

PHILIPPINE INTERNATIONAL TRADING CORPORATION
STATEMENT OF FINANCIAL POSITION

As of December 31, 2014

(With corresponding figures for 2013)

(In Philippine Peso)

	Notes	2014	2013
ASSETS			
Current Assets			
Cash and cash equivalents	3	3,393,945,295	4,202,680,713
Trade and other receivables - net	4	13,641,006	9,313,961
Inventories	5	298,704	418,463
Other current assets	6	4,729,951	4,387,337
Total current assets		3,412,614,956	4,216,800,474
Non-Current Assets			
Trade and other receivable	7	1,695,851	1,695,851
Property and equipment - net	8	2,118,742	2,432,349
Investment property	9	60,983,345	62,858,695
Deferred tax assets	10	40,322,245	40,136,971
Other assets	11	40,745,921	40,745,921
Total non-current assets		145,866,104	147,869,787
TOTAL ASSETS		3,558,481,060	4,364,670,261
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables	12	5,452,272	5,469,715
Customers' deposits payable	13	3,255,220,624	4,037,034,779
Inter-agency payable	14	34,383,426	37,632,225
Other current liabilities	15	71,747,621	91,715,957
Total current liabilities		3,366,803,943	4,171,852,676
Estimated liability for employees' benefits	16	10,870,654	10,233,090
TOTAL LIABILITIES		3,377,674,597	4,182,085,766
EQUITY		180,806,463	182,584,495
TOTAL LIABILITIES AND EQUITY		3,558,481,060	4,364,670,261

PHILIPPINE INTERNATIONAL TRADING CORPORATION
STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014

(With corresponding figures for 2013)

(In Philippine Peso)

	Notes	2014	2013
Sales	19.1	6,991,039	7,438,276
Cost of sales	20	(6,081,197)	(6,991,591)
Gross profit		909,842	446,685
Other operating income			
Service income	19.2	60,409,918	56,405,617
Commission income	19.3	482,129	541,195
Other operating income	19.4	27,054,318	32,690,418
Total other operating income		87,946,365	89,637,230
Operating expenses			
Selling expenses (Schedule 1)		45,125,293	48,122,255
Administrative expenses (Schedule 1)		39,306,431	38,037,183
Other operating expenses (Schedule 1)		4,131,962	4,135,526
Total operating expenses		88,563,686	90,294,964
Finance cost	21	54,778	11,468
Operating income (loss)		237,743	(222,517)
Other comprehensive income (loss)			
Gain (loss) on foreign exchange		196,087	3,121,181
Loss on sale of disposed asset		(120,350)	(18,475)
Benefit (charges) from deferred income tax	10, 24.1	192,819	(135,593)
NET COMPREHENSIVE INCOME		506,299	2,744,596

PHILIPPINE INTERNATIONAL TRADING CORPORATION
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2014
(With Corresponding Figures for 2013)
(In Philippine Peso)

	Notes	2014	2013
EQUITY			
SHARE CAPITAL	17	300,000,000	300,000,000
RETAINED EARNINGS (DEFICIT)			
Balance at Beginning of the Year		(117,415,505)	(119,034,001)
Net Comprehensive Income (Loss)		506,299	2,744,596
Expired Minimum Corporate Income Tax for 2009 and 2010	23	(785,916)	(710,950)
Performance Incentive Bonus		(761,000)	-
Cash Dividend Paid for 2012 and 2013		(737,415)	(415,150)
Balance at end of year		(119,193,537)	(117,415,505)
EQUITY		180,806,463	182,584,495

PHILIPPINE INTERNATIONAL TRADING CORPORATION
STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
(With corresponding figures for 2013)
(In Philippine Peso)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash inflows			
Fund transfer/remittances by client agencies	22	1,099,579,661	3,476,488,085
Interest income		25,767,946	26,243,853
Sales and trading services		35,086,510	42,159,920
Performance/security bond		3,650,210	17,321,462
Refund of advances and other expenses		682,134	1,183,175
Total cash inflows		1,164,766,462	3,563,396,495
Cash outflows			
Payment to suppliers for goods and services		(1,805,740,291)	(1,086,168,661)
Payment for operating expenses		(85,710,044)	(85,776,063)
Payment for duties and taxes		(81,642,033)	(60,392,474)
Payment of terminal leave benefits		(378,716)	(295,041)
Total cash outflows		(1,973,471,084)	(1,232,632,239)
Net cash provided by operating activities		(808,704,622)	2,330,764,256
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of office equipment	8	(30,796)	(997,389)
Net cash used in investing activities		(30,796)	(997,389)
NET INCREASE IN CASH AND CASH EQUIVALENTS		(808,735,418)	2,329,766,867
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3	4,202,680,713	1,872,913,846
CASH AND CASH EQUIVALENTS, END OF YEAR	3	3,393,945,295	4,202,680,713

