

**PHILIPPINE INTERNATIONAL TRADING CORPORATION**  
**BALANCE SHEET**

**As of December 31, 2013**

(With corresponding figures for 2012)

(In Philippine Peso)

	Notes	2013	2012
<b>ASSETS</b>			
<b><i>Current Assets</i></b>			
Cash and Cash Equivalents	3	4,202,672,535	1,872,913,846
Trade and Other Receivables	4	9,313,961	11,659,234
Inventories, net	5	436,939	436,939
Other Current Assets	6	4,387,337	4,762,005
<b>Total Current Assets</b>		<b>4,216,810,772</b>	<b>1,889,772,024</b>
<b><i>Non-Current Assets</i></b>			
Trade and Other Receivable	7	1,695,851	1,847,333
Property and Equipment, net	8	2,432,349	1,868,195
Investment Property	9	62,858,695	62,858,695
Deferred Tax Assets	10	40,136,971	40,277,499
Other Assets	11	40,745,921	40,745,921
<b>Total Non-Current Assets</b>		<b>147,869,787</b>	<b>147,597,643</b>
<b>TOTAL ASSETS</b>		<b>4,364,680,559</b>	<b>2,037,369,667</b>
<b>LIABILITIES AND EQUITY</b>			
<b><i>Current Liabilities</i></b>			
Trade Payables	12	5,469,715	5,795,111
Customers Deposits Payable	13	4,037,034,779	1,746,913,987
Inter-Agency Payable	14	37,632,225	40,697,622
Other Current Liabilities	15	91,715,957	53,218,113
<b>Total Current Liabilities</b>		<b>4,171,852,676</b>	<b>1,846,624,833</b>
<b><i>Estimated Liability for Employees Benefits</i></b>	16	<b>10,233,090</b>	<b>9,778,834</b>
<b>TOTAL LIABILITIES</b>		<b>4,182,085,766</b>	<b>1,856,403,667</b>
<b>TOTAL EQUITY</b>		<b>182,594,793</b>	<b>180,966,000</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,364,680,559</b>	<b>2,037,369,667</b>

**PHILIPPINE INTERNATIONAL TRADING CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Year Ended December 31, 2013**  
(With Corresponding Figures for 2012)  
(In Philippine Peso)

	Notes	2013	2012
Sales	19.1	7,438,276	55,423,513
Cost of Sales	20	(6,991,591)	(53,082,628)
<b>Gross Profit</b>		<b>446,685</b>	<b>2,340,885</b>
Other operating income and expenses			
Service income	19.2	56,405,617	47,384,288
Commission income	19.3	541,195	1,931,203
Other operating income	21	32,030,060	42,583,877
Selling expenses (Schedule 1)		(48,122,255)	(45,083,871)
Administrative expenses (Schedule 1)		(38,154,284)	(39,957,562)
Other operating expenses (Schedule 1)		(4,135,526)	(4,945,745)
Total other operating income (expenses)		(1,435,193)	1,912,190
<b>Operating income (loss)</b>		<b>(988,508)</b>	<b>4,253,075</b>
Finance Cost	22	(11,510)	(239,567)
<b>Income (loss) before tax</b>		<b>(1,000,018)</b>	<b>4,013,508</b>
Other comprehensive income (loss)			
Gain (loss) on Foreign exchange		3,113,046	(2,438,217)
Collection of Doubtful Account		777,459	510,327
Loss on Sale of Disposed Asset		-	(805,893)
Impairment Loss	23	-	(250,000)
Benefit (charges) from deferred income tax	10,25.1	(135,593)	494,192
<b>NET COMPREHENSIVE INCOME (LOSS)</b>		<b>2,754,894</b>	<b>1,523,917</b>

**PHILIPPINE INTERNATIONAL TRADING CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
For the Year Ended December 31, 2013  
(With Corresponding Figures for 2012)  
(In Philippine Peso)

	Notes	2013	2012
<b>SHARE CAPITAL</b>	<i>17</i>	<b>300,000,000</b>	<b>300,000,000</b>
<b>DEFICIT</b>			
Balance at Beginning of year		(119,034,001)	(119,965,476)
Net Comprehensive Income (Loss)		2,754,894	1,523,917
Expired Minimum Corporate Income			
Tax (MCIT) for 2009 & 2010	<i>25.1</i>	(710,950.00)	(592,442.00)
Dividends paid for Y2012		(415,150.00)	
<b>Balance at End of Year</b>		<b>(117,405,207)</b>	<b>(119,034,001)</b>
<b>EQUITY</b>		<b>182,594,793</b>	<b>180,965,999</b>

**PHILIPPINE INTERNATIONAL TRADING CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2013**  
(With corresponding figures for 2012)  
(In Philippine Peso)

	Notes	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Receipts</b>			
Fund transfer/remittances by client agencies	24	3,476,488,085	1,357,396,340
Interest income on money market placement and bank deposits		26,243,853	44,000,106
Sales and trading services		42,159,920	133,121,456
Performance/security bond		17,321,462	12,494,041
Refund of advances and other expenses		1,183,175	1,529,700
		<b>3,563,396,495</b>	<b>1,548,541,643</b>
<b>Cash Payments</b>			
Payment to suppliers for goods and services		(1,086,176,839)	(1,059,406,440)
Payment for operating expenses		(85,776,062)	(86,293,757)
Payment for duties and taxes		(60,392,474)	(48,563,706)
Payment for terminal leave		(295,041)	(226,436)
		<b>(1,232,640,417)</b>	<b>(1,194,490,339)</b>
<b>Net cash provided by operating activities</b>		<b>2,330,756,078</b>	<b>354,051,304</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of office equipment	8	(997,389)	(128,459)
<b>Net cash used in investing activities</b>		<b>(997,389)</b>	<b>(128,459)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>2,329,758,689</b>	<b>353,922,845</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	3	<b>1,872,913,846</b>	<b>1,518,991,001</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	3	<b>4,202,672,535</b>	<b>1,872,913,846</b>

**PHILIPPINE INTERNATIONAL TRADING CORPORATION**  
**OPERATING EXPENSES**  
**For the Year Ended December 31, 2013**  
(With corresponding figures for 2012)  
(In Philippine Peso)

