



APO PRODUCTION UNIT, INC.

APO PRODUCTION UNIT, INC

ANNUAL REPORT

2014

I. Accomplishments – FY 2014

1. Performance Scorecard Renegotiation

On September 10, 2014, APO Production Unit’s Board of Trustees and management renegotiated with Governance Commission on GOCCs (GCG) its Interim Performance Scorecard for fiscal year (FY) 2014. APO Management presented to GCG changes in the assumptions used during the first negotiation held in 2013. For instance, APO originally projected the start of commercial operation of APO LIMA in January 2014. However, actual production of stamps only started in September 2014 which resulted in lower revenues for the LIMA plant.

APO PRODUCTION UNIT INTERIM PERFORMANCE SCORECARD 2014				
Performance Measures			2014 Original	2014 Proposed
Description	Formula	Weight		
MFO 1: Traditional Accountable Forms Printing				
Financial: Increasing Net Sales Figures (Gross Sales Less VAT)	Increase in revenue from printing services	30%	500M	479M
Quality: Minimizing Delay in Deliveries	Penalty/Total Sales x 100%	10%	0.0344%	0.070%
MFO 2: Highly-Sophisticated and Quality Security-Printed Materials for the Government				
Financial: Increase in net sales figures	Increase in revenue from printing services	45%	530M	240M
General Administrative Services				
Financial 1: Net Income		8%	28.93M	15.2M
Quality 1: Settling BIR obligations		4%	To pay tax Liabs. Up to 2013	To pay tax Liabs. Up to 2013
Quality 2: Manualization of security printing process		3%	Manualization	Manualization of Security Printing process

The total revenue target for both printing plants was reduced from P1.03 billion to P719 million. The net income targets were also renegotiated as a result of the decrease in the sales revenue and the recognition of the 2013 PBB in 2014. Net income target for both QC and LIMA operations went down to P15.2 million from P28.93 million. In addition, the weight of the net income was increased from 5% to 8%.

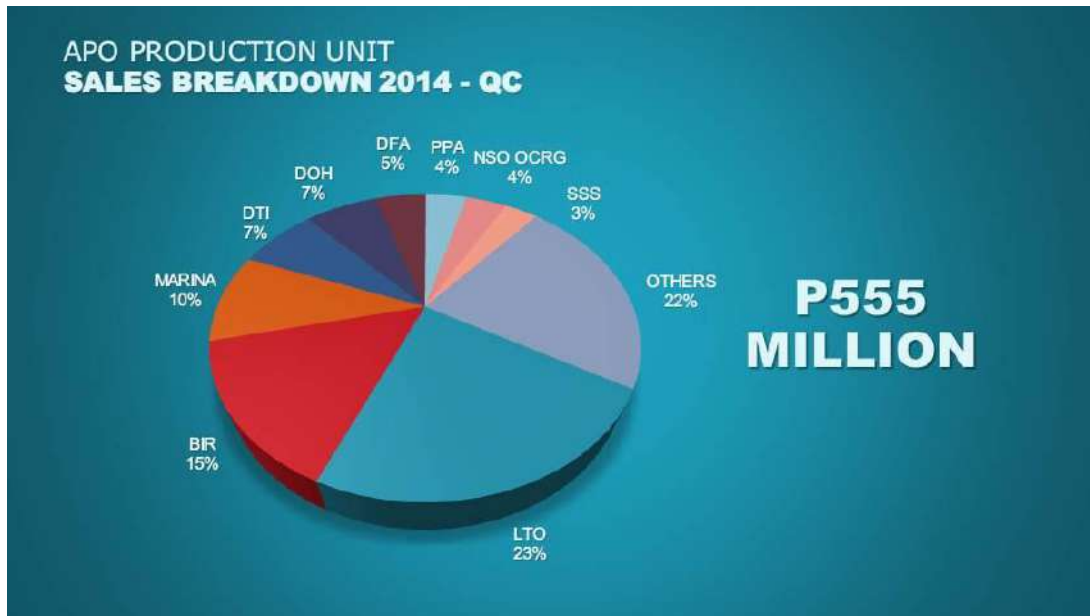
2. Financial Perspective

In 2014, APO Production Unit continued its robust growth averaging 53% over the last 3 years. The strong growth in 2014 is fuelled by the consistent performance of the Quezon City operations and the start of commercial operations of LIMA security plant. This was a turning point in APO Production Unit's history as it realizes the impact of the diversification strategy initiated by the current Board of Trustees and Management three years ago. APO Production Unit's entry in the security printing business cemented its role as "an integral and essential component in the infrastructure providing world-class total printing solutions to the National Government and its agencies."