PHILIPPINE INTERNATIONAL TRADING CORPORATION
OPERATING EXPENSES
For the Year Ended December 31, 2014
(With Corresponding figures for 2013)
(In Philippine Peso)

	SELLING		ADMINISTRATIVE		OTHERS		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
PERSONNEL EXPENSES								
Salaries and Wages	19,086,230	21,118,523	16,883,483	15,021,150	-	-	35,969,713	36,139,673
Personnel Economic Relief Allowance	834,273	963,636	804,685	742,627	-	-	1,638,957	1,706,263
Representation and Transportation Allowance	2,787,502	2,829,274	1,683,915	1,516,465	-	-	4,471,417	4,345,739
Uniform Allowance	185,000	205,000	160,000	160,000	-	-	345,000	365,000
Rice Allowance	225,254	254,487	191,845	180,845	-	-	417,098	435,332
Directors' Allowance	-	-	39,750	112,500	-	-	39,750	112,500
Honoraria	-	-	-	-	-	-	-	-
Year-end Bonus	1,595,521	1,827,716	1,436,958	1,280,683	-	-	3,032,479	3,108,399
Life/Retirement Insurance Contributions	1,785,828	2,055,968	1,567,591	1,376,647	-	-	3,353,419	3,432,615
Pag-ibig Fund Contribution	251,464	267,588	193,862	158,965	-	-	445,325	426,553
Philhealth Contributions	143,700	167,569	128,588	113,169	-	-	272,288	280,738
Employees' Compensation Contribution	41,700	48,250	40,400	37,150	-	-	82,100	85,400
Vacation and Sick Leave Benefits	585,382	1,112,641	1,245,507	884,276	-	-	1,830,888	1,996,917
Other Personnel Benefits	334,230	831,041	1,193,802	1,035,471	-	-	1,528,032	1,866,512
	27,856,082	31,681,693	25,570,384	22,619,948	-	-	53,426,466	54,301,641
PRODUCT/PROJECT DEVELOPMENT & MARKETING EXPENSES								
Travel Expenses	2,082,063	1,065,104	342,894	127,728	-	-	2,424,957	1,192,832
Training and Scholarship Expenses	28,957	101,728	887,583	705,874	-	-	916,540	807,602
Communication Services	1,210,453	1,172,378	659,213	699,356	-	-	1,869,665	1,871,734
Membership Dues and Contribution	100,316	237,710	40,780	34,550	-	-	141,096	272,260
Printing Expense	-	-	-	98,271	-	-	-	98,271
Advertising Expense	718,384	747,182	236,885	1,160,428	-	-	955,269	1,907,610
Representation Expenses	1,568,316	1,522,715	373,578	614,674	-	-	1,941,894	2,137,389
Consultancy Expense	-	34,483	799,713	1,270,690	-	-	799,713	1,305,173
Insurance Expense	888,150	942,300	51,274	48,901	-	-	939,424	991,201
	6,596,639	5,823,600	3,391,920	4,760,472	-	-	9,988,558	10,584,072