	SELLING		ADMIN		OTHERS		TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>PERSONNEL EXPENSES</b>								
Salaries and Wages	21,118,523	18,508,914	15,021,150	15,658,007			36,139,673	34,166,921
Personnel Economic Relief Allowance	963,636	949,266	742,626	835,548			1,706,263	1,784,814
Allowance (AO 53)	-	-	-	-			-	-
RATA	2,829,274	2,252,000	1,516,465	1,289,400			4,345,739	3,541,400
Uniform Allowance	205,000	195,000	160,000	185,000			365,000	380,000
Rice Allowance	254,487	252,105	180,845	205,716			435,332	457,821
Directors' Allowance	-	-	112,500	120,000			112,500	120,000
Honoraria	-	-	-	-			-	-
Honoraria	-	3,000	-	-			-	3,000
Year End Bonus	1,827,716	1,749,888	1,280,683	1,510,452			3,108,399	3,260,340
Life/Retirement Insurance Contributions	2,055,968	1,893,716	1,376,647	1,545,914			3,432,616	3,439,630
Pag-ibig Fund Contribution	267,588	248,403	158,965	170,144			426,552	418,547
Philhealth Contributions	167,569	147,213	113,169	120,513			280,738	267,726
Employees' Compensation Contribution	48,250	47,500	37,150	42,000			85,400	89,500
Retirement Benefits	-	-	-	-			-	-
Vacation & Sick Leave Benefits	1,112,641	1,384,009	884,276	1,381,800			1,996,918	2,765,809
Other Personnel Benefits	831,041	603,367	1,035,471	708,695			1,866,511	1,312,062
							-	-
	<b>31,681,693</b>	<b>28,234,381</b>	<b>22,619,948</b>	<b>23,773,189</b>	<b>-</b>	<b>-</b>	<b>54,301,641</b>	<b>52,007,570</b>
<b>PRODUCT/PROJECT DEV'T &amp; MARKETING EXPENSES</b>								
Travel Expenses	1,065,104	970,375	127,728	100,174			1,192,832	1,070,549
Training & Scholarship Expenses	101,728	36,601	705,874	425,843			807,602	462,444
Communication Services	1,172,378	1,142,663	699,356	727,018			1,871,734	1,869,681
Membership Dues & Contribution	237,710	555,128	34,550	39,300			272,260	594,428
Printing Expense	-	-	98,271	-			98,271	-
Advertising Expense	747,182	759,065	1,160,428	396,300			1,907,610	1,155,365
Representation Expenses	1,522,715	1,655,822	614,674	554,377			2,137,390	2,210,199
Consultancy Expense	34,483	252,874	1,270,690	690,230			1,305,172	943,104
Insurance Expense	942,300	758,111	48,901	164,440			991,201	922,551
	<b>5,823,600</b>	<b>6,130,639</b>	<b>4,760,472</b>	<b>3,097,682</b>	<b>-</b>	<b>-</b>	<b>10,584,072</b>	<b>9,228,321</b>

	SELLING		ADMIN		OTHERS		TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>OCCUPANCY EXPENSES</b>								
Supplies and Materials	1,838,638	1,625,928	900,179	850,119			2,738,817	2,476,047
Fuel, Oil and Lubricants	462,068	534,999	149,222	130,867			611,290	665,866
Water Expense	112,444	125,683	118,624	151,256			231,068	276,939
Electricity Expense	907,331	1,014,488	1,436,011	1,717,728			2,343,342	2,732,216
Rent	2,902,926	3,071,684	3,570,390	3,872,162			6,473,316	6,943,846
General/Janitorial Services	873,032	794,843	1,143,669	1,069,657			2,016,702	1,864,500
Security Services	761,503	713,429	1,011,014	969,101			1,772,517	1,682,530
Repairs and Maintenance	235,483	220,683	462,025	616,554			697,509	837,237
Repairs and Maintenance-Land Transport	236,327	320,147	100,802	854			337,129	321,001
	<b>8,329,753</b>	<b>8,421,884</b>	<b>8,891,937</b>	<b>9,378,298</b>		-	<b>17,221,690</b>	<b>17,800,182</b>
<b>OTHER EXPENSES</b>								
Auditing Services	-	-	-	-	4,135,526	4,945,745	4,135,526	4,945,745
Donations	-	-	-	-			-	-
Legal Services	680	118,440	427,945	415,000			428,625	533,440
Brokers Fee	54,250	126,031	-	-			54,250	126,031
Other Professional Services	805,718	893,965	-	-			805,718	893,965
Extraordinary Expense	-	-	128,456	21,500			128,456	21,500
Taxes, Duties and Licenses	1,249,827	974,842	43,199	32,293			1,293,026	1,007,135
Other Maintenance & Operating Expense	(10)	8,007	-	9,045			(10)	17,052
Doubtful Accounts Expense	-	12,337	117,101	48,563			117,101	60,900
Depreciation - Property and Equipment	176,744	163,345	221,035	230,556			397,779	393,901
Tax Expense	-	-	944,191	2,951,436			944,191	2,951,436
	<b>2,287,209</b>	<b>2,296,967</b>	<b>1,881,927</b>	<b>3,708,393</b>	<b>4,135,526</b>	<b>4,945,745</b>	<b>8,304,662</b>	<b>10,951,105</b>
<b>TOTAL</b>	<b>48,122,255</b>	<b>45,083,871</b>	<b>38,154,284</b>	<b>39,957,562</b>	<b>4,135,526</b>	<b>4,945,745</b>	<b>90,412,065</b>	<b>89,987,178</b>

**PHILIPPINE INTERNATIONAL TRADING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

(All amounts in Philippine Peso unless otherwise stated)

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**1. CORPORATE INFORMATION**

The Philippine International Trading Corporation (PITC), a line corporate agency attached to the Department of Trade and Industry (DTI), is a chartered government-owned and controlled corporation created on July 21, 1973 by virtue of Presidential Decree (PD) No. 252 as amended by P.D. 1071 on January 25, 1977. Following several amendments to its corporate charter in the 1980's, PITC became a 99.50% subsidiary of National Development Corporation (NDC) with the remaining 0.5% share owned by the Development Bank of the Philippines (DBP).

With a broad mandate as the country's only *state* trading corporation, PITC has over 35 years of professional experience in international trading and trade-related activities. The Corporation has, over the years, embarked on multifarious businesses including exports and special trading arrangements, importation and bulk procurement of commodities and industrial products, cargo consolidation, shipping, bonded warehousing, foreign and domestic procurement and outsourcing services, strategic marketing and joint ventures.

By virtue of E.O. 442 dated July 4, 2005, PITC was designated as the lead coordinating agency to implement the government's vital program to make quality and essential medicines available, affordable and accessible to the public, to include procurement, sourcing and marketing and distribution of essential medicines for Filipino consumers. The operational requirements and administration of this program has, however, been transferred in 2006 to PITC Pharma Inc. (PPI), a SEC-registered subsidiary formed by PITC and NDC.

Today, PITC continues its mandated role to pursue exports of a wide range of consumer products and commodities offering consolidation, production monitoring, quality assurance and related services for foreign buyers. Through its Customs bonded warehouses, PITC provides assistance to accredited local export producers for the importation of their raw material requirements.

The Corporation still plays a key role in the government's price-supply stabilization programs through strategic bulk importation of essential commodities and raw materials. It also administers the countertrade program of the government under E.O. 120 involving the importation or purchase of foreign capital equipment and goods valued at US\$1 Million and over in close collaboration with government agencies and offices.

Over the last few years, PITC has become the procurement agent of choice of many government agencies and offices, providing government clients with timely, cost-efficient and transparent procurement outsourcing services for specialized goods and customized services including, but not limited to security and military supplies and equipment, information technology, communication and power-generating systems, medical and dental supplies, office/industrial design and fittings/ furniture as well as transport and other support services.

The Corporation has embarked on strategic alliances with the private sector, both foreign and domestic, through marketing and dealership arrangements both for specialized goods and services to ensure a viable, competitive and reliable supply base for its programs and projects.

The governing board of PITC is composed of the following:

- Secretary of the Department of Trade and Industry (Chairman)
- The President of the Corporation (Vice-Chairman)
- The General Manager, National Development Corporation
- The Chairman of the Board of Investments
- The Secretary of the Department of Agriculture
- The Secretary of the Department of Environment and Natural Resources
- The Chairman of the Development Bank of the Philippines
- The Secretary General of the National Economic and Development Authority
- The President of Philippine National Bank
- A representative from the Private Sector
- A representative from the Office of the President

As of December 31, 2013, the Corporation has a personnel complement of 95, 57% of which belongs to operations while 43% belongs to the support groups.

The Corporation's registered office which is also its principal place of business is located at the National Development Corporation Building, 116 Tordesillas St., Salcedo Village, Makati City.

