	32,774,017	2,219,196	8,430,443	48,472,986	43,766,470	401,827,671
Retirements		-	(10,975,907)	(7,877,834)	(350,000)	(4,970,497)	(10,693,154)	(20,618,765)	(55,486,157)
Reclassifications		-	-	-	-	-	29,068,042.31)	-
Ending balances	P44,481,000	259,970,457	2,313,479,069	646,574,710	45,830,104	248,445,310	1,481,813,097	89,278,587	5,129,872,333
Accumulated Depreciation and Amortization									
Beginning balances		74,124,862	978,021,334	266,765,052	19,209,523	165,369,417	587,737,478	-	2,091,227,665
Depreciation and amortization (Note 19)		97,075,056	102,794,133	29,339,989	2,473,958	8,477,233	48,045,341	-	288,205,711
Retirements		-	(10,975,907)	(7,877,834)	(165,614)	(4,970,497)	(8,954,963)	-	(32,944,815)
Ending balances		171,199,918	1,069,839,559	288,227,207	21,359,519	168,876,153	626,827,857	-	2,346,488,561
Net Book Values	P44,481,000	P88,770,539	P1,243,639,510	P358,347,503	P24,312,237	P79,569,157	P854,985,240	P89,278,587	P2,783,383,773

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

9. **Deposits**

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Rent	P246,498,180	P232,020,464
Utilities (Notes 29 and 30)	44,980,450	42,509,396
Refundable (Notes 29 and 30)	34,871,384	34,871,384
Others (Notes 29 and 30)	4,870,440	4,487,223
	P331,220,454	P313,888,467

10. **Goodwill and Other Noncurrent Assets**

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Noncurrent portion of:		
Deferred input VAT	P150,296,304	P143,808,850
Deferred lease (Note 26)	12,819,183	12,819,183
Lease receivable - net of unearned interest income amounting to P5,773 and P102,216 as at December 31, 2013 and 2012, respectively (Notes 26, 29 and 30)	559,441	559,441
Note receivable (Notes 5, 29 and 30)		-
Intangible assets:		
Goodwill	65,567,524	65,567,524
Software and program cost		2,886,285
Garnished accounts (Note 34)	4,653,619	4,876,522
Others	4,158,766	1,411,415
	P238,054,837	P231,929,220

Deferred Lease

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

Movements in deferred lease are as follows:

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Beginning balance	14,240,643	P15,702,845
Additions		948,411
Less amortization (Note 26)		2,410,613
Ending balance	14,240,643	14,240,643
Less current portion (Note 7)	1,421,460	1,421,460
Noncurrent portion	P12,819,183	P12,819,183

Goodwill

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

11. **Bank Loans**

Bank loans represent unsecured Peso-denominated short-term borrowings from various local banks, payable in lump-sum in 2014 and 2013 with annual interest rates ranging from 2.50% to 3.30%, 3.30% to 3.75% and 3.50% to 4.25% in 2013, 2012 and 2011, respectively, which are repriced monthly based on market conditions. The proceeds of these loans were used for the operations of the Group.

	As of March 31,	As of December
	2014	31, 2013
	(Unaudited)	(Audited)
Beginning balance	₱560,000,000	₱477,777,778
Availments	-	550,000,000
Payments	-	(467,777,778)
Ending balance	₱560,000,000	₱560,000,000

12. **Accounts Payable and Accrued Expenses**

	As of March 31,	As of December
	2014	31, 2013
	(Unaudited)	(Audited)
Trade payable	₱1,316,315,102	₱1,575,446,279
Utilities	80,935,676	71,354,276
Rent (Note 26)	55,785,953	58,097,685
Employee benefits	32,453,574	39,622,810
Advertising and promotion	15,435,384	37,844,609
Outsourced services	29,018,157	24,844,921
Bank charges	14,060,140	13,487,060
Security services	3,713,819	3,375,831
Interest (Notes 11 and 15)	1,045,870	1,947,803
Others	63,170,569	46,682,215
	₱1,611,934,243	₱1,872,703,489

13. Other Current Liabilities

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Non-trade accounts payable	₱(88,911,873)	₱362,508,354
Output VAT	189,659,006	61,134,099
Retention payable	48,147,058	48,466,743
Withholding taxes	31,559,306	33,462,627
Employee related liabilities	-	27,210,000
Royalty (Note 25)	14,329,525	16,305,559
Service fees payable	12,526,701	10,381,467
Current portion of deferred revenue on:		
Finance lease (Notes 16 and 26)	589,567	589,567
Exclusivity contract (Notes 16 and 32)	446,429	446,429
Others	350,287,239	10,561,844
	₱558,632,957	₱571,066,689

14. Deposits Payable

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Franchisees (Note 32)	₱103,552,182	₱99,370,298
Service agreements (Note 32)	91,470,278	89,707,363
Rent (Note 26)	13,483,923	13,811,274
	₱208,506,383	₱202,888,935

15. Cumulative Redeemable Preferred Shares

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

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

16. Deferred Revenue

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Deferred revenue on finance lease (Note 26)	₱98,261	₱98,264
Deferred revenue on exclusivity contracts (Note 32)	-	-
Deferred revenue - others	2,323,802	1,508,919
	₱2,422,063	₱1,607,183

17. Equity

Common Stock

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

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

As at December 31, 2013 and 2012, the Company has a total of 650 and 656 shareholders on record.

