

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011 As restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		165,491,602	269,061,408
Cash paid to suppliers and employees		(143,548,393)	(227,434,997)
Interest and other income		870,319	1,113,306
Bank charges		(20,304)	(2,781)
Taxes, Licences and Fees		66,715	(66,715)
Net cash generated by operating activities		22,859,939	42,670,221
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of Investment property			820,000
Purchase of office equipment	9	(123,515)	(20,980)
Proceeds from sale of office equipment			1,048
Repair of transportation equipment	9	(82,640)	
Leasehold Improvement	9	(139,626)	
Purchase of OPPE	9	(14,560)	
Placement in short term investment		(14,936,490)	(21,346,421)
Net cash used in investing activities		(15,296,830)	(20,546,353)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		7,563,109	22,123,868
CASH AND CASH EQUIVALENTS, beginning of the year		72,261,874	50,138,006
CASH AND CASH EQUIVALENTS, end of the year	3	79,824,983	72,261,874

The Notes on pages 7 to 15 form part of these financial statements.

MASAGANANG SAKAHAN, INC.
 (A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CHANGES IN EQUITY
 For the year ended December 31, 2012
 (In Philippine Peso)

	Capital Stock		Deficit	Total
	Common Stock	Preferred Stock		
Balance, January 01, 2011	90,000,000	10,000,000	(10,301,885)	89,698,115
Net income for 2011			5,666,346	5,666,346
Balance, December 31, 2011			(4,635,539)	95,364,461
Adjustments			2,354,080	2,354,080
Balance, December 31, 2011 as adjusted	90,000,000	10,000,000	(2,281,459)	97,718,541
Net income for 2012			8,916,523	8,916,523
Balance, December 31, 2012	90,000,000	10,000,000	6,635,064	106,635,064

The Notes on pages 7 to 15 form part of these financial statements

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011 As restated
Sales		178,935,741	129,255,878
Cost of sales		155,266,021	112,755,288
Gross profit		23,669,720	16,500,590
Operating expenses	15	15,378,361	12,916,991
Income (Loss) from operations		8,291,359	3,583,599
Other income		3,915,826	4,056,387
Net income before tax		12,207,185	7,639,986
Provision for income tax	17	3,290,662	1,973,640
NET INCOME		8,916,523	5,666,346

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MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF FINANCIAL POSITION
December 31, 2012
(In Philippine Peso)

	Note	2012	2011 As restated
ASSETS			
Current Assets			
Cash and cash equivalents	3	79,824,983	72,261,874
Accounts receivable	4	36,976,322	14,968,502
Inventories	5	39,882,741	17,912,622
Notes receivable	6	-	3,170,752
Interest receivable		-	19,270
Sales contract receivable		-	225,565
Prepaid expenses	7	6,368,855	6,944,388
Other assets	8	1,323,437	849,226
		164,376,338	116,352,199
Non-current Assets			
Property, plant and equipment	9	909,318	787,100
Investment properties	10	4,649,618	4,649,618
Investment in stocks and bonds	11	57,200	57,200
		5,616,136	5,493,918
TOTAL ASSETS		169,992,474	121,846,117
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable	12	54,552,110	16,501,816
Other liabilities	13	8,805,300	7,625,760
		63,357,410	24,127,576
Equity			
Common stock	14	90,000,000	90,000,000
Preferred stock	14	10,000,000	10,000,000
Retained earnings		6,635,064	(2,281,459)
		106,635,064	97,718,541
TOTAL LIABILITIES AND EQUITY		169,992,474	121,846,117

The Notes on pages 7 to 15 form part of these financial statements

MASAGANANG SAKAHAN, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. CORPORATE INFORMATION

The Masaganang Sakahan, Inc. (MSI) was registered with the Securities and Exchange Commission on December 11, 1974 under SEC Registration No. 59145. The LBP acquired 100 per cent equity ownership of MSI in 1974 and invested to date P100 million in the Corporation's common and preferred shares of stocks.