The Corporation's official website is [www.pitc.gov.ph](http://www.pitc.gov.ph)

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## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **2.1. Basis of Preparation of Financial Statements**

#### **(a) Statement of Compliance**

The financial statements of the Corporation pertaining to the financial position, results of operations, changes in equity and cash flows as of December 31, 2010 and 2009 are presented in conformity with generally accepted accounting principles in the Philippines as set forth in Philippine Financial Reporting Standards (PFRSs). The PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

#### **(b) Basis of Measurement**

The financial statements were prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense and on the historical cost basis, except for the investment property located in Pangasinan



and the units of PITC at the Manila Luxury Condominium which have been measured at fair value.

(c) Functional and Presentation Currency

The financial statements are presented in Philippine pesos, the Corporation's functional currency, and all values represent absolute amounts except when otherwise indicated.

(d) Change in Accounting Policy

Starting as of January 1, 2009, the Corporation adopted the Revised Philippine Accounting Standard (PAS) 1, Presentation of Financial Statements, which requires that an entity present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in the profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, and each component of income and expense recognized outside of profit and loss classified by nature. An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

As a result, the Corporation presents all items of income and expense recognized in the period in a single statement of comprehensive income.

Comparative information has been re-presented to conform with the revised standard. The change in accounting policy only impacts presentation aspects.

## **2.2. Separate Financial Statements and Investments in Subsidiaries**

The financial statements include the accounts of the Head Office and four Philippine International Houses (PIHs) located in New York, San Francisco, Munich and Sydney which have ceased operation. However, the books of accounts of the closed PIHs remain open to date. Request to write off the PIHs' accounts was submitted to COA in 1993 and was forwarded to the Congress of the Philippines per 5<sup>th</sup> Endorsement of COA dated 1997. Congress referred the same to the Office of the Ombudsman for required certification that accounts are not subject of any pending case in said Office. As of this date, request is still with the Office of the Ombudsman.

Moreover, the Corporation's investment in its subsidiary, PITC Pharma, Inc., was accounted for in these financial statements at fair value.

These financial statements are prepared as the Corporation's separate financial statements. The Corporation has not presented consolidated financial statements under paragraph 10 of PAS 27 considering that the Corporation's debt or equity securities are not traded in a public market and that the Corporation did not file or is not in the process of filing its financial statements with a securities commission or other regulatory body for the purpose of issuing any class of instruments in a public market.

### **2.3. Financial Assets**

Financial assets include cash, investment in PITC Pharma, Inc (PPI) and loans and receivables.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

- **Loans and Receivables.** Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. They arise when the corporation provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Loans and receivables are presented as Trade and Other Receivables in the balance sheet. Loans and receivables are subsequently measured at cost less impairment losses. Any changes in their value are recognized in profit or loss.

Impairment loss is provided when there is objective evidence that the Corporation will not be able to collect all amounts due to it in accordance with the original terms of the receivables or when investment can no longer be recovered.

### **2.4. Inventories**

At the balance sheet date, inventories are valued at net realizable value. Cost is determined using the specific identification method for general merchandise. The cost include all costs directly attributable to acquisition, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

### **2.5. Property and Equipment**

All property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset ready for use such as freight and installation charges. Expenditures for additions and major improvements are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

<b>Type of Asset</b>	<b>Estimated Useful Life in Years</b>
Office furniture and fixtures	10 years
Communication equipment	10 years
Transportation equipment	7 years
Office and IT equipment	5 years

Leasehold improvements are amortized over the term of the lease.

## **2.6. Investment Property**

The investment property includes the eight condominium units at Manila Luxury Condominium in Pasig City and lands located in Urdaneta, Pangasinan and Lucena City which are all held for capital appreciation to generate income through rental. The carrying amounts recognized in the balance sheet reflect the prevailing market conditions at the balance sheet date except for the Lucena property.

The fair value of the Lucena property is not reliably determinable on a continuing basis, thus, the property was recognized using the cost model in accordance with PAS 16 and paragraph 53 of PAS 40. The Corporation can measure one of the investment property using the cost model and shall continue to account for each of the remaining investment property using the fair value model in accordance with paragraph 54 of PAS 40. However, as the standard emphasized, the Corporation shall apply PAS 16 to the Lucena property until its disposal.

Expenditures incurred after the real property has been put into operation are normally charged against current operation in the period in which costs are incurred.

## **2.7. Financial Liabilities**

Financial liabilities include trade and other payables and due to related parties. These are recognized at their nominal value.

Financial liabilities are recognized when the Corporation becomes a party to the contractual agreement of the instrument. Interest and related charges are recognized as an expense in the income statement under the caption Finance Cost.

## **2.8. Provisions**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. In those cases when the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

## **2.9. Revenue and Expense Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- Sale of goods – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.
- Rendering of services – Revenue earned from services rendered as an alternate procurement partner of government entities is recognized by reference to the stage of completion of services. The stage of completion is determined by the progress of delivery of goods and services as evidenced by the certificate of acceptance by the procuring entities.
- Interest – Revenue is recognized as the interest accrues except for interest income on loans of delinquent borrowers specifically those with restructured accounts. Recognizing interest income therefrom would only result in unrealized revenue, hence, overstatement of revenues. Interest income is recognized upon collection or receipt of funds, unless duly adjudicated by a proper court.

Revenue is measured by reference to the fair value of consideration received or receivable by the Corporation for goods supplied and services provided, excluding value added tax (VAT) and trade discounts.

Cost and expenses are recorded on an accrual basis and are recognized in the statement of income upon utilization of the service or at the date they are incurred. Expenditure is recognized and charged against the related revenue when recognized. Finance costs are reported on accrual basis.

## **2.10. Lease**

The Corporation accounts for its leases as follows:

### **(a) Corporation as Lessee**

Leases, which do not transfer to the Corporation substantially all risks and benefits of ownership of the leased assets are classified as operating leases. Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### **(b) Corporation as Lessor**

Leases, which do not transfer to the Lessee substantially all risks and benefits of ownership of the asset are classified as operating lease. Lease income from operating leases is recognized as income in the statement of income on a straight-line basis over the lease term. Indirect costs incurred by the Corporation in negotiating and arranging for an operating lease is recognized as expense over the lease term.

## **2.11. Employee Benefits**

Under PAS 19 – Employee Benefits, an entity is required to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

The short-term employee benefits include items such as:

- (a) Wages, salaries and social security contributions; and**
- (b) Short-term compensated absences (such as paid annual leave and paid sick leave) where the absences are expected to occur within 12 months after the end of the period in which the employees render the related employee service.**

Accounting for short-term employee benefits is generally straightforward because no actuarial assumptions are required to measure the obligation or the cost and there is no possibility of any actuarial gain or loss. Moreover, short-term employee benefit obligations are measured on an undiscounted basis.

### **2.11.1. Terminal leave pay**

When an employee has rendered service to an entity during an accounting period, the Corporation shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

Moreover, the Corporation shall recognize the expected cost of short-term employee benefits in the form of compensated absences in the case of accumulating compensated absences, when the employees render service that

increases their entitlement to future compensated absences. An entity may compensate employees for absence for various reasons including vacation, sickness and short-term disability, maternity or paternity. Entitlements to accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full.

The Corporation measured the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated as of the balance sheet date.

The liability recognized in the balance sheet refers to the money value of the accumulated vacation and sick leave credits, 50 percent to 90 percent of which can be monetized pursuant to Civil Service Memorandum Circular No. 31, s. 1991 implementing Joint Civil Service Commission – Department of Budget and Management Circular No. 1, s. 1991 as amended by Joint CSC-DBM Circular No. 2-97, s. of 1997 and Executive Order 291.