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

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

Retained Earnings

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

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

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

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

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

Declaration date	Record date	Payment date	Dividend per share	Outstanding no. of common shares as of declaration date	Total cash dividends
July 18, 2013	August 15, 2013	September 9, 2013	₱0.10	398,639,411	₱39,863,941
July 24, 2012	August 22, 2012	September 14, 2012	0.10	346,642,966	34,664,297
July 21, 2011	August 19, 2011	September 13, 2011	0.10	301,428,666	30,142,867

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

Treasury Shares

There are 686,250 shares that are in the treasury amounting to ₱2,923,246 as at December 31, 2013 and 2012. There are no movement in the Group's treasury shares in 2013 and 2012.

18. **Cost of Merchandise Sales**

	<u>For the First Quarter Ended</u>		
	March 31, 2014	March 31, 2013	March 31, 2012
Merchandise inventory, beginning	825,779,994	790,854,442	673,592,418
Net purchases	2,766,595,878	2,605,122,465	1,924,107,502
	3,592,375,872	3,395,976,907	2,597,699,920
Less merchandise inventory, ending	822,863,664	784,590,159	650,269,810
	2,769,512,208	2,611,386,748	1,947,430,109

19. General and Administrative Expenses

	<u>For the First Quarter Ended</u>		
	<u>March 31, 2014</u>	March 31, 2013	March 31, 2012
Communication, light and water	₱233,885,994	₱204,724,252	₱180,704,823
Depreciation and amortization (Note 8)	194,031,251	152,353,152	115,766,354
Outside services (Note 32)	182,687,709	174,763,133	150,271,331
Rent (Note 26)	151,873,754	124,788,680	111,027,144
Personnel costs (Notes 5, 23 and 24)	118,818,710	110,255,793	75,054,029
Trucking services	60,237,325	45,431,612	36,333,447
Advertising and promotion	52,778,940	71,195,720	36,719,803
Royalties (Note 25)	44,191,827	41,458,877	30,566,438
Warehousing services	38,367,077	29,569,872	19,089,970
Repairs and maintenance	25,901,138	26,864,541	24,657,927
Supplies	22,410,054	21,917,383	25,687,705
Taxes and licenses	16,957,789	21,443,770	14,166,245
Transportation and travel	13,197,835	11,021,714	8,293,193
Entertainment, amusement and recreation	3,091,408	2,560,433	1,383,521
Inventory losses	18,786,428	21,291,056	16,897,744
Dues and subscription	3,656,378	2,789,265	1,841,972
Insurance	1,844,728	1,024,451	2,001,278
Others	17,564,654	14,247,248	10,502,787
	₱1,200,282,998	₱1,077,700,952	₱860,965,711

20. Marketing Income

	<u>For the First Quarter Ended</u>		
	<u>March 31, 2014</u>	March 31, 2013	March 31, 2012
Promotions	67,829,405	58,225,469	40,979,478
Marketing support funds	12,807,722	5,897,635	6,024,118
	80,637,127	64,123,105	47,003,596

21. Interest Expense

	<u>For the First Quarter Ended</u>		
	<u>March 31, 2014</u>	March 31, 2013	March 31, 2012
Interest on bank loans (Note 11)	3,620,067	4,988,600	3,599,388
Guaranteed preferred dividends	64,687	64,687	(25,313)
	3,684,754	5,053,287	3,574,075

22. Interest Income

	<u>For the First Quarter Ended</u>		
	<u>March 31, 2014</u>	March 31, 2013	March 31, 2012
Bank deposits (Note 4)	593,032	798,333	555,720
	593,032	798,333	555,720

23. Personnel Costs

	<u>For the First Quarter Ended</u>		
	<u>March 31, 2014</u>	March 31, 2013	March 31, 2012
Salaries and wages	51,975,607	41,801,153	36,701,924
Employee benefits	60,843,077	65,559,735	35,958,183
Net retirement benefits cost	6,000,026	2,894,904	2,393,922
	118,818,710	110,255,793	75,054,029

24. Retirement Benefits

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

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

25. Related Party Transactions

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

Transactions with related parties consist of:

- c. PSC has transactions with PFI, a foundation with common key management of the Group, consisting of donations and noninterest-bearing advances pertaining primarily to salaries, taxes and other operating expenses initially paid by PSC for PFI.
- d. 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.
- e. As of December 31, 2013 and 2012, the Group's defined benefit retirement fund has investments in shares of stock of the Parent Company with a cost of ₱0.12 million. The retirement benefit fund's total gains arising from changes in market prices amounted to ₱0.76 million and ₱2.35 million in 2013 and 2012, respectively.

