SENATE ECONOMIC PLANNING OFFICE

A Profile of Selected Philippine Government-Owned and -Controlled Corporations (GOCCs)

SEPO

UNDP

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A Profile of Selected Philippine Government-Owned and –Controlled Corporations

Senate Economic Planning Office v United Nations Development Programme

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FOREWORD

The role and impact of the government corporate sector on the fiscal position of the government and the economy continue to be significant to this day. Despite reforms undertaken in the past, according to the Commission on Audit, there remain around one hundred thirty three government-owned and -controlled corporations (GOCCs) operating in the areas of agriculture, transportation, infrastructure, public utilities, provision of housing, industrial development and finance. The dismal performance of many of these corporations has contributed to the fiscal deficits of the public sector.

As an institution tasked to conduct oversight on GOCCs, the Senate has a crucial role in the effort to institute the necessary reforms in this sector. Hence, the Senate should be equipped with pivotal information that will help the Senators to better assess GOCC performance and its over-all role in the economy. In this regard, the Senate Economic Planning Office (SEPO) has embarked on a research project titled, ***A Profile of Selected Government-Owned and -Controlled Corporations (GOCCs)*** with funding support from the United Nations Development Program (UNDP) under its Programme on Fostering Democratic Governance. Specifically, the study establishes a baseline database on the operations and financial status of 16 selected GOCCs for a six-year period, 1999 to 2004. It also takes a look at governance practices of these corporations to gain insights on how best to improve their performance.

This study is SEPO's contribution to the ongoing search for the right policy mix to enhance the country's fiscal position. The staff of SEPO undertook and completed this research with inputs from Ms. Mercedes B. Suleik, project consultant, and the cooperation and support of the selected GOCCs' key officers and staff, who provided vital information on their respective corporations. I deeply appreciate the commitment and hard work of the SEPO officers, as well as the research and support staff assigned to this project, without whom this would not have been completed.

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List of Acronyms

ADB – Asian Development Bank
AFMA – Agriculture and Fisheries Modernization Act
AO – Administrative Order
ARBDC – Agno River Basin Development Commission
ARMM – Autonomous Region of Muslim Mindanao
ATI – Asian Terminals, Incorporated

BCDA – Bases Conversion Development Authority
BIR – Bureau of Internal Revenue
BMBE – Barangay Micro Business Enterprises
BOC – Bureau of Customs
BOI – Board of Investments
BOT – Build-Operate-Transfer
BSMED – Bureau of Small and Medium Enterprise Development
BSP – Bangko Sentral ng Pilipinas

CA – Commission on Appointments
CBP – Central Bank of the Philippines
CDA – Cotton Development Administration
CEZA – Cagayan Economic Zone Authority
CHED – Commission on Higher Education
CPED – Center for Policy and Executive Development
CIAP – Construction Industry Authority of the Philippines
CIS – Communal Irrigation System
CITC – Cottage Industry Technology Center
CITEM – Center for International Trade Expositions and Missions
CITRUS – Central Institute for the Training and Relocation of Urban Squatters
COA- Commission on Audit
CPA – Cebu Port Authority
CSC – Civil Service Commission

DA – Department of Agriculture
DAP – Development Academy of the Philippines
DBCC – Development Budget Coordinating Committee
DBM – Department of Budget and Management
DBP – Development Bank of the Philippines
DENR – Department of Environment and Natural Resources
DepEd – Department of Education
DILG – Department of the Interior and Local Government
DOE – Department of Energy
DOF – Department of Finance
DOJ – Department of Justice
DOLE – Department of Labor and Employment

DOST – Department of Science and Technology
DOTC – Department of Transportation and Communications
DPWH – Department of Public Works and Highways
DSWD – Department of Social Welfare and Development
DTI – Department of Trade and Industry

EC – Electric Cooperative
ECCD – Early Childhood Care and Development Program
EO – Executive Order
EPA – Extraordinary Price Adjustment
EPIRA – Electric Power Industry Reform Act
EPZ – Export Processing Zone
EPZA – Export Processing Zone Authority
ERC – Energy Regulatory Commission

FPA – Fertilizer and Pesticide Authority
FDMC – Filoil Development and Management Corporation
Forex – Foreign Exchange
FRM – Financial Risk Management
FS – Financial Statement
FTI – Food Terminal Incorporated

GA&OOE – General, Administrative and Other Operating Expenses
GCMC – Government Corporate Monitoring Committee
GDP – Gross Domestic Product
GFI – Government Financial Institution
GM – General Manager
GMA – Greater Medical Access
GOCC – Government-Owned and -Controlled Corporation
GRAM – Generation Rate Adjustment Mechanism
GRT – Gross Registered Tonnage
GSIS – Government Service Insurance System
GTEB – Garments and Textile Export Board

HDMF – Home Development Mutual Fund
HGC – Home Guaranty Corporation
HIGC – Home Insurance and Guaranty Corporation
HOR – House of Representatives
HUDCC – Housing and Urban Development Coordinating Council

ICERA – Incremental Currency Exchange Rate Adjustment
ICT – Information and Communication Technology
ICTSI – International Container Terminal Services, Incorporated
IPA – Independent Port Authority
IPP – Independent Power Producer

IRR – Implementing Rules and Regulations
ISF – Irrigation Service Fees
ITH – Income Tax Holiday

KALAHI - Kapit-Bisig Laban sa Kahirapan
KKK – Kilusan para sa Kabuhayan at Kaunlaran