	SELLING		ADMINISTRATIVE		OTHERS		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
OCCUPANCY EXPENSES								
Supplies and Materials	1,884,234	1,838,639	1,102,133	900,179	-	-	2,986,367	2,738,818
Fuel, Oil and Lubricants	421,256	462,068	189,348	149,222	-	-	610,604	611,290
Water Expense	87,490	112,444	91,256	118,624	-	-	178,746	231,068
Electricity Expense	889,400	907,331	1,502,358	1,436,011	-	-	2,391,758	2,343,342
Rent	3,092,826	2,902,926	3,655,857	3,570,390	-	-	6,748,684	6,473,316
General/Janitorial Services	963,819	873,032	1,174,215	1,143,669	-	-	2,138,034	2,016,701
Security Services	771,316	761,503	1,039,989	1,011,014	-	-	1,811,305	1,772,517
Repairs and Maintenance	443,246	471,800	441,009	562,828	-	-	884,255	1,034,628
	8,553,587	8,329,743	9,196,165	8,891,937	-	-	17,749,753	17,221,680
OTHER EXPENSES								
Auditing Services	-	-	-	-	4,131,962	4,135,526	4,131,962	4,135,526
Donations	-	-	-	-	-	-	-	-
Legal Services	-	680	420,000	427,945	-	-	420,000	428,625
Brokers Fee	53,571	54,250	-	-	-	-	53,571	54,250
Other Professional Services	750,000	805,718	16,518	-	-	-	766,518	805,718
Extraordinary Expense	-	-	7,000	128,456	-	-	7,000	128,456
Taxes, Duties and Licenses	1,146,796	1,249,827	159,664	43,199	-	-	1,306,460	1,293,026
Other Maintenance & Operating Expense	-	-	-	-	-	-	-	-
Depreciation Expense	168,618	176,744	174,041	221,035	-	-	342,659	397,779
Tax Expense	-	-	370,739	944,191	-	-	370,739	944,191
	2,118,985	2,287,219	1,147,962	1,764,826	4,131,962	4,135,526	7,398,909	8,187,571
TOTAL	45,125,293	48,122,255	39,306,431	38,037,183	4,131,962	4,135,526	88,563,686	90,294,964

PHILIPPINE INTERNATIONAL TRADING CORPORATION NOTES TO FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

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 per cent subsidiary of National Development Corporation (NDC) with the remaining 0.5 per cent 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. PITC 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.

PITC 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.

PITC 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:

Chairman	-	Secretary of the Department of Trade and Industry
Vice-Chairman	-	The President of the Corporation
Member	-	The General Manager, National Development Corporation
Member	-	The Chairman of the Board of Investments
Member	-	The Secretary of the Department of Agriculture
Member	-	The Secretary of the Department of Environment and Natural Resources
Member	-	The Chairman of the Development Bank of the

		Philippines
Member	-	The Secretary General of the National Economic and Development Authority
Member	-	Appointive Director (Private Sector)
Member	-	A representative from the Office of the President

As of December 31, 2014, PITC has a personnel complement of 96, of which 52 per cent belongs to operations while 48 per cent belongs to the support groups.

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

The Corporation's official website is www.pitc.gov.ph

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance

The financial statements of PITC pertaining to the financial position, results of operations, changes in equity and cash flows as of December 31, 2014 and 2013 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 are 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, PITC's functional currency, and all values represent absolute amounts except when otherwise indicated.

(d) Change in Accounting Policy

Starting January 1, 2009, PITC 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 at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement.

As a result, PITC 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 in 1987. 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 5th Indorsement 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, PITC's investment in its subsidiary, PITC Pharma, Inc., was accounted for in these financial statements at fair value.

These financial statements are prepared as PITC's separate financial statements. PITC has not presented consolidated financial statements under paragraph 10 of PAS 27 considering that PITC's debt or equity securities are not traded in a public market and that PITC 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 PITC 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 includes 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:

Type of Asset	Estimated Useful Life
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. PITC can measure one of the investment properties 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, PITC 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 PITC 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 PITC and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

- (a) 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.
- (b) 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.
- (c) 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 PITC 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 Comprehensive 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

PITC accounts for its leases as follows:

(a) PITC as Lessee

Leases, which do not transfer to PITC 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 Comprehensive Income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) PITC 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 Comprehensive Income on a straight-line basis over the lease term. Indirect costs incurred by PITC 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.

Terminal leave pay

When an employee has rendered service to an entity during an accounting period, PITC 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, PITC 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.

PITC measures 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 per cent to 90 per cent 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 Comprehensive 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 Comprehensive Income.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2014	2013
Cash on hand	227,307	1,885,995,627
Cash in banks	391,133,016	48,591,100
Cash in banks - other agencies	721,875,617	704,955,182
Time deposits	2,280,709,355	1,563,138,804
Total	3,393,945,295	4,202,680,713

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 2.35 per cent to 1.00 per cent as of December 31, 2014 and from 1.0525 per cent to 1.35 per cent as of December 31, 2013.