26. Leases

Operating Lease as Lessee

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

Rent expense related to these lease agreements amounted to ₱515,939,520, ₱449,915,799 and ₱375,908,146 in 2013, 2012 and 2011, respectively. Of the total rent expense, ₱2,658,415 in 2013, ₱2,573,518 in 2012 and ₱2,019,210 in 2011 pertains to contingent rent of some stores based on percentage ranging from 1.5% to 3.0% of merchandise sales. Amortization of deferred lease amounted to ₱1,717,581, ₱719,536 and ₱1,164,066 in 2013, 2012 and 2011, respectively.

As of the first Quarters ended, rent expense related to these lease agreements amounted to ₱154,384,767, ₱125,163,588 and ₱112,406,138 in 2014, 2013 and 2012, respectively (see Note 19).

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

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

- b. In April 2012, CDI entered into a 2-year lease contract for the lease of a warehouse in Cebu commencing in April 2012 until April 2014. The lease has a renewal option and is subject to an annual escalation rate of 5%.

In 2011, CDI entered into a 10-year lease contract for the lease of its warehouse extension effective March 2011. The lease is subject to an annual escalation rate of 4.0% starting on the second year of the lease.

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

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

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

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

27. Income Tax

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

d.

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

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

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

28. Basic/Diluted Earnings Per Share

	<u>For the First Quarter Ended</u>		
	<u>March 31, 2014</u>	March 31, 2013	March 31, 2012
a. Net income	₱100,005,353	₱113,883,383	₱56,344,617
b. Weighted average number of shares issued	459,121,573	459,121,573	459,121,573
c. Less weighted average number of shares held in treasury	686,250	686,250	686,250
d. Weighted average number of shares outstanding (b-c)	458,435,323	458,435,323	458,435,323
e. Basic/diluted earnings per share (a/d)	₱0.22	₱0.25	₱0.12

The Group does not have potentially dilutive common shares as at December 31, 2013, 2012 and 2011. Thus, the basic earnings per share is equal to the diluted earnings per share as at those dates.

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

29. Financial Instruments

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

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

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

Fair Value Information

Current Financial Assets and Financial Liabilities

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

Lease Receivable

The fair value of lease receivable is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as at December 31, 2013 and 2012, which is 2.73% and 3.80%, respectively.

Utility and Other Deposits

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

Refundable Deposits

The fair value of deposits is determined by discounting the sum of future cash flows using the prevailing market rates for instruments with similar maturities as at December 31, 2013 and 2012 ranging from 0.5% to 4.35% and 1.33% to 4.36%, respectively.

Bank Loans

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

Cumulative Redeemable Preferred Shares

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

Fair Value Hierarchy

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

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

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

30. Financial Risk Management Objectives and Policies

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

Listed below are the summarized risk identified by the BOD.

Credit Risk

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

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

	As of March 31, 2014	As of December 31, 2013
Cash and cash equivalents (excluding cash on hand)		
Cash in bank	₱ 610,782,359	₱734,552,645
Cash equivalents	3,123,851	50,580,062
	613,906,210	785,132,707
Short-term investment	10,632,115	10,810,229
Receivables		
Franchisees	154,199,267	379,329,782
Suppliers	141,224,756	33,091,755
Employees	13,077,361	14,396,862
Store operators	12,546,239	12,181,205
Rent	3,451,229	2,486,280
Due from PFI	3,229,010	3,118,978
Current portion of:		
Lease receivable	3,086,114	3,086,114
Notes receivable		1,033,914
Insurance receivable	1,436,253	585,057
Others	6,837,957	1,358,499
	339,088,185	450,668,446
Deposits		
Utilities	44,980,450	42,509,396
Refundable	34,871,384	34,871,384
Others	4,870,440	4,487,223
	84,722,274	81,868,003
Other noncurrent assets		
Noncurrent portion of:		
Lease receivable	559,441	559,441
Notes receivable		
	559,441	559,441
	₱1,048,908,225	₱1,329,038,826