LBP – Land Bank of the Philippines
LCP – Lung Center of the Philippines
LIVECOR – Livelihood Corporation
LGU – Local Government Unit
LLDA – Laguna Lake Development Authority
LRTA – Light Rail Transit Authority
LTFRB – Land Transportation Franchising and Regulatory Board
LTO – Land Transportation Office
LWU – Local Water Utilities
LWUA – Local Water Utilities Administration

MARINA – Maritime Industry Authority
MB – Monetary Board
MERALCO – Manila Electric Company
MICT – Manila International Container Terminal
MMC – Metropolitan Manila Commission
MMDA – Metropolitan Manila Development Authority
MOOE – Maintenance and Other Operating Expenses
MT – Metric Tons
MTPDP – Medium Term Philippine Development Plan
MWCI – Manila Water Company Incorporated
MWD – Metropolitan Water District
MWSI – Maynilad Water Services Incorporated
MWSS – Metropolitan Waterworks and Sewerage System

NAWASA – National Waterworks and Sewerage Authority
NCCT – National Council for Children's Television
NDA – National Dairy Authority
NDC – National Development Company
NEA – National Electrification Administration
NEDA – National Economic and Development Authority
NEDA-ICC – National Economic and Development Authority-Investment Coordination Committee
NFA – National Food Authority
NG – National Government
NGA – National Grains Authority
NHA – National Housing Authority
NIA – National Irrigation Administration

NIS – National Irrigation System
NKTI – National Kidney Transplant Institute
NPC – National Power Corporation
NRDC – Natural Resources Development Corporation
NRES – New Renewable Energy Sources
NRMDC – Natural Resources Mining Development Corporation
NRW – Non-Revenue Water
NSC – National Steel Corporation
NSCB – National Statistical Coordination Board
NSP – National Shelter Program

ODA – Official Development Assistance
OECD – Organization for Economic Cooperation and Development
OGCC – Office of the Government Corporate Counsel
OP – Office of the President

PADC – Philippine Aerospace Development Corporation
PAGCor – Philippine Amusement and Gaming Corporation
Pag-IBIG- Pagtutulungan Para sa Kinabukasan - Ikaw, Bangko, Industriya at Gobyerno
PASAR – Philippine Associated Smelting and Refining Corporation
PAHRA – Presidential Assistant on Housing and Resettlement Agency (PAHRA)
PBR – Performance-based rate
PC – Privatization Council
PCED – Philippine Center for Economic Development
PCCLGC – Presidential Commission for the Central Luzon Growth Corridor
PCMC – Philippine Children's Medical Center
PCSO – Philippine Charity Sweepstakes Office
PD – Presidential Decree
PDEA – Philippine Drug Enforcement Agency
PDAF – Priority Development Assistance Fund
PDIC – Philippine Deposit Insurance Corporation
PEMC – Philippine Electricity Market Corporation
PEZA – Philippine Economic Zone Authority
PFDA – Philippine Fisheries Development Authority
PHC – Philippine Heart Center
PHHC – People's Homesite and Housing Corporation
PhilExim – Philippine Export-Import Credit Agency
PHIVIDEC – Philippine Veterans Investments Development Corporation
PIA – Phividec Industrial Authority
PIC – Philippine Infrastructure Corporation
PIDS – Philippine Institute for Development Studies
PITC – Philippine International Trading Corporation
PNB – Philippine National Bank
PNCC – Philippine National Construction Corporation

PNOC – Philippine National Oil Company
PNOC-DMC – PNOC Development and Management Corporation
PNOC-EC – PNOC Exploration Corporation
PNOC-EDC – PNOC Energy Development Corporation
PNOC-PDC – PNOC Petrochemical Development Corporation
PNOC-STC – PNOC Shipping and Transportation Corporation
PNR – Philippine National Railways
PPA – Philippine Ports Authority
PRA – Philippine Retirement Authority
PRECHUR – Presidential Committee for Housing and Urban Resettlement
PS – Personal Services
PSALM – Power Sector Assets and Liabilities Management
PSC – Philippine Sports Commission
PSE – Philippine Stock Exchange
PTAAF – P.T. Asean Aceh Fertilizer

RA – Republic Act
RO – Regulatory Office
RORB – Rate of Return Base
RORO- Roll-On Roll-Off
ROW – Right Of Way
RPBVCC – Republic Planters Bank Venture Capital Corporation
R&D – Research and Development

SARS – Severe Acute Respiratory Syndrome
SBMA – Subic Bay Metropolitan Authority
SBGFC – Small Business Guaranty and Finance Corporation
SDM - Senior Department Managers
SEC – Securities and Exchange Commission
SEPO - Senate Economic Planning Office
SEPZ - Special Export Processing Zone
SLEX – South Luzon Expressway
SMED – Small and Medium Enterprise Development
SOE – State-Owned Enterprise
SPDC – Sapang Palay Development Committee
SPUG – Small Power Utilities Group
SPVCC – Solid Phil Venture Capital Corporation
SRNH – Strong Republic Nautical Highway
SSL – Salary Standardization Law
SSS – Social Security System
SVP – Senior Vice-President

TESDA – Technical Education Skills and Development Authority
TFDA – Tondo Foreshore Development Authority
TIDCORP – Trade and Industry Development Corporation

TLRC – Technology and Livelihood Resource Center
TMS - Technical and Maintenance Services
Transco – National Transmission Corporation
TRB – Toll Regulatory Board

WB – World Bank

PART I

A PROFILE OF SELECTED PHILIPPINE GOVERNMENT-OWNED AND -CONTROLLED CORPORATIONS

I. INTRODUCTION

At the start of the 13th Congress, a major policy challenge of the Philippine legislature was to address the deteriorating fiscal position of government and the rising public sector debt. The Consolidated Public Sector Position reached five percent of GDP in 2004 from a level of 3.2 percent of GDP in 1998. The large deficits of national government and those of the government-owned and -controlled corporations (GOCCs) were two areas that had to be reviewed and appropriate policy enacted.