Foreign currency deposits are translated to Peso amounts using the exchange rate of P44.617:US\$1 and P0.3706:¥1 as of December 31, 2014 and P44.414:US\$1 and P0.4239:¥1 as of December 31, 2013.

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

	2014	2013
Philippine Army	1,448,430,095	1,179,986,119
Department of Social Welfare and Development	838,533,195	1,781,805,670
Office for Transportation Security	229,353,271	206,369,835
Manila Bay Coordinating Office	149,960,899	195,493,087
Philippine Navy	115,225,413	35,280,772
Dept of Environment and Natural Resource	79,365,546	57,183,124
Advance Science and Technology Institute	68,952,114	106,256,303
Information and Communication Technology Office	37,926,873	74,425,019
Environmental Management Bureau	37,415,533	45,114,755

Armed Forces of the Philippines	36,510,250	42,226,848
Maritime Industry Authority	31,186,958	-
National Computer Center	22,106,095	41,387,872
Department of Trade and Industry	19,291,038	4,915,765
Philippine Drug Enforcement Agency	17,297,566	35,085,564
Bureau of Corrections	14,417,903	35,607,401
Philippine Air Force	13,756,377	53,643,897
Bureau of Jail Management and Penology	11,087,184	43,479,353
Department of National Defense	10,678,061	10,319,483
Department of Trade and Industry – Region IV A	10,426,967	18,622,688
Philippine Military Academy	7,462,642	-
Philippine Center for Economic Development	6,945,710	11,767,835
Department of Trade and Industry – Region VIII	6,520,427	6,517,536
Department of Trade and Industry – Region X	6,466,987	7,610,925
Board of Investments	5,780,666	2,395,863
Department of Energy	4,855,750	-
Department of Trade and Industry – Region IX	4,737,269	3,215,616
National Economic Development Authority	3,811,520	22,728,031
Department of Foreign Affairs	3,793,685	4,779,420
Department of Trade and Industry – Region VII	2,705,134	-
Department of Trade and Industry – Region XI	2,683,098	-
Philippine Trade and Training Center	996,567	2,715,815
Finance Service Unit-Marine Barracks	871,208	388,008
Department of Health	818,131	818,131
Philippine Marine Corps	623,760	623,760
Department of Trade and Industry – Region III	72,420	1,555,233
Build-Operate-Transfer Center	10,778	91,205
Early Childhood Care and Development Council	9,551	1,576,175
Rental deposits on condominium units	1,094,879	1,050,576
Other Customer deposits	3,039,104	1,997,095
Total	3,255,220,624	4,037,034,779

4. TRADE AND OTHER RECEIVABLES - NET

This account consists of the following:

	2014	2013
Accounts receivable - trade – net	4,050,047	3,414,031
Accounts receivable - trade related-net	2,866,965	511,174
Accounts receivable - others	6,723,994	5,388,756
Total	13,641,006	9,313,961

4.1. ACCOUNTS RECEIVABLE - TRADE - NET

This account consists of receivable from:

	2014	2013
Domestic sales	67,075,909	67,091,398
Service fees and other charges	13,979,143	13,502,086
Export sale and import commissions	4,288,521	4,134,055
Freight and other charges	601,438	601,438
	85,945,011	85,328,977
Allowance for doubtful accounts	(81,894,964)	(81,914,946)
Balance	4,050,047	3,414,031

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

	2014	2013
Countertrade	2,173,175	2,955,597
Logistics	1,665,285	405,806
Exports	211,587	52,628
Government procurement	-	-
Total	4,050,047	3,414,031

The details of Domestic sales are as follows:

	2014	2013
Government procurement	34,109,697	34,109,697
Pharmaceutical business	21,549,775	21,565,264
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
Total	67,075,909	67,091,398

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 the previous years due to: a) 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 lack of documents.

Legal cases were filed against some delinquent debtors (Note 26C).

4.2. ACCOUNTS RECEIVABLE – TRADE RELATED

This account is composed of the following:

	2014	2013
Financial assistance granted to suppliers	2,668,000	2,668,000
Rental of Condominium units	167,473	63,969
Miscellaneous	2,933,899	681,612
	5,769,372	3,413,581
Allowance for doubtful accounts	(2,902,407)	(2,902,407)
Balance	2,866,965	511,174

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 was 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.