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

As of March 31, 2014				
	Neither Past Due nor Impaired			Total
	High Grade	Standard Grade	Past Due Or Impaired	
Cash and cash equivalents				
Cash in bank	P 610,782,359	P-	P-	P 610,782,359
Cash equivalents	3,123,851	-	-	3,123,851
	613,906,210	-	-	613,906,210
Short-term investment	10,632,115	-	-	10,632,115
Receivables				
Franchisees	-	154,199,267	214,342	154,413,609
Suppliers	-	141,224,756	20,386,188	156,790,690
Employees	-	13,077,361	539,921	13,617,282
Store operators	-	12,546,239	365,801	12,912,040
Rent	-	3,451,229	2,274,184	5,725,413
Due from PFI	-	3,229,010	-	3,229,010
Current portion of:				
Lease receivable	-	3,086,114	-	3,086,114
Notes receivable	-	-	-	-
Insurance receivable	-	1,436,253	-	1,436,253
Others	-	6,837,957	-	6,837,957
		339,088,185	23,780,436	362,868,621
Deposits				
Utilities	-	44,980,450	-	44,980,450
Refundable	-	34,871,384	-	34,871,384
Others	-	4,870,440	-	4,870,440
		84,722,274	-	84,722,274
Other noncurrent asset				
Noncurrent portion of lease receivable	-	559,441	-	559,441
		559,441	-	559,441
	624,538,325	424,369,900	23,780,436	1,072,688,661

The Group uses the following criteria to rate credit quality:

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

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

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

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

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

MAR 2014						
	Aging analysis of financial assets past due but not impaired				Past due and	Total
	31 to 60 days	61 to 90 days	> 90 days	Total	Impaired	
Receivables:						
Franchisees	P-	P-	P-	P-	P214,342	P214,342
Suppliers	1,601,652	868,379	2,350,223	4,820,254	15,565,934	20,386,188
Employees	-	-	-	-	539,921	539,921
Store operators	-	-	-	-	365,801	365,801
Rent	-	-	-	-	2,274,184	2,274,184
	P1,601,652	P868,379	P2,350,223	P4,820,254	P18,960,182	P23,780,436

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

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

Liquidity Risk

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

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

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

As of March 31, 2014					
	Three months or less	More than three months to one year	More than one year to five years	More than five years	Total
Cash and cash equivalents					
Cash on hand and in banks	P722,661,053	P-	P-	P-	P722,661,053
Cash equivalents	3,123,851	-	-	-	3,123,851
	P725,784,904	-	-	-	P725,784,904
Short-term investment	10,810,229	-	-	-	10,810,229
Receivables					
Franchisees	153,984,925	214,342	-	-	154,199,267
Suppliers	125,658,822	15,565,934	-	-	141,224,756
Employees	12,537,440	539,921	-	-	13,077,361
Store operators	12,180,438	365,801	-	-	12,546,239
Rent	1,177,045	2,274,184	-	-	3,451,229
Due from PFI	3,229,010	-	-	-	3,229,010
Current portion of:					
Lease receivable	3,086,114	-	-	-	3,086,114
Notes receivable	-	-	-	-	-
Insurance receivable	1,436,253	-	-	-	1,436,253
Others	6,837,957	-	-	-	6,837,957
	320,128,004	18,960,182	-	-	339,088,185
Deposits					
Utilities	-	-	44,980,450	-	44,980,450
Refundable	-	-	34,871,384	-	34,871,384
Others	-	-	4,870,440	-	4,870,440
	-	-	84,722,274	-	84,722,274

(forward)

Other noncurrent asset					
Noncurrent portion of lease receivable	-	-	559,441	-	559,441
	-	-	559,441	-	-
	₱1,056,723,137	₱18,960,182	₱82,427,444	₱-	₱1,160,405,592

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

	As of March 31, 2014			Total
	Three months or less	More than three months to one year	More than one year	
Bank loans	₱350,000,000	₱210,000,000	₱-	₱560,000,000
Accounts payable and accrued expenses				
Trade payable	₱1,316,315,102	-	-	₱1,316,315,102
Utilities	80,935,676	-	-	80,935,676
Rent	55,785,953	-	-	55,785,953
Employee benefits	32,453,574	-	-	32,453,574
Advertising and promotion	15,435,384	-	-	15,435,384
Outsourced services	29,018,157	-	-	29,018,157
Bank charges	14,060,140	-	-	14,060,140
Security services	3,713,819	-	-	3,713,819
Interest	1,045,870	-	-	1,045,870
Others	63,170,569	-	-	63,170,569
	₱1,611,934,243	-	-	₱1,611,934,243
Other current liabilities				
Non-trade accounts payable	-	₱(88,911,873)	-	₱(88,911,873)
Retention payable	-	48,147,058	-	48,147,058
Employee related liabilities	-	-	-	-
Royalty	-	14,329,525	-	14,329,525
Service fees payable	-	12,526,701	-	12,526,701
Others	-	350,287,239	-	350,287,239
	-	-	-	-
Cumulative redeemable preferred shares	6,000,000	-	-	6,000,000
	1,967,934,243	546,378,650	-	2,514,312,893

Interest Rate Risk

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

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

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

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

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

	2014		2013	
	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax	Increase/ Decrease in Basis Points	Effect on Income Before Income Tax
Bank loans - floating interest rate	+100	(₱5,600,000)	+100	(₱4,777,778)
	-100	₱5,600,000	-100	4,777,778

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

Foreign Exchange Risk

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

31. Capital Management

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

In the light of changes in economic conditions, the Group manages dividend payments to shareholders, pay-off existing debts, return capital to shareholders or issue new shares. The Group mainly uses financing from local banks. The Group considers equity contributed by shareholders as capital. The Group manages its capital structure by keeping a net worth of between 30% to 50% in relation to its total assets. The Group's net worth ratio is 43% and 42% as at December 31, 2013 and 2012, respectively. No changes were made in the objectives, policies and processes during the year.