APO Quezon City plant posted a revenue growth rate of 4.5% in 2014 despite the slowdown in sales in some key accounts. Sales revenue peaked at P555 million, *the highest revenue performance of the company to date*. The Land Transportation Office posted the highest sales equivalent to 23% of the total sales or P128 million. The Bureau of Internal Revenue was next with sales of 83 million representing 15% of total sales. Two new customers contributed a total of 17% namely MARINA and the Department of Health. This year APO was contracted by MARINA to print 200,000 of the Seafarer's Identification Record Book. The total contract amounted to P52 million. DOH on the other hand, tapped APO's services to print various Information, Education and Communication (IEC) materials and awarded to APO a total of P39 million of printing

services. Two of our top clients (Social Security System and Philippines Statistics Authority [formerly NSO]) in 2013 dropped significantly in 2014 due phasing out of the current forms (to be replaced by a new forms using carbon-less paper) and the timing of the nationwide census. Lost sales, however, will be recovered in 2015. The remaining 22% of the sales came from regular clients especially the LGUs.

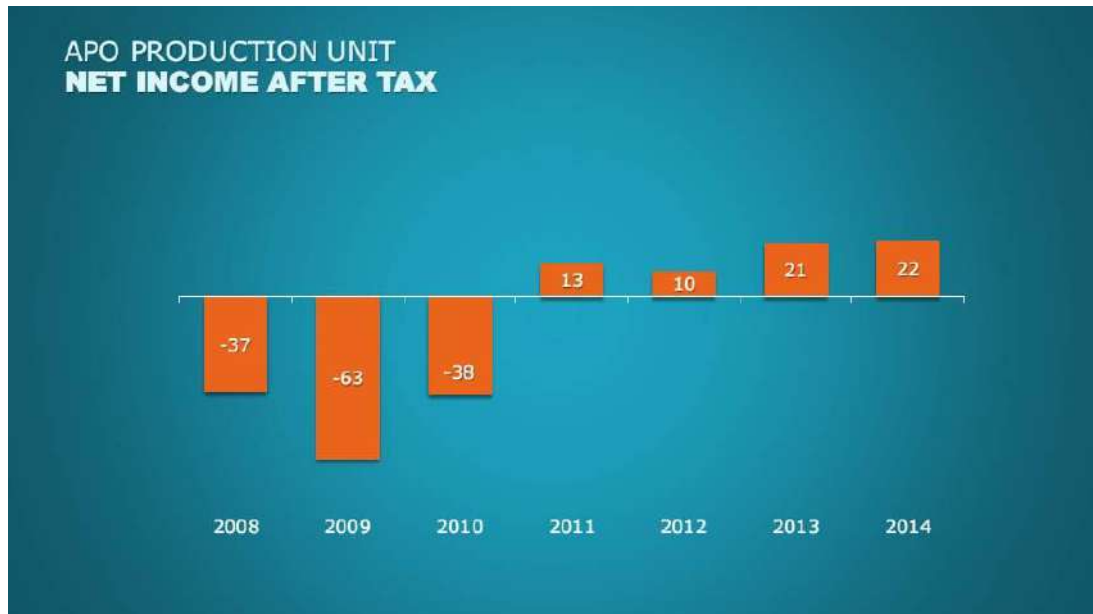


In 2012, APO Production Unit was tapped by the Bureau of Internal Revenue, thru the agency to agency mode of procurement, for the printing of excise stamps for cigarettes. Actual construction of the plant started in 2013 and was completed in the early part of 2014. APO Production Unit LIMA plant started its commercial operation in September 2014. For the first 4 months of operation, APO LIMA generated sales revenue of 150 million for producing six types of stamps. These stamps were affixed to both local and imported cigarettes sold in the local market. APO LIMA's biggest clients were Philip Morris Fortune Tobacco Corporation Inc. and Mighty Corporation.

Consolidated revenue for APO in 2014 is at P705 million, 32% higher than 2013 sale revenue. The higher revenue was also translated into higher income as well. However, APO Quezon City's lower income 2014 was due to the recognition of 2013 Performance Based Bonus (PBB) which given to the employees in 2014. Without the effect of the 2013 PBB, APO QC's income would be same level as 2013. APO LIMA's 4-month

operation produced a positive income despite the delay in the start of its commercial operations.