While Congress has enacted laws to raise revenues and improve tax collections, the reform of the government corporate sector still needs to be addressed. The Senate of the Philippines took cognizance of the need to reform this sector and made it part of its legislative agenda (SEPO, 2004). The review of GOCCs' operations was considered a major area of policy reform because of its impact on the fiscal position of government.

The Senate Economic Planning Office (SEPO), the research unit of the Senate of the Philippines on economic issues, initiated this study to address the need of the Senators for information on the operations and financial standing of GOCCs. This Report is the first part of a proposed project to conduct a study to institutionalize the monitoring and assessment of GOCCs to improve the transparency and accountability of the sector. The objective of the whole project is to develop performance indicators to assist in the oversight of the sector and to recommend policy reforms to curb excesses and make the sector a viable instrument for development.

The first phase of the project is a profile of the fourteen monitored GOCCs. Also included are the profiles of the Philippine Amusement and Gaming Corporation (PAGCor) and the Philippine Charity Sweepstakes Office (PCSO) to address the concern on how these two profitable corporations can help ease the budgetary constraints faced by government, particularly in the need for health and education services.

The main objectives of this Report are:

1. to create a baseline database on the operations and financial status of the 14 monitored GOCCs together with PAGCor and PCSO;

2. to survey their governance practices and to analyze their financial operations; and

3. to make preliminary recommendations on how to improve GOCC governance and performance.

II. SCOPE AND LIMITATIONS

This Report focuses on profiling selected 14 monitored GOCCs, with the inclusion of PAGCor and PCSO. It is limited to these public corporations because they directly affect the public sector financial position. Likewise, PAGCor and PCSO which are revenue-generating corporations are seen to be likely sources of government revenues to help ease the budgetary need of the national government. This matter was taken up in the Senators' Strategic Planning Workshop held on October 22-23, 2004 at the Westin Philippine Plaza Hotel, Pasay City.

This component is aimed at preparing an operational and financial profile of GOCCs covering the period 1999 to 2004. It involves a study of the mandate, governance practices, operations, and the financial status of GOCCs within the said six-year period. The tangible output of this component is the publication of this profile of 14 monitored GOCCs along with PAGCor and PCSO.

The following are the GOCCs covered in this report:

1. Home Guaranty Corporation (HGC)
2. Light Rail Transit Authority (LRTA)
3. Local Water Utilities Administration (LWUA)
4. Metropolitan Waterworks and Sewerage System (MWSS)
5. National Development Company (NDC)
6. National Electrification Administration (NEA)
7. National Food Authority (NFA)
8. National Housing Authority (NHA)
9. National Irrigation Administration (NIA)
10. National Power Corporation (NPC)
11. Philippine Amusement and Gaming Corporation (PAGCor)
12. Philippine Charity Sweepstakes Office (PCSO)
13. Philippine Economic Zone Authority (PEZA)
14. Philippine National Oil Company (PNOC)
    - 14.1. PNOC Energy Development Corporation (PNOC-EDC)
    - 14.2. PNOC Exploration Corporation (PNOC-EC)
    - 14.3. PNOC Petrochemical Development Corporation (PNOC-PDC)
    - 14.4. PNOC Shipping and Transport Corporation (PNOC-STC)
    - 14.5. PNOC Development and Management Corporation (PNOC-DMC)
15. Philippine National Railways (PNR)
16. Philippine Ports Authority (PPA)

This profile is intended to provide information on the governance practices, operational activities, expenditure patterns and the financial standing of GOCCs, in consonance with their developmental mandate. It seeks to provide inputs to the drafting of GOCC reform bills that will address the rights of the multiple stakeholders of these corporations.

This Report is prepared in two parts. Part I presents a short background of the government corporate sector, summary of the operational, financial and governance highlights of the sixteen (16) GOCCs profiled and preliminary recommendations, and Part II provides the detailed profiles of the 16 covered GOCCs.

III. METHODOLOGY

In analyzing the selected GOCCs, information was obtained from audited financial statements and annual reports of GOCCs from the Commission on Audit (COA). Specifically, the GOCCs' mandate and functions, products, operational highlights, and financial position, i.e., balance sheets and income statement for the years 1999 to 2004 were studied and analyzed. This information was supplemented by the GOCCs' response to queries through official communications, as well as interviews of officials of the GOCCs.

Analyses of quantitative data obtained were based on basic financial ratios (such as balance sheet ratios), trend analysis, and individual GOCC analysis. It must be noted, however, that the diversity of the GOCCs selected did not easily lend itself to comparisons.

IV. BACKGROUND ON THE GOVERNMENT CORPORATIONS

- **Definition of GOCCs**

As defined under PD 2029, a GOCC is "a stock or a non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by special law or, if organized under the general corporation law, is owned or controlled by the government directly or indirectly through a parent corporation or subsidiary corporation, the extent of at least a majority of its outstanding capital stock or of its outstanding voting capital stock."

EO No. 64 of 1993 expanded the definition as follows: "…a corporation created by special law or incorporated and organized under the Corporation Code and in which government, directly or indirectly, has ownership of the majority of the capital stock. Any subsidiary of a GOCC shall be deemed a GOCC. Likewise, it is also a corporation…which is explicitly intended under the law and government policy for ultimate transfer to private ownership under certain specified conditions, shall be considered a GOCC until it is transferred to private ownership and control" (CPED, 2002).