	MAR 2014	DEC 2013
Common stock	P459,121,573	P459,121,573
Additional paid-in capital	293,525,037	293,525,037
Retained earnings	1,910,526,658	1,810,521,305
	2,663,173,268	2,563,167,915
Less cost of shares held in treasury	2,923,246	2,923,246
	2,660,250,022	2,560,244,669
Total assets	P 5,835,341,054	P5,961,773,332
Net worth	46%	43%

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

32. Significant Agreements

a. Franchise Agreements

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

	For the First Quarter Ended		
	March 31, 2014	March 31, 2013	March 31, 2012
Franchise revenue	327,509,898	267,415,974	131,560,112
Franchise fee	20,341,750	16,991,305	10,693,254
	347,851,648	284,407,280	142,253,366

b. Service Agreements

The Group has service agreements with third parties for the management and operation of certain stores. In consideration thereof, the store operator is entitled to a service fee based on a certain percentage of the store's gross profit and operating expenses as stipulated in the service agreement. Service fees included under outside services shown as part of "Outside services in "General and administrative expenses" amounted to P 31,881,480, P 50,994,168, P 55,809,614 for the quarters ended March 31, 2014, 2013 and 2010 respectively (see Note 19).

c. Commission Income

The Group has entered into agreements with a phone card supplier and various third parties. Under the arrangements, the Group earns commission on the sale of phone cards and collection of bills payments based on a certain percentage of net sales and collections for the month and a fixed monthly rate. Commission income amounted to P 3,849,097, P 8,682,066 and P 5,618,972 for the quarters ended March 31, 2014, 2013 and 2010 respectively.

d. 2010 Exclusivity Contract

The Group has also entered into a 3-year exclusivity contract with a Third Party soda manufacturer in the Philippines effective April 2010 to March 2013. The contract

indicates that the Third Party soda manufacturer will exclusively supply all slurpee products of 7-Eleven.

e. MOA with Chevron Philippines, Inc.

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

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

33. Segment Reporting

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

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

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

The segment's relevant financial information is as follows:

	<u>For the First Quarter Ended</u>		
	March 31, 2014	March 31, 2013	March 31, 2012
Revenue			
Revenue from merchandise sales	₱3,611,421,806	₱3,442,940,564	₱2,675,757,345
Franchise revenue	347,851,648	284,407,280	142,253,365
Marketing income	80,637,127	64,123,105	47,003,596
Rental income	3,987,356	9,334,982	7,658,981
Commission income	8,914,527	18,371,249	12,261,429
Interest income	593,032	798,333	555,720
Other income	65,198,322	39,686,604	12,212,991
	4,118,603,818	3,859,662,117	2,897,703,427

	For the First Quarter Ended		
	March 31, 2014	March 31, 2013	March 31, 2012
Expenses			
Cost of merchandise sales	2,769,512,208	2,611,386,748	1,947,430,109
General and administrative expenses:			
Depreciation and amortization	194,031,251	152,353,152	115,766,354
Others	1,006,251,747	925,347,799	745,199,357
Interest expense	3,684,754	5,053,287	3,574,075
Other expenses	2,201,119	2,830,582	5,241,221
	3,975,681,079	3,696,971,569	2,817,211,116
Income Before Income Tax	142,922,739	162,690,549	80,492,311
Provision for Income Tax	42,917,385	48,807,165	24,147,694
Segment Profit	100,005,353	113,883,383	56,344,617
Segment Assets	5,835,341,054	5,081,964,609	3,783,661,789
Segment Liabilities	3,194,102,581	3,041,490,882	2,230,688,060

34. Provisions and Contingencies

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

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

35. Note to Consolidated Statements of Cash Flows

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

Philippine Seven Corporation
Schedule of Receivables

	As of March 31, 2014 (Unaudited)	As of December 31, 2013 (Audited)
Franchisees (Note 32)	₱154,413,609	₱379,544,124
Suppliers	156,790,690	48,657,689
Employees	13,617,282	14,936,783
Store operators	12,912,040	12,547,006
Rent	5,725,413	4,760,464
Due from PhilSeven Foundation, Inc. (PFI) (Note 25)	3,229,010	3,118,978
Current portion of:		
Lease receivable - net of unearned interest income amounting to ₱96,445 and ₱197,221 as at December 31, 2013 and 2012, respectively (Notes 10 and 26)	3,086,114	3,086,114
Notes receivable (Notes 10, 29 and 30)	981,834	1,033,914
Insurance receivable	1,436,253	585,057
Others	5,856,123	1,358,499
	358,048,368	469,628,628
Less allowance for impairment	18,960,182	18,960,182
	₱339,088,184	₱450,668,446