The primary objectives of MSI are:

- a. To engage in and carry on the business of purchase, and acquire, operate, maintain, lease, sell, and dispose of and deal in agricultural equipment and farm machineries and all other articles pertaining to agriculture;
- b. To make available its farm equipment and machineries to the farmers, owner-cultivators, agricultural lessees, tillers, and/or other beneficiaries of land reform for farm mechanization and development so as to obtain full utilization of lands and enhancement of agricultural products; and
- c. To engage in the business of purchase and sale, barter and exchange of rice and other cereals, and other commodities of native production in the Philippines.

The Corporation operates a Grain Center located in Sta. Rosa, Nueva Ecija.

The financial statements of MSI for the year ended December 31, 2012 were authorized for issue in accordance with a resolution of the Board of Directors on February 19, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis and all values are rounded to the nearest peso.

Statement of compliance

The financial statements of Masaganang Sakahan, Inc. have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

2.2 Adoption of new accounting standards

The accounting policies adopted are consistent with those of previous financial year except that the Corporation adopted those new/revised standards mandatory for financial years beginning on or after January 01, 2005.

The changes in accounting policies resulted from adoption of the following new or revised standards:

PAS 8 – Errors

An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a. restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- b. if the error occurred before the earliest prior period presented; restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

PAS 17 – Leases

Lease payment is recognized as an expense on a straight-line basis over the lease term.

PAS 19 – Employee benefits

The equivalent value of the employees' leave credits for the year is accrued but termination benefit is not yet recognized as a liability.

PAS 39 – Financial instruments

Investments are recorded at cost at the time of acquisition. Upon acquisition, the investments are classified as marketable securities when the maturity is 90 days to one year while investments with fixed determinable payments and fixed maturity are classified as held-to-maturity investments that an entity has the positive intention and ability to hold to maturity.

PAS 40 - Investment Property

Investment property is recognized as an asset when it is probable that the future economic benefits that are associated with the property will flow to the entity.

The accounting policies adopted in preparing the financial statements are as follows:

- a. Cash and cash equivalents in the balance sheet comprise of cash in bank, short term investment and cash on hand.
- b. Trade receivables which generally have 30-90 day term are recognized and carried at original invoice amount. When there is objective evidence that the Corporation will not be able to collect the receivables, an allowance for probable losses is provided.
- c. Allowance for probable losses is set up for expected losses from non-moving trade receivables considering the debtor's capacity to pay.

- d. Inventories are valued at cost including the costs incurred in bringing each item to its present condition.
- e. Investment and other financial assets are recorded at cost at the time of acquisition. Non-derivative financial assets with fixed determinable payment and maturity are classified as held-to-maturity when the Corporation has the positive intention and ability to hold to maturity. Investments are classified as marketable securities upon acquisition when the maturity is 90 days to one year while investment with maturity of more than one year is considered as long term investments.
- f. Property, Plant and Equipment are recorded at cost. Depreciation is computed on a straight-line method over the estimated useful life of the respective assets after deducting the 10 per cent residual value. Maintenance and repairs are charged to expenses as incurred while major repairs and betterments are capitalized. When the items of property or equipment are disposed, the related cost and accumulated depreciation are removed from the accounts and any gain is treated as income.
- g. Investment properties are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss.

3. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2012	2011 (As restated)
Cash in bank	12,156,181	20,400,898
SDA-Bangko Sentral ng Pilipinas (SDA-BSP) ¹	67,505,000	51,581,519
Operating fund (SRGC)	143,802	259,457
Petty cash	20,000	20,000
	79,824,983	72,261,874

¹ This account represents MSI's placements on December 5, 2012 on SDA-BSP in the amount of P10.057 million for 33 days, on December 12, 2012 amounting to P42.429 million for 33 days and on December 19, 2012 amounting to P15.019 million for 33 days. All placements are at 3.6562 per cent interest rate per annum.