## **2.12. Income Taxes**

Current income tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statement of income.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset will be utilized.

Deferred 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.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged to equity are charged or credited directly to equity.

## **2.13. Equity**

Capital stock is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as disclosed in the statement of income.

### 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2013	2012
Cash on hand	1,885,995,627	287,113
Cash in banks	48,582,922	177,648,790
Cash in banks - other agencies	704,955,182	161,155,837
Time deposits	1,563,138,804	1,533,822,106
<b>Total Cash and cash equivalents</b>	<b>4,202,672,535</b>	<b>1,872,913,846</b>

The Cash on hand consists primarily of undeposited collections and cash held by the Disbursing Officers. Cash in banks generally earn interest at rates based on daily bank deposit rates.

Short-term placements are made for varying periods between 31 to 91 days. Time deposits are short-term highly liquid dollar and peso investments with Development Bank of the Philippines and Landbank of the Philippines with original maturities of three months or less with an effective interest rate ranging from 1.0525percent to 1.35 percent as of December 31, 2013 and from 1.65000 percent to 3.65625 percent as of December 31, 2012.

Foreign currency deposits are translated to Peso amounts using the exchange rate of P44.414:US\$1 and P0.4239:¥1 as of December 31, 2013 and P41.192:US\$1 and P0.4787:¥1 as of December 31, 2012.

The Cash and cash equivalents include funds in trust by different government agencies for the procurement of various items as shown hereunder:

	2013	2012
Dept of Social Welfare & Development	1,781,805,670	12,621,411
Philippine Army	1,179,986,119	734,796,447
Office for Transportation Security	206,369,835	
Manila Bay Coordinating Office	195,493,087	
Advance Science & Tech Institute	106,256,303	313,721,764
Info & Comm Tech Office/NCC	74,409,761	
Dept of Environment & Natural Resources	57,183,124	59,419,267
Philippine Air Force	53,643,897	81,435,756
Environmental Mgmt Bureau	45,114,755	54,799,702
Bureau of Jail Management & Penology	43,479,353	70,734,268

Armed Forces of the Philippines	42,226,848	43,658,204
National Computer Center	41,387,872	144,638,281
Bureau of Corrections	35,607,401	53,056,423
Philippine Navy	35,280,772	39,134,071
Philippine Drug Enforcement Agency	35,085,564	11,566,625
National Economic Development Authority	22,728,031	27,284,313
Dept of Trade & Industry – Region IV A	18,622,688	
Phil. Center for Economic Development	11,767,835	18,398,567
Department of National Defense	10,319,483	10,319,835
Dept of Trade & Industry – Region X	7,610,925	
Dept of Trade & Industry – Region VIII	6,517,536	
Dept of Trade & Industry	4,915,765	6,050,850
Dept of Foreign Affairs	4,779,420	
Dept of Trade & Industry – Region IX	3,215,616	
Philippine Trade & Training Center	2,715,815	9,108,897
Board of Investments	2,395,863	12,857,546
Early Childhood Care & Devt Council	1,576,175	
Dept of Trade & Industry – Region III	1,555,233	
Department of Health	818,131	2,448,873
Phil. Marine Corps	623,760	623,760
Finance Service Unit-Marine Barracks	388,008	1,748,444
Build-Operate-Transfer Center	91,205	91,205
Information & Communication Tech Office	15,258	
Product Development & Design Center Phils	-	2,000,000
Rental Deposits on Condominium	1,050,576	1,045,887
Other Customers Deposits	1,997,095	2,524,460
	<b>4,037,034,779</b>	<b>1,746,913,987</b>

#### 4. TRADE AND OTHER RECEIVABLES - NET

This account consists of the following:

	2013	2012
Accounts receivable - trade – net	3,414,031	4,700,923
Accounts receivable - trade related-net	511,174	1,537,157
Accounts receivable - others	5,388,756	5,421,154
<b>Trade and other receivables – net</b>	<b>9,313,961</b>	<b>11,659,234</b>



#### 4.1. ACCOUNTS RECEIVABLE - TRADE - NET

This account consists of receivable from:

	2013	2012
Domestic sales	67,091,398	67,607,114
Service fees and other charges	13,502,086	14,376,303
Export sale and import commissions	4,134,055	4,108,494
Freight and other charges	601,438	601,438
	85,328,977	86,693,349
Allowance for doubtful accounts	(81,914,946)	(81,992,426)
<b>Accounts receivable - trade – net</b>	<b>3,414,031</b>	<b>4,700,923</b>

The composition of Accounts receivable – trade, net of Allowance for doubtful accounts of business units are shown below:

	2013	2012
Countertrade	2,955,597	2,600,773
Logistics	405,806	1,634,848
Exports	52,628	27,067
Government procurement	-	438,235
	<b>3,414,031</b>	<b>4,700,923</b>

The details of Domestic sales are as follows:

	2013	2012
Government procurement	34,109,697	34,526,681
Pharmaceutical business	21,565,264	21,663,996
Cement sales	9,221,202	9,221,202
PAL facilities	1,100,997	1,100,997
Rattan furniture exports	1,094,238	1,094,238
<b>Total Domestic sales</b>	<b>67,091,398</b>	<b>67,607,114</b>

Accounts receivable from pharmaceutical business consist mainly of accounts of various Local Government Units (LGUs) which PITC finds difficult to collect despite several collection letters sent in previous years due to: a) lack of documents not turned over to PITC by the former distribution provider, and b) non-recognition of the receivables by the concerned LGUs because of changes in leadership and for the same reason of lack of documents.

Legal cases were filed against some delinquent debtors (Note 27C).

#### 4.2. ACCOUNTS RECEIVABLE – TRADE RELATED

This account is composed of the following:

	2013	2012
Financial assistance granted to suppliers	2,668,000	2,668,000
Rental of Condominium units	63,969	69,399
Miscellaneous	681,612	1,777,365
	3,413,581	4,514,764
Allowance for doubtful accounts	(2,902,407)	(2,977,607)
<b>Accounts receivable - trade related – net</b>	<b>511,174</b>	<b>1,537,157</b>

The financial assistance granted to suppliers of P2,668,000 pertains to the balance of loan granted in 2008 and 2009 to contractor, Strong Union Multi-Purpose Cooperative (SUMCO) to fund its contract with the Department of Education for the manufacture and supply of school furniture. SUMCO's obligation with DepEd were not completed and supplier failed to pay its loan with PITC. Civil case against supplier was filed on September 19, 2011 with Makati City RTC Branch 147. The entire amount was provided with allowance for doubtful account.

Miscellaneous receivable includes advances/mobilization fee granted to contractors and deposit to Department of Budget and Management (DBM) for purchase of office supplies. It also includes receivable from resigned employees who were not yet cleared with the corporation and from others like the janitors and security personnel.

#### 4.3. ACCOUNTS RECEIVABLE – OTHERS

This account covers the following:

	2013	2012
Receivable from BIR	1,757,847	1,555,956
Accrued Interest on short-term placements	1,984,406	1,364,517
Due from officers and employees	1,646,503	2,500,681
<b>Total Accounts receivable – others</b>	<b>5,388,756</b>	<b>5,421,154</b>

The receivable from BIR pertains to the excess input tax carry-over.