The classes of receivables of the Group are as follows:

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

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

Q1 2014 Management's Discussion and Analysis of Results of Operations and Financial Condition

SELECTED FINANCIAL DATA

	For the Quarter Ended March 31, (Unaudited)		Increase (Decrease)	
	2014	2013	Amount	% change
SYSTEMWIDE SALES	₱ 4,429,961	₱ 4,155,295	₱ 274,666	6.6
Statement of Income Data:				
Revenue and other income				
Sales of merchandise	3,611,422	3,442,941	168,482	4.9
Franchise revenue	347,852	284,407	63,445	22.3
Marketing income	80,637	64,123	16,514	25.8
Others (net)	65,198	39,687	25,512	64.3
Cost and expenses				
Cost of merchandise sales	2,769,512	2,611,387	158,125	6.1
General and administrative	1,200,283	1,077,701	122,582	11.4
Interest expense	3,685	5,053	-1,368	-27.1
Net income	100,005	113,883	-13,878	-12.2
Earnings per share	0.22	0.25	-0.03	-12.0
Balance Sheet Data:				
Total assets	5,835,341	5,961,773	-126,432	-2.1
Total liabilities	3,194,102	3,420,540	-226,438	-6.6
Total stockholders' equity	2,641,239	2,541,233	100,006	3.9
Cash Flow Data:				
Net cash from operating activities	11,040	139,142	-128,102	-92.1
Net cash used in investing activities	(254,573)	(108,654)	-145,919	134.3
Net cash (used)/from financing activities	(3,685)	99,613	-103,298	-103.7

(Amount in thousands, except EPS)

OVERVIEW

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

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

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

At the end of the first quarter of this year, 7-Eleven has 1,049 stores, mainly in Metro Manila and in

major towns and cities in Luzon. Approximately sixty eight percent of stores are operated by third party franchisees and the remainder is company-owned. The Company successfully penetrated the Visayas as it was able to end the quarter with close to 60 stores in the Cebu and Bacolod market.

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

This is the Company's first venture outside Luzon, which is home to half the country's population as well as the capital of Metro Manila. It is a significant first step in the company's push to bring modern convenience wherever feasible to the rest of the archipelago – a more logistically complex market than the contiguous and highly urbanized Luzon.

Our retail chain of convenience stores is sustained by a manpower complement of 1.080 (regular and outsourced) employees engaged in corporate store operations and in support service units. Despite of growing competition, we maintain our leadership in the CVS industry.

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

RESULTS OF OPERATIONS AND FINANCIAL CONDITION DURING THE FIRST QUARTER OF 2014

Results of Operations

For the First Quarter

Net income went down by 12.2% to P100.0 million during the first three months of the year from P113.9 million during the same period in 2013. EBITDA, on the other hand, rose by 6.4% to P340.6 million.

Retail sales generated by all 7-Eleven stores in the Philippines posted growth of 6.6% to P4.4 billion from P4.2 billion during first quarter last year. The growth in sales was largely driven by the increase in number of stores. Store count went up by 23.8% to 1,049 stores, while franchise stores accounted for 68% of total, slightly up from 66% in the preceding year.

Same store sales in the first quarter declined due to lower cigarette sales. During 2013, sales from the cigarette category registered significant growth brought about by the implementation of the new excise tax law. Much of the effect of the new sin tax was temporary, brought about by significant disruptions in the supply chain. Sales in the affected categories have since settled down, although higher prices, steady demand, and a more level playing field will continue to benefit these categories going forward.

Ex-cigarettes, same store sales slightly dropped due mainly to cooler weather and Holy Week timing effect.

Further, franchise revenues grew by 22.3% to P347.9 million as a result of the increase in the number of franchise operators. Marketing income, on the other hand, rose by 25.8% to P80.6 million from P64.1 million a year ago.

Selling, general and administrative expenses increased by 11.4% to P2.8 billion from P2.6 billion mainly attributed to the increase in the number of operating stores during the first quarter.

EBITDA (earnings before interest, taxes, depreciation and amortization) at the end of first quarter rose by 6.4% to P340.6 million. EBITDA as percentage of revenue from merchandise sales improved to 9.4% from 9.3% a year ago.

Revenue and Gross Margin

Revenue from merchandise sales in the first quarter went up by 4.9% to P3.6 billion from P3.4 billion a year ago. This account is comprised of retail sales of corporate stores and merchandise transferred to franchised stores.

Cost of merchandise sales rose by 6.1% to P2.8 billion resulting into lower gross profit margin of 23.3% in the first quarter. The faster rate of increase in cost of sales was due to the increase in number of franchised stores. Merchandise sold to franchisees is accounted at cost, while the corresponding share in gross profit is lodged under franchise revenue. Henceforth, the sum of gross profit and franchise revenue resulted into a margin of 32.9%, up from 32.4% registered in Q1 of last year.