4. ACCOUNTS RECEIVABLE

This account consists of trade receivable as follows:

	2012	2011 (As restated)
Rice	40,971,441	17,927,734
Palay	17,528,244	17,528,244
Certified seeds	-	64,379
Others	950,487	1,040,955
	59,450,172	36,561,312
Allowance for probable losses	(22,473,850)	(21,592,810)
	36,976,322	14,968,502

5. INVENTORIES

This account consists of the following:

	2012	2011
Palay	29,391,332	12,579,860
Rice	8,044,416	2,765,462
Brokens	2,339,061	2,435,400
By-products	107,932	131,900
	39,882,741	17,912,622

The cost of the palay stocks is the actual procurement cost. For the rice inventory at SRGC, the cost includes the cost of palay issued for milling using the average method, procurement expenses (related expenses incurred during procurement of palay) and milling expenses.

Rice inventory is inclusive of old unaccounted stocks amounting to P.834 million as of December 31, 2012 and 2011.

6. NOTES RECEIVABLES

This account represents the restructured past-due accounts receivables, which are secured by hard collaterals and covered by promissory notes as follows:

	2012	2011 (As restated)
Notes receivables	64,608	3,235,360
Allowance for probable losses	(64,608)	(64,608)
	-	3,170,752

7. PREPAID EXPENSES

This account consists of the following:

	2012	2011
Taxes withheld	5,803,614	6,466,047
Medical	247,000	182,000
Taxes, Licenses & Fees	132,865	122,095
Office rent	86,500	-
Rice benefit	65,319	65,754
Insurance premium	23,058	25,351
Fidelity bond premium	10,499	11,940
Condo dues	-	13,202
Maintenance (OE)	-	800
Uniform	-	57,200
	6,368,855	6,944,389

8. OTHER ASSETS

This account consists of the following:

	2012	2011
Guaranty deposits	732,125	147,300
Supplies and materials	591,312	701,926
	1,323,437	849,226

9. PROPERTY, PLANT AND EQUIPMENT

This account is composed of the following:

	Transpo Equipment	Office Equipment	Furnitures & Fixtures	Other PPE	Leasehold Improvement	TOTAL
Cost						
January 1, 2012	2,817,108	888,376	981,041			4,686,525
Additions	82,640	123,515		14,560	139,625	360,340
December 31, 2012	2,899,748	1,011,891	981,041	14,560	139,625	5,046,865
Accumulated depreciation/ amortization						
January 1, 2012	2,428,504	831,151	639,770	-	-	3,899,425
Depreciation/amortization	123,809	41,483	72,612	218	-	238,122
December 31, 2012	2,552,313	872,634	712,382	218	-	4,137,547
Net carrying amount, December 31, 2012	347,435	139,257	268,659	14,342	139,625	909,318
Net carrying amount, December 31, 2011	388,604	57,225	341,271	-	-	787,100

10. INVESTMENT PROPERTIES

This account pertains to the book value of land as follows:

	2012	2011
Investment property	4,649,618	4,649,618
Allowance depreciation/Impairment loss	-	-
	4,649,618	4,649,618

11. INVESTMENT IN STOCKS AND BONDS

This account consists of investments with the following:

	2012	2011
Fil-Capital	208,400	208,400
PLDT	57,200	57,200
Cagayan Sugar Farmers Coop. Assoc.	1,500	1,500
Archmar	200	200
	267,300	267,300
Allowance for market decline	(210,100)	(210,100)
	57,200	57,200

12. ACCOUNTS PAYABLE

This account pertains to MSI's trade/business payables consisting of:

	2012	2011
Payment-in-kind - Palay	52,072,060	9,752,406
Rice suppliers	2,480,050	6,749,410
	54,552,110	16,501,816

13. OTHER LIABILITIES

This account consists of the following:

	2012	2011 (As restated)
Income tax payable	3,290,662	1,973,640
Deferred interest income	-	1,188,429
Miscellaneous liabilities & deferred charges	-	554,223
Payable - Voucher	385,315	13,202
Withholding tax payable	229,831	88,540
Trust liabilities - Pag-ibig loan	-	22,187
Trust liabilities - SSS loans	-	11,915
Trust liabilities - SSS	-	7,650
Retention payable	-	5,720
Trust liabilities - Philhealth	-	3,450
Trust liabilities - BIR	-	3,990
Trust liabilities - Pag-ibig	-	1,880
Miscellaneous liabilities ¹	4,899,492	3,750,934
	8,805,300	7,625,760

¹ This account represents accrual of unpaid expenses for 2011.