Due from Officers and employees include receivables for the following charges:

	2013	2012
Health Card (HMO)	1,015,096	1,562,586
Advances from Gratuity Pay	558,039	617,100
Cash Advance (travel/others)	47,466	292,847
PARIS	25,706	27,516
Telephone charges	196	632
<b>Total</b>	<b>1,646,503</b>	<b>2,500,681</b>

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**5. INVENTORIES - NET**

This account consists of the following merchandise for sale:

	<b>2013</b>	<b>2012</b>
Garments	168,903	168,903
Gifts and Housewares	163,557	163,557
Footwear and Fashion Accessories	14,993	14,993
Others	89,486	89,486
<b>Total</b>	<b>436,939</b>	<b>436,939</b>

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**6. OTHER CURRENT ASSETS**

This account pertains mainly to the Prepaid income tax consisting of the unexpired portion of Minimum Corporate Income Tax for years 2011-2013 amounting to P2,805,926; prepaid income tax carry over from excess creditable withholding tax certificates amounting to 1,526,660 and other prepayments of P54,751.

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**7. NON-CURRENT TRADE AND OTHER RECEIVABLES**

This account pertains to deposits with third Parties representing deposits for leased property, public utilities and others.

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**8. PROPERTY AND EQUIPMENT - NET**

The details of the account are shown below:

	<b>Leasehold improvement</b>	<b>Furniture / equipment and machinery</b>	<b>Motor vehicles</b>	<b>Total</b>
<b>Cost</b>				
Balance, January 1, 2013	1,272,161	13,970,792	4,881,490	20,124,443
Additions	-	961,933	-	961,933
Disposals / Reclassification	-	-	-	-
Balance, December 31, 2013	1,272,161	14,932,725	4,881,490	21,086,376
<b>Accumulated Depreciation</b>				
Balance, January 1, 2013	850,334	12,530,114	4,875,800	18,256,248
Additions	42,921	354,859	-	397,780
Disposals / Reclassification	-	-	-	-
Balance, December 31, 2013	893,255	12,884,972	4,875,800	18,654,027
<b>Net Book Value, December 31, 2013</b>	<b>378,906</b>	<b>2,047,753</b>	<b>5,690</b>	<b>2,432,349</b>
<b>Net Book Value, December 31, 2012</b>	<b>421,826</b>	<b>1,440,678</b>	<b>5,690</b>	<b>1,868,195</b>

## 9. INVESTMENT PROPERTY

The Investment property includes land and condominium units which are held for capital appreciation. The carrying amounts recognized in the balance sheet reflect the fair values based on appraisal conducted in 2009 except for the property in Lucena City which is stated at cost. The investment includes the following:

	2013	2012
Manila Luxury Condominium units	51,240,000	51,240,000
Lot in Urdaneta Pangasinan	11,474,648	11,474,648
Lot in Lucena City	144,047	144,047
<b>Total Investment property</b>	<b>62,858,695</b>	<b>62,858,695</b>

- a) The eight residential units in the Manila Luxury Condominium located at Pasig City were acquired through swap deal arrangement entered in 1991 as payment for sale of cement. The details of the property are:

Unit No.	Area (sq.m)	Appraised value
1. 203	181.00 @ Ph30,000 / sq.m.	5,430,000
2. 204	176.20	5,290,000
3. 402	176.20	5,290,000
4. 603	181.00	5,430,000
5. 1004	176.20	5,290,000
6. 1203	181.00	5,430,000
7. 1402	176.20	5,290,000
8. P-4	354.68	10,640,000
9. Parking (9 slots)	12.50/slot @ P350,000 / slot	3,150,000
<b>Total Appraised value – Manila Luxury condominium</b>		<b>51,240,000</b>

- b) The land located in the province of Pangasinan with total cost of P7.217 million and an aggregate lot area of 5,339 square meters (4 contiguous lots) was acquired in 1997 through foreclosure sale in settlement of long outstanding account. In 2011, one (1) lot with an area of 750 sq. meters was disposed through sale. The appraised value of the property per latest appraisal review report of the Commission on Audit (COA) dated March 07, 2011 and CAL-FIL Appraisal and Management Inc. dated January 15, 2010 are as follows:

Lot No. / Area	2011 (COA)	2010 (CAL-FIL)
Lot A – 2,339 sq.m.	6,081,400	5,848,595
Lot C – 750 sq.m.	1,950,000	1,875,350
Lot D – 1,500 sq.m.	3,900,000	3,750,703
<b>Total Appraised value – Urdaneta lot</b>	<b>11,931,400</b>	<b>11,474,648</b>

The parcel of land located in Lucena City with an area of 1,040 square meters and costing P144,047 was acquired from a debtor through Dacion en Pago in settlement of his account.

## 10. DEFERRED TAX ASSETS

	Carrying Amount	Future Taxable Amount	Future Deductible Amount	Tax Base	Taxable Temporary Difference	Deductible Temporary Difference
<b>December 31, 2013</b>						
Cash and Cash Equivalents	4,202,672,535	-	-	4,202,672,535	-	-
Trade and Other Receivables	9,313,961	-	84,817,353	94,131,314	-	84,817,353 [1]
Due from Subsidiaries/Affiliates	-	-	16,159,459	16,159,459	-	16,159,459 [1]
Inventories	436,939	-	-	436,939	-	-
Other Current Assets	4,387,337	(54,751)	-	4,332,586	54,751 [2]	-
<b>Total Current Assets</b>	<b>4,216,810,772</b>	<b>(54,751)</b>	<b>100,976,812</b>	<b>4,317,732,833</b>	<b>54,751</b>	<b>100,976,812</b>
Trade and Other Receivables	1,695,851	-	80,000	1,775,851	-	80,000
Property and Equipment, net	2,432,349	-	-	2,432,349	-	-
Investment Property	62,858,695	-	-	62,858,695	-	-
Investment in PITC Pharma, Inc.	-	-	22,500,000	22,500,000	-	22,500,000 [3]
Deferred Tax Assets	-	-	-	-	-	-
Other Assets	40,745,921	-	-	40,745,921	-	-
<b>Total Non-Current Assets</b>	<b>107,732,816</b>	<b>-</b>	<b>22,580,000</b>	<b>130,312,816</b>	<b>-</b>	<b>22,580,000</b>
Trade Payable	5,469,715	-	-	5,469,715	-	-
Guaranty Deposits Payable	4,037,034,779	-	-	4,037,034,779	-	-
Inter-agency Payable	37,632,225	-	-	37,632,225	-	-
Other Current Liabilities	91,715,957	-	-	91,715,957	-	-
Estimated Liability for	-	-	-	-	-	-
Employees' Benefits	10,233,090	-	10,233,090	-	-	10,233,090
<b>Total Liabilities</b>	<b>4,182,085,766</b>	<b>-</b>	<b>10,233,090</b>	<b>4,171,852,676</b>	<b>-</b>	<b>10,233,090</b>
Share Capital	300,000,000	-	-	300,000,000	-	-
<b>Total Stockholders Equity</b>	<b>300,000,000</b>	<b>-</b>	<b>-</b>	<b>300,000,000</b>	<b>-</b>	<b>-</b>
<b>Total Temporary Difference</b>					<b>54,751</b>	<b>133,789,902</b>
<b>Deferred Tax</b>					<b>30%</b>	<b>30%</b>
<b>Liability</b>					<b>(16,425)</b>	
<b>Assets</b>						<b>40,136,971</b>
<b>Beginning balances</b>					<b>(21,359)</b>	<b>40,277,498</b>
<b>Adjustments</b>					<b>4,934</b>	<b>(140,527)</b>
<b>TOTAL BENEFITS (CHARGES) FROM DEFERRED INCOME TAX</b>						<b>(135,593)</b>

[1 Allowance for doubtful accounts

[2 Prepayments

[3 Allowance for Decline in Value of Investment

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**11. OTHER ASSETS**

This account consists of the following:

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	<b>2013</b>	<b>2012</b>
Receivables from Gold Loop Properties Inc. (GLPI)	32,815,775	32,815,775
Commission on Audit (COA) disallowances	7,220,405	7,220,405
Investment in stocks	689,300	689,300
Books	20,441	20,441
<b>Total</b>	<b>40,745,921</b>	<b>40,745,921</b>

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Receivables from GLPI arose from the sale of cement in 1991. The account for P25.724 million is under a swap deal for 1,333.925 metric tons of cement sold by PITC to GLPI vis a vis condominium units owned by GLPI.