- **Rationale for Government Corporations**

Government corporations are created as a way of helping to correct market failures. The conditions where GOCCs are expected to operate are:

1. In cases where private sector is unwilling to provide goods and services vital to society such as the construction of large infrastructure, i.e. roads and ports;
2. When there is a need to create bias in favor of disadvantaged sector of society in a free market operation such as distribution of staples like rice and sugar;
3. To spur the development of strategic activities with wide-ranging economic impact;

4. Natural monopolies which government wants to control to protect the consumers.

In the Philippines, the government widely used government corporations for economic and social development. GOCCs were created to provide infrastructure, public utilities and consumer price stabilization services. The COA identified GOCCs in accordance with their involvement in the following sectors: agriculture, trading and promotional sector, industrial and area development, educational, social, cultural, scientific, civic and research and financial sector.

- **Performance of GOCCs**

In 2004, there were a total of 133 GOCCs. Its consolidated total assets amounted to P4.5 trillion, which grew by 0.24 percent from the previous year while its total liabilities declined by 4.97 percent to P3.7 trillion during the same year from the P3.9 trillion balance in 2003. It is remarkable to note that the statement of income and expenses showed a net income of P24.5 billion in 2004 as compared to a net loss of P74.5 billion in 2003 (Table 1).

Table 1. Financial Profile of GOCCs, 2002-2004

(In billion pesos)

	2002	2003	2004
No. of GOCCs (target)	114*	133	133
Total Assets	4,508.1	4,495.0	4,506.0
Total Liabilities	3,344.5	3,891.7	3,698.1
Deferred Credits	56.1	76.3	58.6
Total Equity	1,107.5	527.0	749.3
Income/(Loss) After Tax	6.6	(78.5)	24.9
No. of GOCCs reporting Income	62	75	71
No. of GOCCs reporting Loss	50	48	44
No. of GOCCs with unsubmitted FS			9
Additional Information:			
1. FS of Subsidiaries consolidated to parent		8	8
2, No Statement of Income & Expenses	2	2	1

** For CY 2002 – Based on the actual no. of GOCCs which submitted the FS*

Source: Commission on Audit

For the three-year period 2002-2004, GSIS consistently placed as the top earner among GOCCs (Table 2).

Table 2. Top Ten GOCC Earners, 2002-2004

(In billion pesos)

	GOCCs	2002	GOCCs	2003	GOCCs	2004
1	GSIS	31.4	GSIS	37.8	GSIS	36.9
2	PHIC	5.7	BSP	6.6	PNOC	8.6
3	HDMF	5.3	LRTA	5.3	HDMF	6.5
4	PDIC	3.8	HDMF	5.3	PHIC	5.9
5	BSP	3.6	PHIC	4.0	SSS	2.6
6	DBP	1.8	LBP	2.0	DBP	2.3
7	LBP	1.7	DBP	1.9	LBP	2.3
8	PAGCor	1.1	MWSS	1.1	BSP	2.1
9	OWWA	0.8	PPA	0.8	PPA	2.0
10	MWSS	0.6	PNOC	0.6	NHMFC	1.4

Source: Commission on Audit

On the other hand, NPC, CB-BOL and NFA consistently landed in the first three places among the top ten GOCC losers covering the same period (Table 3).

Table 3. Top Ten GOCC Losers, 2002-2004

(In billion pesos)

	GOCCs	2002	GOCCs	2003	GOCCs	2004
1	NPC	(33.7)	NPC	(117.0)	NPC	(29.9)
2	CB-BOL	(7.4)	CB-BOL	(7.9)	CB-BOL	(9.3)
3	NFA	(4.1)	NFA	(6.7)	NFA	(6.5)
4	NHMFC	(1.7)	NEA	(6.0)	LRTA	(1.5)
5	LRTA	(1.5)	SSS	(2.9)	PNR	(1.1)
6	BCDA	(1.5)	NHMFC	(1.5)	SBMA	(0.9)
7	PNOC	(1.3)	PSALM	(1.4)	BCDA	(0.7)
8	PSALM	(1.0)	LWUA	(1.0)	TLRC	(0.6)
9	PNR	(0.6)	PNR	(0.6)	HGC	(0.6)
10	NEA	(0.6)	HGC	(0.5)	FCCC	(0.3)

Source: Commission on Audit

The outstanding debt of public corporations accounted for 31 percent of the increase in public debt from 1998 to 2004 which amounted to P831.2 billion. It also accounted for 98 percent of contingent liabilities which amounted to P850 billion pesos in 2004. Likewise, transfers to this sector, which include net lending, subsidies and equities, reached P20 billion in 2004 from a meager P5.8 billion in 1998. The 14 monitored GOCCs posted persistent deficits since 1994, reaching P90.7 billion in 2004 (Table 4).

Table 4. Financial Position of 14 Monitored GOCCs , 1994-2004

(In billion pesos)

Year	Surplus/(Deficit)
1994	(9.7)
1995	(1.3)
1996	(11.2)
1997	(17.9)
1998	(38.0)
1999	(4.6)
2000	(19.2)
2001	(24.5)
2002	(46.4)
2003	(65.3)
2004	(90.7)

Source: Department of Finance

Studies have shown that public corporations generally perform poorly compared to private corporations. A World Bank (1995) study identified three reasons why GOCCs or state-owned enterprises (SOEs) perform poorly:

1. No one has a clear stake in generating positive returns because there is no single identifiable owner since government can be the ministries, or parliament or the general public;
2. Many SOEs have multiple or conflicting objectives. Government creates a corporation to address social objectives such as lowering the price of a socially-sensitive good, yet the corporation is expected to maximize returns.
3. Access to subsidies, transfers and guaranteed loans create a moral hazard such that there is no incentive to be efficient since there is no threat of bankruptcy.