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

4.3. ACCOUNTS RECEIVABLE – OTHERS

This account covers the following:

	2014	2013
Receivable from BIR	1,757,847	1,757,847
Accrued Interest on short-term placements	3,704,952	1,984,406
Due from officers and employees	1,261,195	1,646,503
Total	6,723,994	5,388,756

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

Due from Officers and employees consists mainly of receivables for advances from gratuity pay of P505,042.75. The implementation of PITC retirement and gratuity benefit was denied by the Supreme Court in 2010 (Note 18).

5. INVENTORIES - NET

This account consists of the following merchandise for sale:

	2014	2013
Garments	112,710	165,715
Gifts and Housewares	119,779	154,449
Footwear and Fashion Accessories	5,640	12,930
Others	60,575	85,369
Total	298,704	418,463

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 2012 to 2014 amounting to P3,173,685; prepaid income tax carry over from excess creditable withholding tax certificates amounting to 1,526,666 and other prepayments of P29,600.

7. NON-CURRENT TRADE AND OTHER RECEIVABLES

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

8. PROPERTY AND EQUIPMENT - NET

The details of the account are shown below:

	Leasehold improvement	Furniture, equipment and machinery	Motor vehicles	Total
Cost				
Balance, January 1, 2014	1,272,160	14,932,725	4,881,490	21,086,375
Additions	-	29,053	-	29,053
Disposals / Reclassification	-	-	-	-
Balance, December 31, 2014	1,272,1	14,961,778	4,881,	21,115,
Accumulated Depreciation				
Balance, January 1, 2014	893,255	12,884,972	4,875,800	18,654,027
Additions	42,766	299,893	-	342,659
Disposals / Reclassification	-	-	-	-
Balance, December 31, 2014	936,021	13,184,865	4,875,	18,996,686
Net Book Value, December 31, 2014	336,139	1,776,913	5,690	2,118,742
Net Book Value, December 31, 2013	378,906	2,047,753	5,690	2,432,349

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:

	2014	2013
Manila Luxury Condominium units	51,240,000	51,240,000
Lot in Urdaneta, Pangasinan	9,599,298	11,474,648
Lot in Lucena City	144,047	144,047
Total	60,983,345	62,858,695

- 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 as follows:

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
Total			51,240,000

- b) The land located in Urdaneta, Pangasinan with total cost of P7.217 million and an aggregate lot area of 5,339 square meters (four contiguous lots) was acquired in 1997 through foreclosure sale in settlement of long outstanding account. In 2011 and 2014, two lots with an area of 750 sq. meters/lot were 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 D – 1,500 sq.m.	3,900,000	3,750,703
Total Appraised value – Urdaneta lot	9,981,400	9,599,298

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

10. DEFERRED TAX ASSETS

	Carrying Amount	Future Taxable Amount	Future Deductible Amount	Tax Base	Taxable Temporary Difference	Deductible Temporary Difference
Cash and cash equivalents	3,393,945,295	-	-	3,393,945,295	-	-
Trade and other receivables	13,641,006	-	84,797,371	98,438,377	-	84,797,371 [1]
Due from subsidiaries/affiliates	-	-	16,159,459	16,159,459	-	16,159,459 [1]
Inventories	298,704	-	-	298,704	-	-
Other current assets	4,729,951	(29,600)	-	4,700,351	29,600 [2]	-
Total current assets	3,412,614,956	(29,600)	100,956,830	3,513,542,186	54,751	100,956,830
Trade and other receivables	1,695,851	-	80,000	1,775,851	-	80,000
Property and equipment, net	2,118,742	-	-	2,118,742	-	-
Investment property	60,983,345	-	-	60,983,345	-	-
Investment in PITC Pharma, Inc.	-	-	22,500,000	22,500,000	-	22,500,000 [3]
Other assets	40,745,921	-	-	40,745,921	-	-
Total non-current assets	105,543,859	-	22,580,000	128,123,859	-	22,580,000
Trade payable	5,452,272	-	-	5,452,272	-	-
Guaranty deposits payable	3,255,220,624	-	-	3,255,220,624	-	-
Inter-agency payable	34,383,426	-	-	34,383,426	-	-
Other current liabilities	71,747,621	-	-	71,747,621	-	-
Estimated liability for employees' benefits	10,870,654	-	10,870,654	-	-	10,870,654
Total liabilities	3,377,674,597	-	10,870,654	3,366,803,943	-	10,870,654
Total stockholders' equity	300,000,000	-	-	300,000,000	-	-
Total temporary difference					29,600	134,407,484
Deferred tax					30%	30%
Liability					(8,880)	
Assets						40,322,245
Beginning balances					(16,425)	40,136,971
Adjustments					7,545	185,274
TOTAL CHARGES FROM DEFERRED INCOME TAX						192,819