PITC has physical possession of the nine condominium units but without the title to the property. PITC has obtained favorable decision from the Housing and Land Use Regulatory Board (HLURB) for transfer of titles of the property, which was upheld by the Office of the President, Malacañang on January 7, 2000. Both the Court of Appeals and the Supreme Court have denied the appeals filed by GLPI and last August 2, 2002, the favorable decision by the Supreme Court became final, and PITC is now awaiting the remand of the records to the HLURB.

Collection of proceeds on another account of GLPI for P7.092 million was resolved with finality by the Supreme Court with the issuance of an entry of judgment. However, since the property is co-owned only by GLPI with Ms. Zapanta, in case PITC consolidates ownership, it will merely co-own the property with Ms. Zapanta. PITC may wish to consider any offer from GLPI to re-purchase the assets from PITC.

The COA disallowances are as follows:

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	<b>2013</b>	<b>2012</b>
Foreign Travel Rates	863,198	863,198
Penalties on Late Deliveries	742,350	742,350
Honoraria and Others	586,441	586,441
Discretionary Expense	132,085	132,085
Telephone/Cellfone Charges	3,601	3,601
Disallowances of 1982 and 1983	4,892,730	4,892,730
<b>Total COA disallowances</b>	<b>7,220,405</b>	<b>7,220,405</b>

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Considering that most of the accounts due were incurred/disallowed as far back as 1982 to 1983, Management needs the documents to support these disallowances before collections from the concerned persons/employees can be pursued. All original and supporting documents were forwarded to COA in those years.

Investment in stocks consists of the following:

	<b>2013</b>	<b>2012</b>
Center for International Trade Expositions and Missions (CITEM)	625,000	625,000
Philippine Long Distance Telephone (PLDT)	64,300	64,300
Export and Industry Bank	-	250,000
<b>Total Investment in stocks</b>	<b>689,300</b>	<b>939,300</b>
Allowance for Decline in Value of Invst with EIBI	-	(250,000)
<b>Total Investment in stocks</b>	<b>689,300</b>	<b>689,300</b>

Investment with Export and Industry Bank (EIBI) and its corresponding Allowance for Decline in Value of investment was closed due to the closure order by Bangko Sentral ng Pilipinas of EIBI in April 2012 because of problems on liquidity and letter/advise from Philippine Deposit Insurance Corporation that the chance of recovering our capital contribution/shares of stock with EIBI is *nil*.

## **12. TRADE PAYABLES**

This account consists of unpaid charges and purchases from suppliers of items for sale of the following PITC business units:

	<b>2013</b>	<b>2012</b>
Pharmaceuticals	4,961,624	5,102,655
Government Procurement	263,664	330,713
OTOP/Tindahang Pinoy	177,276	220,127
Exports	67,151	141,616
<b>Total Trade payables</b>	<b>5,469,715</b>	<b>5,795,111</b>

## **13. CUSTOMERS DEPOSITS PAYABLE**

Comprising this account are the following:

	<b>2013</b>	<b>2012</b>
<b>Fund Transfer by client agencies</b>		
Dept of Social Welfare & Development	1,781,805,670	12,621,411
Philippine Army	1,179,986,119	734,796,447
Office for Transportation Security	206,369,835	
Manila Bay Coordinating Office	195,493,087	
Advance Science & Tech Institute	106,256,303	313,721,764

Info & Comm Tech Office/NCC	74,409,761	
Dept of Environment & Natural Resources	57,183,124	59,419,267
Philippine Air Force	53,643,897	81,435,756
Environmental Mgmt Bureau	45,114,755	54,799,702
Bureau of Jail Management & Penology	43,479,353	70,734,268
Armed Forces of the Philippines	42,226,848	43,658,204
National Computer Center	41,387,872	144,638,281
Bureau of Corrections	35,607,401	53,056,423
Philippine Navy	35,280,772	39,134,071
Philippine Drug Enforcement Agency	35,085,564	11,566,625
National Economic Development Authority	22,728,031	27,284,313
Dept of Trade & Industry – Region IV A	18,622,688	
Phil. Center for Economic Development	11,767,835	18,398,567
Department of National Defense	10,319,483	10,319,835
Dept of Trade & Industry – Region X	7,610,925	
Dept of Trade & Industry – Region VIII	6,517,536	
Dept of Trade & Industry	4,915,765	6,050,850
Dept of Foreign Affairs	4,779,420	
Dept of Trade & Industry – Region IX	3,215,616	
Philippine Trade & Training Center	2,715,815	9,108,897
Board of Investments	2,395,863	12,857,546
Early Childhood Care & Devt Council	1,576,175	
Dept of Trade & Industry – Region III	1,555,233	
Department of Health	818,131	2,448,873
Phil. Marine Corps	623,760	623,760
Finance Service Unit-Marine Barracks	388,008	1,748,444
Build-Operate-Transfer Center	91,205	91,205
Information & Communication Tech Office	15,258	
Product Development & Design Center Phils	-	2,000,000
	<u>4,033,987,108</u>	<u>1,743,343,640</u>
Rental Deposits on Condominium	1,050,576	1,045,887
Other Customers Deposits	1,997,095	2,524,460
<b>Total Customers deposits payable</b>	<b>4,037,034,779</b>	<b>1,746,913,987</b>

Fund transfers from the different government agencies were provided for the procurement of various requested items.

Rental deposits on condominium are deposits for office space rental made by tenants of the PITC units at the Manila Luxury and Gold Loop Condominiums.

Other Customers' deposits pertain mainly to the funds of the Bids and Awards Committees in the total amount of 1,489,420 and P2,298,926 as of December 31, 2013 and 2012 respectively



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**14. INTER-AGENCY PAYABLE**

This account consists of liabilities to the following:

	<b>2013</b>	<b>2012</b>
Commission on Audit	14,798,601	12,213,505
Department of Trade & Industry	12,498,597	16,811,175
Bureau of Internal Revenue	8,631,357	9,520,600
Government Service Insurance System	853,876	854,587
National Development Company	438,626	925,572
Home Development Mutual Fund	290,709	252,424
Office of the Government Corporate Counsel	70,000	70,000
Philippine Health Insurance Corporation	46,300	45,600
National Home Mortgage Finance Corporation	4,159	4,159
<b>Total Inter-agency payable</b>	<b>37,632,225</b>	<b>40,697,622</b>

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**15. OTHER CURRENT LIABILITIES**

This account is composed of the following:

	<b>2013</b>	<b>2012</b>
Contractors' security deposits	12,696,848	9,327,816
Accrued expenses	4,891,148	4,461,624
Payable to officers and employees	46,226	59,719
Payable-others	74,081,735	39,368,954
<b>Total Other current liabilities</b>	<b>91,715,957</b>	<b>53,218,113</b>

Accrued expenses pertain to the Corporation's operational expenses such as salaries and wages, utility charges and rental expenses which were incurred as of the end of the year.

Payable – others pertain mainly to the 10 percent retention withheld from payment to contractors/suppliers which are to be released upon full performance of their contracted obligations.