In studies conducted by Briones (1985) and Gervacio *et al* (2005), these same factors were identified as contributing to the poor performance of the government corporate sector in the Philippines. In addition, the absence of accountability was noted due to the preferential treatment GOCCs enjoy. The GOCCs have the advantage of access to government resources, are free from regulations compared to private companies, they have no ceilings on expenditures like national government agencies and they are under minimal control and supervision of oversight agencies. Moreover, supervision and monitoring of GOCCs is difficult because of the absence of standard rules and regulations to follow. Likewise, there are no guidelines on how managers are held accountable, complicated by appointments based on political considerations.

- **Improving governance practices**

Many of the problems attributed to poor performance of GOCCS arise from issues of poor governance. Improving corporate governance is therefore seen from its usefulness in reducing risks of poor financial performance and improving efficiency of this sector. Corporate governance, as defined by the Organisation for Economic Co-operation and Development (OECD), is a set of relationships between a company's management, its board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Recognizing that the scale and scope of SOEs in many countries is still significant and they still have considerable impact on the economy, the OECD (2005) developed guidelines on corporate governance of SOEs. In another OECD report, "Corporate Governance of State-Owned Enterprises: A Survey of OECD Countries", it emphasized that the impact of better governance in SOEs is important for the following reasons:

1. Improved governance in SOEs are expected to promote growth through better performance and increased productivity;
2. It will lead to more transparent allocation of resources and more effective supervision and management of enterprises;
3. Better governance will facilitate access to capital (both debt and equity) and lead to the allocation of resources to their productive use; and
4. It will improve the competitive process in those sectors open to entry by the private sector and where price controls have been lifted or reformed.

In 2005, the OECD refined the guidelines on corporate governance for SOEs, emphasizing the importance of an effective legal and regulatory framework and on the state acting as an owner. The six major points of the "OECD Guidelines on Corporate Governance of State-Owned Enterprises" are briefly discussed below:

1. ***Ensuring an effective legal and regulatory framework for SOEs.*** The legal and regulatory framework for SOEs should ensure a level playing field in markets where SOEs and private sector companies compete in order to avoid market distortions. This principle ensures that the legal and regulatory framework where SOEs operate does not give them undue advantage compared to the private sector. Hence, it advocates the clear delineation of the state's ownership function and other functions i.e. regulatory; SOEs should not be exempt from solvency or bankruptcy rules, liability claims and should not have privileges not available to the private sector; they should practice full disclosure of obligations and responsibilities; they should be subjected to general laws and regulations, and face competitive conditions regarding access to finance.

2. ***The state acting as an owner.*** The state should act as an informed and active owner and establish a clear and consistent ownership policy. The policy must ensure that the governance of SOEs is carried out in a transparent and accountable manner, with the necessary degree of professionalism and effectiveness. This principle advocates the state to outline a clear ownership policy defining its objectives and priorities, allowing full operational autonomy in day-to-day management of SOEs and the boards allowed to exercise their responsibilities with independence. The ownership rights of the state and the mechanism by which they are exercised should be clear and within the legal structure of the company to avoid political interference

or passive state ownership. Among these are the use of voting rights, structured and transparent board nomination process and regular monitoring and assessment of performance. It recommends that a government entity should be identified to carry out these ownership functions of government. There are two models advocated, one is a centralized agency and the other is to have a strong coordinating entity among the different departments.

3. ***Equitable treatment of shareholders.*** The state and SOEs should recognize the rights of all shareholders and ensure that all are treated equitably. This is true for SOEs where government is not the sole owner. The coordinating government entity should develop guidelines for the protection of minority shareholders. There must be a high degree of transparency such that shareholders have access to all necessary information, an active communication policy is implemented, and participation of minority shareholders are encouraged in shareholders' meetings.

4. ***Relations with stakeholders.*** The state ownership policy should fully recognize the SOEs' responsibilities towards stakeholders. This policy should be consistent with existing laws and regulations that govern all corporations. Mechanisms should be established to protect stakeholder rights including timely access to all relevant information and legal redress when rights are violated. Stakeholder relations policies should be reported and communicated to investors and the public at large, including reports on social and environmental policies.

   An important aspect in stakeholder relations is communicating to them the organization's implementation and compliance to an internal code of ethics. This is important since SOEs are more prone to deviate from ethical standards because of political and public policy factors. A code of ethics should include guidance to conduct of employees and officers, compliance programs, procurement processes and mechanisms to report deviations.

5. ***Transparency and disclosure.*** These principles should be practiced not only by the SOEs but also by the government coordinating entity. Thus, it should make aggregate reports to the general public, parliament and media on the value of the state portfolio in the SOEs and the ownership policies. For each SOE, financial and operating results, remuneration policy, related transactions and governance structures and processes should be disclosed.

   In the individual SOEs an internal audit system must be in place to ensure efficient and robust disclosure processes and internal controls. Internal auditors should work in behalf of the boards and its audit committee. In addition, they should also be subject to regular external audit. Accounting and auditing standards should be at par with internationally recognized standards.

6. ***The responsibilities of the boards of SOEs.*** The boards of SOEs play a crucial role in instituting good governance in these institutions. They must perform their functions of formulating corporate strategy, establishing performance indicators and identify risks, ensure transparency and integrity

of reports on the company's affairs and assess management performance. It should be emphasized that they have the ultimate responsibility for the company's performance and should be evaluated for their performance.