APO LIMA's income in 2014 was 8 million. The consolidate income for both APO QC and APO LIMA was 22 million, 7 million higher than the performance target negotiated with the Governance Commission for GOCC's (GCG) in 2014.



Also in 2014, APO, *for the first time in its history*, remitted dividends to the national government amounting to P2.7 million. APO also completed payment for its negotiated tax assessment for FY 2008 and 2009 in April and August this year. The total settlement was valued at P18.5 million.

Payment for leased press machines (Gavotte and Flexibobine) were completed in 2014 amounting to P3 million and P5million, respectively.

APO continued to be up to date in its payment to suppliers and creditors and in remitting contributions to SSS, Philhealth and Pag-ibig.

3. Internal Perspective

Production

In 2014, APO Production Unit continued the upgrading of its aging/outmoded printing machineries. The purpose of this program was to increase printing capacity, improved reliability (lower down-time) and lower cost of repairs.

- Acquisition of Muller Martini continuous form press machines. Direct cost of operations for this machine is 42% lower than the 2 Roland presses it replaced
- Installation of programming devices for Wholenberg and Polar Cutters. This upgrade doubled the capacity of both machines.

Two (2) aging Roland press machine were retired to make room for a newer and higher capacity press machine.

APO continued implemented the Machine Preventive Maintenance program, which resulted savings in 2014 and in the past years.

In 2014, APO started to diversify its sourcing of raw materials for printing. Importation of lower cost and high quality paper started in 2014, along with the development of proprietary government security paper. APO also implemented a 3-month material projection in order to avoid shortage of raw materials and to allow for longer procurement periods due to GPPB guidelines (RA 9184).

On the logistics side, APO completed the production and nationwide delivery of BIR annual forms it won through a public bidding in 2013.

Systems

In 2014, APO fully implemented the computerization of the accounting process, mainly on the handling of cash inflows (billing-collection) and cash outflows (purchasing-receiving-payment). The system also managed the flow of transactions thru a system generated trial balance.

Modules running in system were the following:

- Billing Module - for the creation of Sales Invoices
- PO Module - for the creation of Purchase Orders (PO)
- Materials Module - for the recording of receiving reports involving purchases
- APV Module - for the creation of Accounts Payable Vouchers
- Cash Module - for the recording of collection (OR) and disbursements

- JV Module - Captures the recording of Journal Vouchers (JV) (for generating Trial Balance, Balance Sheet, Income Statement, Statement of Cost of Goods Sold and Cash Flow Statement)

APO continued to implement its computerized payroll system through the system provided by Asia United Bank and use BIR's Electronic Filing and Payment System (EFPS) for electronically filing tax returns, and paying taxes due through the internet.

4. Learning and Growth

In 2014, APO continued to focus on the intangible assets of the organization, mainly the skills and capabilities of its employees that were needed to implement the key internal processes of the organization. APO management believes that its employees were its greatest resource.

Last year, 16 personnel attended Training/workshop on Republic Act 9184 or The Government Procurement Act. Nine (9) member of the Bids and Awards Committee (BAC) and procurement personnel also attended the 2014 Revised Procurement and Public Bidding Rules.

Seminars on Corporate and VAT Taxation, Record and Information Management, Materials Control Management and Inventory Control and Project Management were also attended by the concerned managers and staff.

Initiative in the quality front was also started last year. Seminar on ISO 9001: 2008 Quality Management System Orientation was conducted and was attended by key personnel.

APO in 2014 supported and joined the national government's initiative on Gender and Development (GAD). This program was aimed to ensure that explicit, implicit, actual and potential gender biases were removed. Key personnel also attended Gender and Sensitivity training and joined the Gender Mainstreaming Monitoring System (GMMS).

5. Bid and Awards Committee

In 2014, APO's Bids and Awards Committee conducted nine (9) bidding activities, including the supply of bookpaper, security and manpower services, purchase of printing machineries, development of computer systems and supply of rice. Pre-bidding conference was also conducted for the design and development of the new printing facility for APO Quezon City. The project will commence in 2015.

6. APO LIMA Plant

In September 2014, APO LIMA plant officially started its commercial operation to produce excise stamps for the Bureau of Internal Revenue. The plant produced 1.2 billion stamps amounting to P150 million in revenues. This output included the pilot run conducted in September.

Initial steps to secure the ISO 9001:2008 Certification in 2015 started in 2014, the documentation of the APO security printing process.