14. CAPITAL STOCK

The increase in authorized capital stock from P25 million to P100 million divided into 9 million common shares and 1 million preferred shares with a par value of ten pesos (P10.00) per share was approved by the Securities and Exchange Commission on January 14, 1993.

The Land Bank of the Philippines has fully subscribed and paid MSI's P100 million capital stock.

15. OPERATING EXPENSES

	2012	2011 (As restated)
Salaries and wages	3,732,357	3,258,692
Bonus and incentives	1,831,150	1,028,487
Other benefits	1,482,986	2,143,964
Supplies and materials	1,276,023	677,324
Rent	1,136,046	1,128,676
Bad debts expense	909,660	-
Taxes, licenses and fees	712,093	690,101
Other services	592,747	1,146,636
Light, power and water	505,330	502,664
Representation and entertainment	454,394	257,303
Communication	452,781	321,535
Travelling expenses	378,619	258,253
Loss on palay shrinkage	364,657	
SSS, Philhealth and Pag-ibig premiums	270,209	260,737
Per diem/Allowances	249,000	180,500
Depreciation	238,122	257,485
Security services	229,140	213,000
Insurance	152,478	234,821
Gasoline and oil	149,675	79,575
Reproduction	109,550	79,384
Spare parts	56,874	60,826
Repairs and maintenance	52,073	40,772
Interest and other bank charges	21,824	1,261
Overtime pay	20,573	10,186
Business development		84,809
	15,378,361	12,916,991

16. COMPLIANCE WITH TAX LAWS

In compliance with the requirements set forth by Revenue Regulation No. 15-2010 hereunder are the information on taxes, licenses and fees paid or accrued during the taxable year:

a. Local

	2012	2011
Mayor's permit - Head office and SRGC	398,467	452,255
Realty tax	124,516	3,833
Municipal license - SRGC	122,100	120,768
Locational clearance(SRGC)	22,700	-
Community tax - Head office	10,500	10,500
Barangay clearance	1,400	1,600
	679,683	588,956

b. National

	2012	2011
NFA license	32,410	32,410
BIR registration	-	500
	32,410	32,910

c. Withholding taxes paid and accrued for the year:

	2012	2011
Taxes on compensation and benefits	635,641	398,243
Creditable withholding tax	147,064	108,475
	782,705	506,718

17. PROVISION FOR INCOME TAX

Tax liabilities for the current period are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at reporting date.

	2012	2011
Net income before tax	12,207,185	7,712,161
Less: Income subjected to final tax	1,238,312	1,133,360
Net income subject to tax	10,968,873	6,578,801
Tax rate	30%	30%
Provision for tax	3,290,662	1,973,640

18. RESTATEMENT

Corrections of the prior year's expenses and income are classified as prior period adjustments. The prior year's financial statements were restated to correct the prior period errors in accordance with the provisions of paragraph 42 of PAS 8.

19. RELATED PARTY TRANSACTIONS

A Management Contract exists between the MSI and the LBP wherein MSI guarantees the purchase of rice in amounts equivalent to the rice requirements of the employees of the Bank. Also, there is a Payment-in-Kind Program wherein MSI undertakes the collection of loan receivables of LBP from farmers/cooperatives in the form of palay and rice, the value of which is payable to the Bank within 90 days. Further, included in the members of the Board of Directors and Executive Committee of MSI are LBP Officers. The transactions of MSI with LBP, the parent corporation, are as follows:

	2012	2011
Sales - Rice allocation of LBP employees	144,347,548	111,966,564
Outstanding receivables	38,349,590	17,973,773
Receivables - Miscellaneous from LBP officers	35,000	35,000
Outstanding payables	52,072,060	16,501,816
	234,804,198	146,477,153

20. COMPENSATION OF KEY MANAGEMENT OFFICIALS

	2012	2011
Basic salary	911,438	736,800
Fringe benefits	134,721	326,160
	1,046,159	1,062,960