As such the composition of the board should allow them to exercise objective and independent judgment. This requires that members of the board are selected through a transparent nomination process free from political interference. Also, qualified persons should be nominated, with related experience in the SOE obligations and policy objectives, mostly coming from the private sector.

The board should also have the appropriate committees to oversee the various aspects of the company's operations.

V. SUMMARY OF FINDINGS

A. Operational Highlights

The poor financial condition of the GOCCs studied arises from operational factors and inconsistent policy objectives of government. Most of the 14 GOCCs are mandated to provide services with social objectives, which result in losses. In these cases, government is obliged to subsidize their operations. Likewise, some of the GOCCs' operations require huge capital investments which government cannot afford given its budgetary constraints. The consequence is that there is heavy reliance on debt particularly on foreign loans. The high foreign debt exposure, in turn, makes these GOCCs vulnerable to foreign exchange and interest rate risks.

Another factor is the moral hazard problem in the operations of GOCCs and their conduits/end-users (e.g. electric cooperatives for NEA, water districts for LWUA, farmers-beneficiaries for NIA). Many of the GOCCs have less incentive to perform efficiently because government guarantees their debt. In some instances, there is little restraint in spending. The national government, wanting to provide service to a larger populace, is less stringent on loan repayments for service-oriented cooperatives (such as electric cooperatives) and does not impose stiff fines on delinquent and erring end-users (such as NIA farmer-beneficiaries). This exacts a moral hazard problem: these service providers and end-users have no incentive to shape up and improve efficiency since the national government is on standby to bail them out and would not allow them to fail. This, in turn, leads to poor collection efficiency for many GOCCs (e.g. NIA, NHA, NEA, LWUA and HGC). These operational issues are discussed below.

- **No cost recovery in provision of products or services**

The mandates of most GOCCs imply that they act not as profit-maximizing corporations and they should strike a balance between consumer welfare and financial viability. These imply that they should offer their goods and services at the lowest possible price but enough for them to cover their operating and maintenance expenses. When GOCCs' financial situations become unsustainable, the GOCCs have two options. One option is for the GOCC to continue charging a price below the actual cost and ask the national government for subsidy. Alternatively, the GOCC may charge higher prices to end-users and consumers.

The often conflicting goals of promoting consumer welfare and financial viability are present in GOCC charters.

LRTA, for example, is mandated to provide efficient mass transport system in Metro Manila. However, its fare structure is considered one of the lowest in Southeast Asia not because it is efficiently managed but rather it is heavily subsidized. For the same distance traveled, LRT fare is set at P12-15, much lower compared to Singapore Bukit Panjang (P26), Kuala Lumpur LRT (P29), Singapore MRT (P35), Japan TRTA (P57), Taipei Hsin Tien (P59) and Taipeh RTC (P75) (LRTA, 2003). For the last 3 years (2002-2004), the national government subsidized every LRT ride by P25 per passenger. This large subsidy, though, is much lower than the P50 subsidy per passenger for MRT ride, another Metro Manila mass transport system (HOR, 2005). The national government even failed to benchmark LRT fares to be at least comparable to fares of jeepneys and buses plying the same route and distance.

LWUA is tasked to review the tariffs that water districts impose on its end-users. Tariffs should be adequate to provide for (1) the cost of systems expansion; (2) the operation and maintenance cost of the district; (3) service debt of the water district; (4) a reasonable surplus for replacement, extension and improvement; and (5) revenue for all water deliveries and service performed by the district. However, the revenues of several water districts are not enough to allow cost recovery largely because tariff increases are hostage to political interventions. As a result, several water districts default on their loan obligation and expansion programs are put on hold. Low tariffs also discourage the water districts from securing loans from private financing companies (World Bank, 2005).

The cost under recovery leads to LWUA being dependent on foreign financing and domestic borrowings and less on internally generated fund and water district equity to finance its capital expenditures (Table 5). LWUA cash generated fund and water district equity represent less than 3 percent of capital expenditures in 2003. Foreign financing and domestic borrowings, on the other hand, account for more than 90 percent of capital expenditures. The rest comes from government subsidy and congressional funds.

Table 5. LWUA's Capital Expenditures, 1999-2003

(In million pesos)

Item	1999	2000	2001	2002	2003
Capital expenditure	748	747	732	1,215	1,645
Sources of financing					
Foreign financing	438	301	485	825	1,093
Domestic borrowings	40	19	1	67	403
Internal cash generation	45	32	29	52	35
Water district equity	3	6	9	5	9
National government subsidy	194	126	138	257	99
Congressional funds	24	29	24	9	6
Special funds	5	1	4	n.a.	n.a.
Lingap para sa Mahirap	n.a.	233	43	n.a.	n.a.

n.a. not applicable

Source: Table 7.5 in World Bank (2005)

NEA is mandated to promote electrification throughout the country by granting loans to electric cooperatives (ECs). NEA puts a ceiling on interest rates on loans it charged to ECs. In turn, the cap on ECs' rate of return (ROR) was also fixed through loan contracts so that consumers will have access to cheap electricity. The financial performance of NEA, therefore, is largely tied to the performance of these ECs. During the last six years (1999-2004), around half of the 120 electric cooperatives registered net losses. The absorption of all ECs' financial obligations by Power Sector Assets and Liabilities Management (PSALM) Corporation prior to June 2001 failed to reduce significantly and permanently the number of bleeding ECs. This, in turn, resulted in NEA posting net income losses during the same period due to decline in income from interest on loans and subsidies from the national government. Annual subsidies averaged more than P500 million to fund rural electrification program for the electrification of financially unviable areas.