7. APO-UGEC Joint Venture

In May 5, 2014, APO Production Unit received an unsolicited proposal from UGEC for a joint venture (JV) for the purpose of upgrading APO LIMA's plant into a high security printing facility through the installation of machines. Terms and conditions negotiation between APO and UGEC was conducted and completed in accordance with 2013 JV Guidelines.

APO PRODUCTION UNIT, INC.
STATEMENT OF FINANCIAL POSITION

As of December 31, 2014 and 2013

(In Philippine Peso)

	Note	<i>Unaudited</i> 2014	<i>Audited</i> 2013
ASSETS			
Current Assets			
Cash and Cash Equivalents	5	66,114,879	24,293,218
Receivables	6	95,250,201	81,985,822
Inventories	7	76,716,962	47,345,483
Other Current Assets	8	83,914,065	70,819,178
Total Current Assets		321,996,106	224,443,701
Non-Current Assets			
Property and Equipment	9	44,683,902	55,214,033
Other Assets	10	36,175,126	29,100,498
Deferred Tax Assets	22	1,237,518	2,081,989
Total Non-Current Assets		82,096,546	86,396,520
TOTAL ASSETS		404,092,653	310,840,221
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts Payable and Accrued Expenses	11	146,677,443.60	105,879,615
Income Tax Payable		2,566,654.65	11,713,050
Other Current Liabilities	12	70,755,069.02	14,154,318
Total Current Liabilities		219,999,167	131,746,983
Non-Current Liabilities			
Loans Payable - Long-Term	13	94,518,250	94,518,250
Other Non-Current Liabilities	14	87,943,136	94,880,877
Deferred Tax Liability		4,962,848	4,962,848
Total Non-Current Liabilities		187,424,234	194,361,975
TOTAL LIABILITIES		407,423,401	326,108,958
EQUITY		(3,330,748)	(15,268,736)
TOTAL LIABILITIES AND EQUITY		404,092,653	310,840,221

See accompanying Notes to Financial Statements.

APO PRODUCTION UNIT, INC.**STATEMENT OF COMPREHENSIVE INCOME**

For the Years Ended December 31, 2014 and 2013

(In Philippine Peso)

		<i>Unaudited</i>	<i>Audited</i>
	Note	2014	2013
SALES		679,477,211	531,131,930
COST OF SALES	16	471,142,392	354,378,169
GROSS PROFIT		208,334,819	176,753,761
EXPENSES			
Personal Expenses	17	64,872,620	60,019,030
Maintenance and Other Operating Expenses	18	107,630,953	82,934,797
		172,503,573	142,953,827
NET PROFIT FROM OPERATIONS		35,831,245	33,799,934
OTHER INCOME (EXPENSES)			
Gain (Loss) on disposal of assets		(12,391)	0
Gain (Loss) on foreign exchange		(65,975)	(41,888)
Other Income	19	2,824,389	4,832,142
Retirement Cost	20	(2,710,128)	(5,777,457)
Financial expenses	21	(2,546,235)	(708,168)
Other Expense		(857,136)	0
		(3,367,476)	(1,695,371)
NET PROFIT BEFORE INCOME TAX		32,463,770	32,104,563
INCOME TAX EXPENSE (BENEFIT)			
Current	22	8,856,361	9,146,084
Deferred		844,471	1,170,833
NET PROFIT AFTER TAX		22,762,939	21,787,646
OTHER COMPREHENSIVE INCOME		0	0
COMPREHENSIVE INCOME		22,762,939	21,787,646

See accompanying Notes to Financial Statements.

APO PRODUCTION UNIT, INC.
STATEMENTS OF CASH FLOWS (Direct Method)
For the Year Ended December 31, 2014
(In Philippine Peso)

	<i>Unaudited</i>	<i>Audited</i>
	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Collection of accounts receivable and advances	793,885,625	495,318,631
Sale of scrap	2,649,880	3,037,288
Interest on bank deposits	56,059	772,507
Payment of accounts payable	(640,673,102)	(470,783,136)
Payment of other liabilities and expenses	(89,121,698)	(36,753,158)
Payment of financial expenses	(1,841,418)	(534,484)
Net cash from operating activities	64,955,346	(8,942,351)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Property, Plant and Equipment	(18,344,864)	(6,835,757)
Net cash used in investing activities	(18,344,864)	(6,835,757)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan availment	11,940,000	14,812,350
Payment of loan payable	(16,728,821)	(4,477,220)
Net cash from financing activities	(4,788,821)	10,335,130
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	41,821,661	(5,442,978)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	24,293,218	29,736,197
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	66,114,879	24,293,219

See accompanying Notes to Financial Statements.