Other Income

The Company's other income mainly consists of franchise revenues, marketing and rental income.

Franchise revenues represent the share of PSC in the gross profit of franchise-operated stores and the initial fees paid by the new franchisees to acquire the 7-Eleven franchise. Franchise revenues rose by 22.3% to P347.9 million at the end of Q1 2014 from P284.4 million same period last year.

Marketing income increased by 25.8% from P64.1 million in Q1 2013 to P80.6 million during the first three months of 2014. 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.

Other items of income came from penalties imposed on vendors with low service level and for failure to comply with committed delivery schedule.

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

Selling, General and Administrative Expense

Selling, general and administrative (SG & A) expenses which is comprised of store operating and selling expenses and headquarters' expenses went up by 11.4% or P122.6 million to P1.2 billion at the end of first quarter. Opening of new stores mainly drove the increase in expenses. The following discussion shows the major expense items as a percentage of revenue from merchandise sales.

Communication, light and water were the highest contributor as it increased by 14.2% to P233.9 million and was pegged at 6.5% of revenue from merchandise sales. The increase was due mainly to the opening of new stores.

Depreciation and amortization expense rose by 27.4% and consequently, its percentage to sales increased from 4.4% in Q1 2013 to 5.4% in Q1 2014. Higher depreciation was a result of opening of new stores, a acquisition of new equipment and renovation of existing stores.

The Company continued to employ outsourced manpower on its new corporate stores and warehouse facilities. However, since new franchised store opened, outsourced services as percentage of sales dropped to 5.1% from 5.2% in Q1 2013. Franchisees pay for store manpower costs.

Rent went up by 21.7% and reached 4.2% of revenue because of new stores waiting to open and rental paid for additional office space.

Trucking services increased by 32.6% over last year due to opening of new stores in Bacolod and Iloilo market while advertising and promotion expense, as percentage of revenue went down to 1.5% from LY 2.1% due to the breakfast campaign instituted in 2013.

All other expense types went up over preceding year's level as a result of the increased number of stores. The said growth is considered to be incidental and proportionate as PSC continues to grow its store base.

There are no significant nor unusual expense incurred during the calendar year and is considered to be in the normal course of business.

Interest Expense

Interest incurred to service debt went down by 27.1% to P3.7 million due to lower interest rates and debt level. The Company remains to be in a net cash position as solid revenue and working capital stream finance operations and store expansion.

Net Income

Net income went down by 12.2% to P100.0 million during the first three months of the year from P113.9 million during the same period in 2013. This translated into earnings per share of P0.22 from P0.25 a year ago.

Financial Condition

Total assets slightly declined by 2.1% or P126.4 million to P5.84 billion at the end of first quarter from P5.96 billion at the beginning of the year. The decrease in assets can be attributed to the lower cash level, which dropped by 25.4% to P725.9 million from P973.0 million at start of 2014. The movement in cash balance will be further discussed in the cash flow analysis.

Receivables decreased by 24.8% as a result of faster collection of franchisee and supplier accounts. Inventories went down by 6.4% to P843.5 million owing to lower cigarette stock level because stores buffered up on stocks last year to meet demand. Prepayment and other current assets increased due to advance rent paid for stores waiting to open.

Property and equipment and deposits increased by 1.3% and 5.5%, respectively, mainly due to capital expenditures made for store expansion and acquisition of new equipment.

Total liabilities declined by 6.6% mainly due to the settlement of accounts payable and accrued expenses, which decreased by 13.9% at end of Q1 compared with beginning of year balance. Level of short-term loans from banks remains unchanged while income tax payable rose by 39.0%.

The movement in stockholders' equity came from the net income generated during the first three months of 2014. Book value per share stood at P5.76 per share, up from P5.54 at start of the year.

Liquidity and Capital Resources

The Company obtains majority of its working capital and capital expenditure requirements from cash generated by retailing operations and franchising activities and short-term borrowings under the revolving facility extended by banks

PSC believes that operating activities and available working capital sources will provide sufficient liquidity in 2014 as it continues to expand its store base. This will enable the Company to fund its capital expenditures, pay dividends and other general corporate purposes.

Management believes that this trend will be favorable in the long term, as rate of store expansion will be entering a more rapid stage augmented by improving economic outlook and prevailing positive investor sentiment in the country.

The following are the discussion of the sources and uses of cash in 2013.

Cash Flows from Operating Activities

Net cash generated from operating activities at the end of Q1 totaled to P11.0 million, which is lower compared with cash inflow during same period last year due to decrease in net income and reduction in working capital resulting from settlement of payables and increase in current assets.

The Company expects that its ability to generate free cash flow will be further strengthened this year. This will be driven by new store openings same store sales growth and increase in other income.