NFA is tasked to ensure adequate and continuous supply of food items at affordable prices. Its chief mandate is to procure grain at a price that gives farmers a fair return on their investment and to make the price of rice affordable to low-income families. True to its mandate, the average procurement price of NFA grain has been 9 percent higher than the market price and the average NFA rice is 18 percent cheaper compared to non-NFA ordinary rice. As a result, NFA has been in the red for the last six years (1999-2004) largely due (1) to the increasing cost of procurement and operations and (2) the stable price of NFA rice has largely been unresponsive to market price fluctuations, resulting in negative gross margins as sales were not enough to cover the cost of sales. The situation is troubling considering that NFA's gross margin in the early 1990s was estimated at 9 percent (Gustilo, 1999). NFA needs to have a gross margin of at least 20 percent of sales to at least break even. The way to achieve this is to bring down the cost of grain purchases or increase the selling price of NFA rice. Both options, however, are politically unpopular.

NIA is tasked with the construction, improvement, operation and maintenance of irrigation systems all over the country. It collects irrigation service fees (ISF) to cover the cost of operation, maintenance, and insurance as well as to recover the cost of construction within a reasonable period of time. However, actual ISF covers only the maintenance and operating expenses and not the construction of irrigation facilities (NIA, 2006). As a result, NIA has consistently registered net income losses from 1999 to 2004. In addition, more than half of the 3.13 million potentially irrigable hectares in the country still lack irrigation facilities due to limited government funding. The government subsidy to NIA averaged almost P40 million yearly.

NPC is tasked to undertake power generation and promote electrification. NPC has a ceiling on its ROR at 10 percent on a rate base composed of the sum of its net assets in operation plus 2 months' operating capital. However, NPC's ROR has been falling through time: from 8.20 percent in 1996 to -2.40 percent in 2003 (World Bank, 2005). The rates that NPC charged its consumers from 2002 to 2004 were below the actual cost it takes to produce power causing significant underrecovery for NPC. One reason for underrecovery was the slow action of the Energy Regulatory Commission (ERC) on NPC's requests for power rate adjustments. ERC regulates and determines power rates allowing for the recovery of just and reasonable costs and a reasonable rate of return base to enable the entity to operate viably. Another reason for NPC losses is its inability to be insulated from undue political intervention (World Bank, 2005). President Arroyo, for example, issued a directive in May 2002 reducing the power purchase adjustment from P1.25/kWh to P0.40/kWh although NPC has already been bleeding. This resulted to a ballooning of NPC losses from P10.4 billion in 2001 to P33.7 billion in 2002 and P117.0 billion in 2003.

Due to inability to recover costs, GOCCs' operations are subsidized by the national government. The highest subsidies over the last six years were given to NFA, LRTA, NHA, NEA, and PNR (Table 6).

Table 6. Top 5 Recipients of Government Subsidy, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004	Total
NFA	1,193	1,171	90	902	922	4,831	**9,109**
LRTA	-	-	-	831	7,570	35	**8,435**
NHA	1,468	1,341	869	737	551	761	**5,727**
NEA	434	535	285	787	425	440	**2,904**
PNR	147	159	353	316	214	199	**1,388**

Source: Commission on Audit

The infusion of government subsidies to GOCCs is done in an ad hoc and discriminating basis reflecting the thrusts and priorities of the current administration. NHA posted a net income for the last 6 years (1999-2004) yet the national government continued to infuse subsidy to NHA. It received P2.8 billion in subsidies from 1999-2000 as then- President Estrada jumpstarted its pro-poor urban housing program. The subsidy fell in the succeeding years to as low as P551 million under President Arroyo. The LRTA has received subsidies for the last three years, the largest being the P7.57 billion subsidy in 2003 to finance its modernization program and pay its maturing obligations. Afterwards, subsidy for LRTA declined to P35 million in 2004.

- **Reliance on debt**

While government is obliged to provide the services which the GOCCs perform, it has nevertheless no fiscal capability to fund them. This is because utilities such as energy and transport services require huge capital investment that the government may not be able to finance. Hence, the strategy undertaken was to rely heavily on debt to raise the much needed capital. This has been the case with NPC, LRTA, NEA, and PNOC.

In the case of PNR, the failure to recapitalize led to revenue losses and heavy reliance on government subsidy and less on its operations. During the last six years (1999-2004), more than half of PNR's revenues came from its non-operating revenue, in particular, miscellaneous income. Miscellaneous income is composed of rent on land, interest income, income from sale of scrap, gain on sale of fixed assets, dividend income and other income. PNR's operating revenues have been on a steady decline since 2001 mainly due to the decreased number of train runs.

The overreliance on foreign loans and absence of well-designed risk management program exposed many GOCCs to high foreign exchange (forex) losses and interest payments. These losses were eventually shouldered by the national government (through higher subsidy and debt absorption) and by the consumer through higher prices.

Twelve out of the 16 surveyed GOCCs have a debt-to-asset ratio greater than 60 percent - meaning for every peso worth of asset, 60 centavos come from loans and 40 centavos come from government equity (Table 7). So immense are some of the GOCCs' reliance on debt that four of them have a debt-to-asset ratio of more than one. This implies that these GOCCs (e.g. NFA, PNR, NPC, and LRTA) have equity deficiencies and have registered negative retained earnings for the last several years.