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**16. ESTIMATED LIABILITY FOR EMPLOYEES' BENEFITS**

This account refers to the money value of accumulated vacation and sick leave credits of PITC employees.

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**17. SHARE CAPITAL**

The authorized capital of PITC is 3,000,000 shares at par value of P100 per share. The account consists of the fully paid shares of the following:

<b>Shareholders</b>	<b>No. of Shares</b>	<b>Amount</b>	<b>Percent</b>
National Development Corporation	2,985,000	298,500,000	99.50
Development Bank of the Phils.	15,000	1,500,000	0.50
<b>Total Share capital</b>	<b>3,000,000</b>	<b>300,000,000</b>	<b>100.00</b>

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**18. REVERSAL OF PROVISION FOR GRATUITY PAY**

The Retirement and Gratuity Benefit (contained in Section 6 of E.O. No. 756 s. 1981, Authorizing the Reorganization of the Philippine International Trading Corporation) was the subject of the Supreme Court decision in "PITC vs. COA", GR. No. 183517, June 22, 2010.

The Supreme Court ruled in favor of the COA – that the said benefit was of a temporary and limited application and should no longer be continued – pursuant to which COA reiterated its recommendation that "management stop the payment and the accrual of liability for retirement benefits computed in accordance with Section 6 of E.O. No. 756 and de-recognize or reverse the amount already accrued closing it to Retained Earnings account."

PITC appealed to the COA that such decision should have prospective application so that only accrued benefits after the finality of the Supreme Court decision (September 27, 2010) should be reversed/de-recognized. In COA Decision 2013-016 dated January 30, 2013, COA denied the appeal of PITC. Hence, PITC has now reversed the amount constituting the accrued gratuity benefits and lodged/closed the same to Retained Earnings, notwithstanding any appeal may be filed by the Corporation on COA Decision 2013-016 pursuant to existing laws and regulations.

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**19. REVENUES****19.1 SALES**

Income from sales of goods was sourced from various transactions as presented hereunder:

	<b>2013</b>	<b>2012</b>
Government Outsourcing	7,240,054	55,181,327
Exports	198,222	238,971
Tindahan Pinoy /OTOP	-	3,215
<b>Total Sales revenue</b>	<b>7,438,276</b>	<b>55,423,513</b>

Sales from Government Outsourcing pertain to the sales of goods where PITC is the supplier on record and issued Sales Invoice to the client/buyer.

## 19.2 SERVICE INCOME

The service income was generated from the following:

	2013	2012
Government Outsourcing/Procurement	43,716,937	36,633,991
CBTW and Warehousing Charges	9,914,559	8,354,381
Tindahanang Pinoy	1,953,214	1,927,614
Countertrade	820,907	465,007
Export	-	3,295
<b>Total Service income</b>	<b>56,405,617</b>	<b>47,384,288</b>

The service income from government outsourcing pertains to the service fees imposed on the procurement processed by PITC in behalf of client government agencies.

## 19.3 COMMISSION INCOME

The Commission income was sourced from indent export sales of goods.

## 20. COST OF SALES

The details of Cost of sales are shown below:

	2013	2012
Merchandise inventory, beginning	436,939	455,601
Add : Purchases during the year	6,991,591	53,063,966
Goods available for sale during the year	7,428,530	53,519,567
Less: Merchandise inventory, ending (Note 5)	436,939	436,939
<b>Total Cost of sales</b>	<b>6,991,591</b>	<b>53,082,628</b>

## 21. OTHER OPERATING INCOME

This account consists of the following:

	2013	2012
Interest income	26,531,852	38,301,661
Rental of condominium units	3,442,009	3,311,875
BAC Income	2,046,971	952,562
Trade financing income	9,228	17,779
<b>Total Other operating income</b>	<b>32,030,060</b>	<b>42,583,877</b>

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**22. FINANCE COST**

This account consists of the following:

<b>Particulars</b>	<b>2013</b>	<b>2012</b>
Bank Charges	11,050	40,018
Documentary Stamps	460	132,534
Interest Expense	-	67,015
<b>Total Finance Cost</b>	<b>11,510</b>	<b>239,567</b>

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**23. IMPAIRMENT LOSS**

This account consists of the following:

	<b>2013</b>	<b>2012</b>
Investment with Export & Industry Bank	-	250,000
<b>Total</b>	<b>-</b>	<b>250,000</b>

Investment with Export and Industry Bank (EIBI) and its corresponding Allowance for Decline in Value of investment was closed due to the closure order by Bangko Sentral ng Pilipinas of EIBI in April 2012 because of problems on liquidity and letter/advise from Philippine Deposit Insurance Corporation that the chance of recovering our capital contribution/shares of stock with EIBI is *nil*.

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**24. FUND TRANSFER/REMITTANCES BY CLIENT AGENCIES**

The funds transferred by client agencies for the procurement of various items consists of the following:

<b>AGENCY</b>	<b>2013</b>	<b>2012</b>
Department of Social Welfare & Development	1,777,828,784	3,879,781
Philippine Army	1,026,291,822	280,962,965
Office for Transportation Security	207,228,480	
Manila Bay Coordinating Office	196,653,190	
Philippine Air Force	150,861,890	96,592,144
Philippine Drug Enforcement Agency	30,557,601	
Philippine Navy	19,838,000	46,457,711
Department of Trade & Industry – Region IVA	18,916,104	
Department of Trade & Industry – Region X	7,685,250	
Phil. Center for Economic Development	7,295,411	6,594,193
Environmental Management Bureau	7,000,000	55,050,000

Advance Science & Technology Institute	6,902,439	562,736,281
Department of Trade & Industry – Region VIII	6,660,000	
Department of Foreign Affairs	4,779,420	
Department of Trade & Industry – Region IX	3,322,464	
Department of Trade & Industry – Region III	1,661,232	
Early Childhood Care & Devt Council	1,576,000	
Phil Trade Training Center	1,000,000	11,315,613
Department of Trade & Industry	429,998	20,358,465
Information & Communication Tech Office	-	111,707,030
Dept of Environment & Natural Resources	-	59,400,000
Bureau of Corrections	-	53,060,597
Armed Forces of the Philippines	-	28,699,983
Board of Investment	-	13,331,577
Bureau of Jail Management & Penology	-	5,250,000
Product Development & Design Center Phils	-	2,000,000
<b>Total funds transferred</b>	<b>3,476,488,085</b>	<b>1,357,396,340</b>

## 25. TAXES

### 25.1 Current and deferred taxes

Pursuant to BIR Revenue Regulation No. 9–98, the corporation is subject to a Minimum Corporate Income Tax (MCIT) of two percent of the Gross Income less Cost of Services or the normal Income Tax Rate, whichever is higher.

As mentioned in Note No. 7, components of the unexpired portion of MCIT pertain to the balances amounting to P1,121,165, P897,451 and P785,916 for 2013, 2012 and 2011 respectively. The expired portion of MCIT for the taxable year 2010 in the amount of 710,950 was closed to Retained earnings account due to its non-application.

The component of the benefit from deferred income tax reported in the income statement and statement of changes in equity relate to the allowance for doubtful accounts and estimated liability for employees' benefits as shown in detail in Note 12.

### 25.2. Recent Tax Regulations

On May 24, 2005, Republic Act No. 9337 (RA 9337), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and became effective beginning on November 1, 2005. The following are the major changes brought about by RA 9337 that are currently relevant to the Corporation:

- (a) Revenue Corporate Income Tax (RCIT) rate was reduced from 32 percent to 30 percent beginning on January 1, 2009 and
- (b) Value Added Tax rate was increased from 10 percent to 12 percent effective on February 1, 2006.