Cash Flows from Investing Activities

Net cash used in investing activities during first quarter, primarily for capital expenditures, rose by 11.4% to about P230.7 million. Major cash outlay went to new store constructions and renovations and acquisition of new equipment to support new product lines. New store opened in Q1 totaled to 43 stores.

This year we continued with the roll out a new look for our stores, which features softer lighting, earthier tones, and increased dining space, in addition to being more energy efficient. Starting 2012, all new stores were built to this standard, which requires slightly more capital expenditure but is more profitable in the long run. We have also renovated close to 100 stores to date, and will be renovating more as they come due.

Cash Flows from Financing Activities

Net cash used in financing activities reached P3.7 million representing net avilment and payments of bank and interest paid on outstanding bank loans. In the second quarter, the Company will pay P0.30 per share as cash dividends to holders of common shares of the Corporation totaling to P137.5 million. The dividends that will be paid correspond to about 20% of 2013 net income. This payout ratio is in line with the previous years.

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

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

Discussion 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 from merchandise sales corresponds to the retail sales of corporate owned stores plus sales to franchised stores.
- ***Net Income Margin***
Measures the level of recurring income generated by continuing operations relative to revenues and is calculated by dividing net income over revenue from merchandise sales.
- ***EBITDA Margin***
The ratio of earnings before interest, taxes, depreciation and amortization over revenue from merchandise sales. This measures the level of free cash flow generated by retail operations and is a main indicator of profitability.
- ***Return on Equity (ROE)***
The amount of net income returned as a percentage of equity. ROE measures profitability by revealing how much profit a company generates with the money shareholders have invested. This is computed by dividing net income over average equity.

Financial Summary	For the Quarter Ended March 31,		
	2014	2013	% Change
Store count	1,049	847	23.8
Corporate	32%	34%	
Franchise	68%	66%	
Sales of all stores	4,430.0	4,155.3	6.6
Revenue from merchandise sales	3,611.4	3,442.9	4.9
Operating income	146.6	167.7	-12.6
Net income	100.0	113.9	-12.2
Earnings per share	0.22	0.25	-12.2
EBITDA	340.6	320.1	6.4
EBITDA%	9.4%	9.3%	1.5
EBIT%	4.1%	4.9%	-16.7
Net income%	2.8%	3.3%	-16.3
ROE	29.4	31.0	-5.2

* Amount in Php million except EPS and store data

** Margin is calculated based from revenue from merchandise sales

System wide sales generated by all 7-Eleven stores continued with its upward trajectory by posting growth of 6.6% to P4.4 billion by the end of the first quarter of the current year.

At the end of the quarter, 7-Eleven stores in the Philippines totaled to 1,049, up by 202 stores or 23.8 percent from same period in 2013.

EBITDA margin improved to 9.4% of revenue from merchandise sales from 9.3% during the same period last year.

Operating (EBIT) margin and net income margin dropped to 4.1% and 2.8%, respectively, due to lower same store sales during the quarter.

ROE is pegged at 29.4 %, down from 31.0% in 2013.

Financial Soundness Indicator

First Quarter	Formula	2014	2013
Liquidity Ratio			
Current ratio	Current Assets/Current Liabilities	0.84	0.82
Quick ratio	Cash + Receivables/Current Liabilities	0.37	0.32
Financial Leverage			
Debt ratio	Total Debt/Total Assets	0.55	0.59
Debt to equity ratio	Total Debt/Total Equity	1.21	1.41
Interest coverage	EBIT/Interest charges	39.79	33.19
Asset to equity ratio	Total Assets/Total Equity	2.21	2.41

First Quarter	Formula	2014	2013
Profitability Ratio			
Gross profit margin	Gross profit/Revenue from merchandise sales	23.31%	24.15%
Net profit margin	Net income/Revenue from merchandise sales	2.77%	3.31%
Return on assets	Net income/Total Assets	14.31%	12.01%
Return on equity	Net income/Average Equity	29.43%	31.02%
Price/earnings ratio	Stock price (end of quarter)/EPS LY	66	93

Discussion and Analysis of Material Events and Uncertainties

1. There are no known trends, events and uncertainties that will have a material impact on liquidity after the balance sheet date.
2. There are no material off-balance sheet transactions, arrangements and obligations of the Company with unconsolidated entities during the reporting period.
3. All of the Company's income was earned in the ordinary course of business.
4. There are no seasonal aspects that have a potentially material effect on the financial statements.
5. The Company's financial risk management objectives and policies are discussed in Note 30 of the December 31, 2013 Notes to Audited Consolidated Financial Statements.
6. There are no other known trends, events and uncertainties that will have a material impact on the Company's liquidity.

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
May 9, 2014



PING-HUNG CHEN
Treasurer and CFO
May 9, 2014



LAWRENCE M. DE LEON
Head
Finance & Accounting Services Division
May 9, 2014