[1] Allowance for doubtful accounts

[2] Prepayments

[3] Allowance for Decline in Value of Investment

11. OTHER ASSETS

This account consists of the following:

	2014	2013
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
Total	40,745,921	40,745,921

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 on 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:

	2014	2013
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/cellphone charges	3,601	3,601
Disallowances of 1982 and 1983	4,892,730	4,892,730
Total	7,220,405	7,220,405

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:

	2014	2013
Center for International Trade Expositions and Missions (CITEM)	625,000	625,000
Philippine Long Distance Telephone (PLDT)	64,300	64,300
Total investment in stock	689,300	689,300

12. TRADE PAYABLES

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

	2014	2013
Pharmaceuticals	4,950,266	4,961,624
Government procurement	263,664	263,664
OTOP/Tindahanang Pinoy	171,191	177,276
Exports	67,151	67,151
Total	5,452,272	5,469,715

13. CUSTOMERS DEPOSITS PAYABLE

Comprising this account are the following:

	2014	2013
Fund Transfer by client agencies		
Philippine Army	1,448,430,095	1,179,986,119
Department of Social Welfare and Development	838,533,195	1,781,805,670
Office for Transportation Security	229,353,271	206,369,835
Manila Bay Coordinating Office	149,960,899	195,493,087
Philippine Navy	115,225,413	35,280,772
Dept of Environment and Natural Resources	79,365,546	57,183,124
Advance Science and Technology Institute	68,952,114	106,256,303
Information and Communication Technology Office	37,926,873	74,425,019
Environmental Management Bureau	37,415,533	45,114,755
Armed Forces of the Philippines	36,510,250	42,226,848
Maritime Industry Authority	31,186,958	-
National Computer Center	22,106,095	41,387,872
Department of Trade and Industry	19,291,038	4,915,765
Philippine Drug Enforcement Agency	17,297,566	35,085,564
Bureau of Corrections	14,417,903	35,607,401
Philippine Air Force	13,756,377	53,643,897
Bureau of Jail Management and Penology	11,087,184	43,479,353
Department of National Defense	10,678,061	10,319,483
Department of Trade and Industry – Region IV A	10,426,967	18,622,688
Philippine Military Academy	7,462,642	-
Philippine Center for Economic Development	6,945,710	11,767,835
Department of Trade and Industry – Region VIII	6,520,427	6,517,536
Department of Trade and Industry – Region X	6,466,987	7,610,925
Board of Investments	5,780,666	2,395,863
Department of Energy	4,855,750	-
Department of Trade and Industry – Region IX	4,737,269	3,215,616
National Economic Development Authority	3,811,520	22,728,031
Department of Foreign Affairs	3,793,685	4,779,420
Department of Trade and Industry – Region VII	2,705,134	-
Department of Trade and Industry – Region XI	2,683,098	-
Philippine Trade and Training Center	996,567	2,715,815
Finance Service Unit-Marine Barracks	871,208	388,008
Department of Health	818,131	818,131
Philippine Marine Corps	623,760	623,760
Department of Trade and Industry – Region III	72,420	1,555,233
Build-Operate-Transfer Center	10,778	91,205
Early Childhood Care and Development Council	9,551	1,576,175
Total fund transfer by client agencies	3,251,086,641	4,033,987,108
Rental deposits on condominium units	1,094,879	1,050,576
Other customer deposits	3,039,104	1,997,095
Total	3,255,220,624	4,037,034,779

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

Rental deposits on condominium were 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 P2,372,591 and 1,489,420 as of December 31, 2014 and 2013 respectively.