The management complied with all tax requirements of Bureau of Internal revenue such as remittance of monthly withholding tax for expanded, government money payment and VAT, monthly and quarterly VAT and quarterly and annual income tax and licensing/permit requirements of the City Government necessary in the conduct of the business for Year 2013.

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## **26. RELATED PARTY TRANSACTIONS**

The Corporation's related parties include its parent corporation, subsidiary, the Corporation's key management and others as described below.

### **26.1 Due from/to subsidiaries – PITC Pharma, Inc.**

The Corporation provides the utilization of the credit line facilities relative to the importation of pharmaceutical inventory to its subsidiary, PITC Pharma, Inc., and direct expenses incurred in 2007. Goods are purchased on the basis of the price lists in force with non-related parties. The related outstanding payables for goods purchased in 2009 and 2008 are presented as part of Trade and Other Payables account in the Balance Sheet. The related payments are presented in the Statement of Cash Flows.

Full allowance for doubtful account was provided for the total receivable from PPI amounting to P16,159,459. The increasing negative financial position of PPI and the consistent loss since its first year of operation in 2006 indicates uncollectibility of the account.

### **26.2 Investment in PITC PHARMA, INC.**

As a key strategy to develop its pharmaceutical program focusing on the expansion of its Botika ng Bayan accredited retail outlets as well as to strengthen institutional linkages with key government agencies and local government units, PITC and the National Development Corporation (NDC) have agreed to collaborate in the setting up of a corporate vehicle that shall exclusively pursue the government's pharmaceutical program under EO 442 and likewise carry out the business of, among others, sourcing, selling, manufacturing and distributing low cost quality medicines.

On November 9, 2005, the PITC Pharma, Inc., (formerly known as Producer's Venture Capital Corporation) was incorporated per Amended Articles of Incorporation under SEC Corporation Registration No. 99913. Its primary purpose, among others, is to engage in the sourcing, sale and/or distributing of pharmaceutical products and other related commercial ventures thereof.

As evidenced by the Shareholders Agreement, NDC and PITC agreed that the Shareholders shall subscribe to and fully pay the total subscriptions in capital stock of the corporation. PITC investment of P22,500,000 consist of 225,000 shares with PAR value of P100.00

Since its first year of operation in 2006, PPI, however, has incurred consistent loss and has been in a negative financial position from 2007. In view of the increasing

capital deficiency, there is no indication that the investment can be recovered. Thus, allowance for decline in value was provided for the total investment account.

### 26.3 Compensation of Key Management Personnel of the Corporation

The compensation of key management personnel included in the Administrative Expenses in the income statement amounts to 7,371,015 and P6,737,844 for the years 2013 and 2012, respectively, as short-term employee benefits.

Short-term employee benefits include annual salaries, allowances, honoraria, and other non-monetary benefits.

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## 27. LEGAL CASES

### A) As Petitioner

1. PITC vs. Pacific Threshold Corporation

Civil Case No. 94-2266

RTC-Pasig City, Branch 139

CA-G.R. CV 97458, Court of Appeals, Manila

Nature: Specific Performance and Sum of Money

Status: On appeal, the Decision of RTC Br. 139 is reversed and a new one is entered dismissing PITC's complaint against PTC and Cuales for lack of merit. (Decision dated 11-23-12).

OGCC moved for its reconsideration since 17 Jan. 2013. PTC filed its Comment on PITC's MR.

PITC's MR was denied for lack of merit per CA's Resolution dated 30 August 2013.

OGCC filed a Petition for Review on Certiorari to the Supreme Court on 4 October 2013. Awaiting SC Resolution.

2. PITC vs. Hon. Amorfin Cerrado-Cezar and Gerardo B. Kaimo

CA-G.R. SP No. 108805

Court of Appeals

Status: Awaiting SC's Resolution

3. PITC vs. Gold Loop Properties, Inc., et al.

HLRB Case No. REM-A-950330-0042

HLRB, Quezon City

Nature: Execution of a favorable decision

Status: Awaiting HLURB's Decision re: Execution

4. PITC vs. SUMCO, et al.  
Civil Case No. 11-918  
RTC-Makati City, Branch 147  
For Sum of Money  
Status: On April 12, 2013, a Decision was issued in PITC's favor. Motion for Issuance of Writ of Execution filed by OGCC.
  
5. PITC vs. SUMCO and Investors Assurance Corporation  
Civil Case No. 12-164  
RTC-Makati City  
For Sum of Money and Damages  
Status: Case was re-raffled from Branch 133 to Branch 142, RTC, Makati City. PITC given 20 days to submit proof of Defendants' receipt of OGCC's Motion to Declare Defendants' in Default. (order dated 4 October 2013).  
  
OGCC filed Compliance/Manifestation with the Court. Awaiting further order from the Court.

#### **B) As Defendant**

6. Gerardo Kaimo vs. PITC, et al.  
Civil Case No. 69472  
RTC-Pasig City, Branch 67  
Nature: Annulment of Execution Sale  
Status: OGCC filed anew a Motion to Dismiss. Pre-trial Conference scheduled on 19 February 2014.
  
7. System Factors Company vs. PITC  
Civil Case No. 70460  
RTC-Pasig City, Branch 152  
Nature: Recovery of Ownership  
Status: Continuation of hearing set on 6 February 2014.

#### **C) Cases Filed with Decision/Case Closed**

8. Metro Arms Corp. vs. PITC, et al.  
SCA No. 3469-PSG  
RTC-Pasig City, Branch 161  
Nature: Petition for Certiorari  
Status: Order dismissed by the Court of Appeals.  
  
PITC vs. Hon. Nicanor A. Manalo, Jr. and Metro Arms Corp.  
CA-G.R. SP No. 116306  
Court of Appeals  
Nature: Petition for Review  
Status: Decided in favor of PITC ordering SCA pending in RTC-Pasig dismissed.



Metro Arms vs. PITC

SC G.R. 199288

Nature: Certiorari and Injunction with prayer for the issuance of a TRO and/or a Writ of Preliminary Injunction

Legal cases were filed against some debtors which could not be pursued to final conclusion due to the death of the debtors or due to the difficulty in locating the debtor/s or their assets despite efforts to serve summons or letters on them, to wit: .

DEBTOR	AMOUNT OF RECEIVABLE	CASE NO.	STATUS
Meadowlark Supply Center/ Jesus Maglutac & Albert Maglutac	P6,830,062.50	Criminal Case No. 202615 For Violation of BP 22 MTC Branch 61, Makati City	Judgment of conviction but accused Jesus Maglutac died shortly after and PITC attempts to execute on properties in their names futile as assets were previously mortgaged and eventually foreclosed by BPI. Case closed.
Nurisa-Jeg/Isaias Provendido	P5,000,000.00	Civil Case No. 95-086 for collection with Preliminary Attachment	Debtor's property in Butuan City was foreclosed by PITC after execution sale due to the death of the debtor. TCT could not be obtained as no DAR clearance could be obtained. Case closed.
J & F Import Export	P1,892,000.00	Criminal Case No. 148 , MTC Br. Makati	Accused at large/cannot be located at last known address. Case archived.
Felicitas Macalintal	P3,455,176.53	Criminal Case#91-7258, MTC Makati for BP 22	Judgment of conviction but no leviable assets. Case closed.

**CERTIFIED CORRECT BY:**

**APPROVED BY:**

**ESTER A. ILAO**  
OIC, Accounting Department

**MARIA LOURDES T. BAUA**  
President