14. INTER-AGENCY PAYABLE

This account consists of liabilities to the following:

	2014	2013
Commission on Audit	16,403,732	14,798,601
Department of Trade and Industry	9,967,752	12,498,597
Bureau of Internal Revenue	6,696,662	8,631,357
Government Service Insurance System	868,271	853,876
National Development Company	-	438,626
Home Development Mutual Fund	291,986	290,709
Office of the Government Corporate Counsel	105,000	70,000
Philippine Health Insurance Corporation	47,250	46,300
National Home Mortgage Finance Corporation	2,773	4,159
Total	34,383,426	37,632,225

15. OTHER CURRENT LIABILITIES

This account is composed of the following:

	2014	2013
Contractors' security deposits	9,064,642	12,696,848
Accrued expenses	4,557,929	4,891,148
Payable to officers and employees	64,594	46,226
Payable-others	58,060,456	74,081,735
Total	71,747,621	91,715,957

Accrued expenses pertain to PITC'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 per cent retention withheld from payment to contractors/suppliers which are to be released upon full performance of their contracted obligations.

16. ESTIMATED LIABILITY FOR EMPLOYEES' BENEFITS

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

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:

Shareholders	No. of shares	Amount	Percentage
National Development Corporation	2,985,000	298,500,000	99.50
Development Bank of the Philippines	15,000	1,500,000	0.50
Total	3,000,000	300,000,000	100.00

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 PITC on COA Decision 2013-016 pursuant to existing laws and regulations.

19. REVENUES

The PITC revenues consist of the following:

	2014	2013
Sales	6,991,039	7,438,276
Commission income	482,129	541,195
Service income	60,409,918	56,405,617
Other Operating income	27,054,318	32,690,418
Total	94,937,404	97,075,506

19.1 SALES

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

	2014	2013
Government outsourcing	1,797,813	7,240,054
Exports	5,193,226	198,222
Total	6,991,039	7,438,276

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:

	2014	2013
Government outsourcing/procurement	45,472,689	43,716,937
CBTW and warehousing charges	11,629,449	9,914,559
Tindahan Pinoy	1,953,214	1,953,214
Countertrade	1,354,566	820,907
Total	60,409,918	56,405,617

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.

19.4 OTHER OPERATING INCOME

This account consists of the following:

	2014	2013
Interest income	23,000,207	26,531,852
Rental of condominium units	3,984,375	3,442,009
Collection of doubtful accounts	19,038	660,358
Referral fee from AFGIC	50,698	-
BAC income	-	2,046,971
Trade financing income	-	9,228
Total	27,054,318	32,690,418

20. COST OF SALES

The details of Cost of sales are shown below:

	2014	2013
Merchandise inventory, beginning	418,463	436,939
Add : Purchases during the year	5,961,438	6,973,463
Goods available for sale during the year	6,379,901	7,410,054
Less: Merchandise inventory, ending (Note 5)	298,704	418,463
Total	6,081,197	6,991,591

21. FINANCE COST

This account consists of the following:

	2014	2013
Bank Charges	27,918	11,008
Documentary Stamps	26,860	460
Total	54,778	11,468

22. FUND TRANSFER/REMITTANCES BY CLIENT AGENCIES

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

AGENCY	2014	2013
Department of Social Welfare and Development	183,236,66	1,777,828,7
Philippine Army	638,497,48	1,026,291,8
Philippine Navy	94,150,187	19,838,000
Department of Environment and Natural Resources	80,000,000	-
Maritime Industry Authority	32,480,624	-
Office for Transportation Security	25,670,500	-
Department of Trade and Industry	19,252,849	429,998
Philippine Military Academy	7,462,642	-
Board of Investments	5,600,000	-
Department of Energy	4,850,000	-
Department of Trade and Industry – Region XI	2,730,290	-
Department of Trade and Industry – Region VII	2,700,000	-
Department of Trade and Industry – Region IX	1,661,232	3,322,464
Philippine Center for Economic Development	1,287,193	7,295,411
Office for Transportation Security		207,228,480
Manila Bay Coordinating Office		196,653,190
Philippine Air Force		150,861,890
Philippine Drug Enforcement Agency		30,557,601
Department of Trade and Industry – Region IVA		18,916,104
Department of Trade and Industry – Region X		7,685,250
Environmental Management Bureau		7,000,000
Advance Science and Technology Institute		6,902,439
Department of Trade and Industry – Region VIII		6,660,000
Department of Foreign Affairs		4,779,420
Department of Trade and Industry – Region III		1,661,232
Early Childhood Care & Development Council		1,576,000
Philippine Trade Training Center		1,000,000
Total	1,099,579,661	3,476,488,085

23. TAXES

24.1 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 per cent 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 P1,155,074, P1,121,160 and P897,451 for 2014, 2013 and 2012 respectively. The expired portion of MCIT for the taxable year 2011 in the amount of 785,916 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 detailed in Note 12.

24.2 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 per cent to 30 per cent beginning on January 1, 2009 and
- (b) Value Added Tax rate was increased from 10 per cent to 12 per cent effective on February 1, 2006.

24.3 Revenue Regulation 15-2010

In compliance with the requirements set forth by Revenue Regulation (RR) 15-2010 hereunder are the information on taxes, duties and licenses fees paid or accrued during the taxable year.

- (a) The company is a VAT-registered company with VAT output tax declaration of P7,867,824.17 for the year based on the amount reflected in the Sales and Service Income Account of P65,565,202.21.
- (b) The company has zero-rated/exempt sales amounting to P6,352,508.63 pursuant to the provisions of Sec. 106 and 109 of RA 9337.
- (c) The amount of VAT Input taxes claimed are broken down as follows:

Balance, beginning of the year	P	0.00
Goods other than for resale or manufacture		1,130,660.96
Capital goods not subject to amortization		0
Services lodged under other accounts		2,951,380.19
Claims for creditable withholding VAT		<u>24,724.72</u>
Balance, end of the year		<u>P 4,106,765.87</u>

- (d) Other Taxes & Licenses:

<u>Local</u>	
Real property taxes	P 456,706.17
Mayor's permit	631,078.57
<u>National</u>	
BIR annual registration	P 2,000.00

- (e) The amount of withholding taxes paid/accrued for the year amounted to:

Tax on Compensation and benefits	P 5,734,415.59
Creditable withholding taxes	67,144,960.95
Final withholding tax	213,457.18

24. RELATED PARTY TRANSACTIONS

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

25.1 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 negative financial position of PPI indicates uncollectibility of the account.

25.2 Investment in PITC PHARMA, INC.

As a key strategy to develop its pharmaceutical program focusing on the expansion of its Botikang 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 and 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.

25.3 Compensation of Key Management Personnel of the Corporation

The compensation of key management personnel included in the Administrative Expenses in the Statement of Comprehensive Income amounted to P7,446,077 and P7,371,015 for the years 2014 and 2013, respectively, as short-term employee benefits.

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

25. LEGAL CASES

A. As Petitioner

1. PITC vs. Pacific Threshold Corporation (PTC)
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: Reply to Threshold's Comment filed with the Supreme Court (SC). Currently awaiting SC Resolution.
2. PITC vs. Gold Loop Properties, Inc., et al.
HLRB Case No. REM-A-950330-0042-HLRB-QC
Nature: Execution of favorable decision
Status: PITC to implement execution of HLURB's Decision
3. PITC vs. SUMCO, et al.
Civil Case No. 11-918 RTC-Makati City, Branch 147
Nature: For Sum of Money
Status: The Court issued a Writ of Execution. OGCC is awaiting PITC's information on the properties of Defendants which may be subject to levy/garnishment.
4. PITC vs. SUMCO and Investors Assurance Corporation
Civil Case No. 12-164 RTC-Makati City
Nature: For Sum of Money and Damages
Status: PITC's Motion to Declare Defendant in Default has been submitted for Resolution.
5. PITC vs. Stronghold Insurance Co. Inc.
Insurance Commission
Nature: Cancellation and Suspension of License
Status: Atty. Lotilla, Counsel for Stronghold offered to amicably settle the case by paying twenty percent (20%) of the amount of PITC's claim.
Continuing hearing scheduled on February 4, 2015.

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: Pre-trial Conference scheduled on 10 February 2015.
7. System Factors Company vs. PITC
Civil Case No. 70460 RTC-Pasig City, Branch 152
Nature: Recovery of Ownership
Status: For continuation of cross examination of PITC's witness on 5 February 2015.

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 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 attempted 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 No. 91-7258, MTC Makati for BP 22	Judgment of conviction but no leviable assets. Case closed.