Table 7. Debt-to-Asset Ratio, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
NFA	0.865	1.060	1.161	1.303	1.688	2.155	**1.372**
PNR	1.387	1.419	1.462	1.507	1.554	1.630	**1.493**
NPC	0.855	0.888	0.907	0.947	1.330	1.130	**1.010**
LRTA	1.223	1.239	1.262	1.259	1.042	1.071	**1.183**
NEA	0.688	0.722	0.780	0.828	1.095	1.010	**0.854**
NDC	0.746	0.858	0.975	0.890	0.917	0.897	**0.880**
PCSO	0.688	0.874	1.021	1.031	0.911	0.885	**0.901**
PNOC	0.739	0.784	0.746	0.732	0.733	0.844	**0.763**
PAGCor	0.739	0.742	0.739	0.777	0.805	0.771	**0.762**
HGC	0.549	0.483	0.591	0.721	0.684	0.759	**0.631**
LWUA	0.512	0.542	0.537	0.590	0.702	0.734	**0.603**
PEZA	0.850	0.847	0.724	0.678	0.752	0.632	**0.747**
NIA	0.353	0.367	0.396	0.444	0.534	0.541	**0.439**
MWSS	0.244	0.290	0.344	0.399	0.415	0.453	**0.358**
NHA	0.238	0.267	0.290	0.311	0.319	0.329	**0.292**
PPA	0.135	0.162	0.114	0.124	0.135	0.147	**0.136**
Average	**0.676**	**0.721**	**0.753**	**0.784**	**0.851**	**0.874**	**0.777**

Source of basic data: Commission on Audit

Another measure of financial performance, the debt-to-equity ratio, shows that many of the surveyed GOCCs are at risk for long-term insolvency. Leading those with high liquidity risk are NEA, NDC, LRTA, NFA, and PNR (Table 8). These GOCCs have suffered financial losses for the last 6 years. PCSO is a different case: its high debt-to-equity ratio reflects the automatic apportionment of its funds to government programs rather than deteriorating financial position.

Table 8. Debt-to-Equity Ratio, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
NDC	2.939	6.046	38.586	8.071	10.999	8.665	12.551
NPC	5.876	7.906	9.758	17.954	(4.026)	(8.690)	4.796
PEZA	5.668	5.547	2.622	2.107	3.026	1.721	3.448
PNOC	2.833	3.632	2.941	2.734	2.751	5.423	3.385
PAGCor	2.827	2.870	2.831	3.476	4.131	3.372	3.251
HGC	1.220	0.934	1.445	2.583	2.160	3.156	1.916
LWUA	1.051	1.183	1.159	1.441	2.106	2.757	1.616
NIA	0.547	0.579	0.655	0.797	1.147	1.177	0.817
MWSS	0.323	0.408	0.525	0.664	0.709	0.829	0.576
NHA	0.312	0.364	0.408	0.452	0.468	0.491	0.416
PPA	0.156	0.193	0.128	0.141	0.156	0.172	0.158
PNR	(3.584)	(3.385)	(3.166)	(2.971)	(2.805)	(2.588)	(3.083)
NFA	6.427	(17.646)	(7.216)	(4.296)	(2.453)	(1.866)	(4.508)
LRTA	(5.480)	(5.176)	(4.814)	(4.857)	(24.910)	(15.041)	(10.046)
NEA	2.208	2.603	3.546	4.817	(11.493)	(97.555)	(15.979)
PCSO	2.206	6.929	(49.726)	(33.443)	(35.049)	(14.536)	(20.603)
Average	**1.596**	**0.812**	**(0.020)**	**(0.021)**	**(3.318)**	**(7.032)**	**(1.331)**

Source of basic data: Commission on Audit

A huge part of the GOCCs' obligations were foreign loans and this has been the reason for the huge foreign exchange (forex) losses and interest payments for many GOCCs. The degree of exposure to foreign loans varies. For NPC, foreign loans and other long-term debt was pegged at 55 percent of its long-term liabilities; for NDC, 56 percent; and for LWUA, 90 percent. LRTA's foreign loans were estimated at 88 percent of its total debt and NEA's foreign loan payables were pegged at 32 percent.

The 1997 Asian Financial Crisis exacted a heavy toll on many GOCCs that have substantial foreign-denominated liabilities. The GOCCs with the highest forex losses were NPC, PNOC, NEA, LRTA, and LWUA (Table 9). NPC forex losses during the period was estimated at more than P113 billion. This amount pales in comparison with the forex losses of the next 4 GOCCs whose combined forex losses stood at less than P20 billion. As a note, part of the recorded forex losses were due to changes in accounting rules, particularly the adoption of the new Statement of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS). Under the new accounting rules (SFAS 21/IAS 21 – "The Effects of Changes in Foreign Exchange Rates"), exchange rate differences are recognized in the current fiscal period as income or as an expense in the period in which they arise with the exception of exchange differences that form part of an enterprise's net investment in a foreign entity compared to the previous practice where these were amortized.

Table 9. Top 5 GOCCs with Foreign Exchange Losses, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004	Total
NPC	325	1,062	626	6,738	77,840	26,964	**113,555**
PNOC	113	2,154	(141)	2,027	2,929	-	**7,082**
NEA	380	508	674	680	4,500	208	**6,949**
LRTA	(4)	9	13	1,595	1,184	465	**3,262**
LWUA	5	7	93	123	461	277	**1,086**

Source: Commission on Audit

Four out of the GOCCs with the highest forex losses also had the highest interest payments. NPC's interest payment for the period was pegged at P116 billion. On the other hand, the combined interest expense paid by the next 4 GOCCs stood at P20.4 billion (Table 10).

Table 10. Top 5 GOCCs – Payers of Interest Payments, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004	Total
NPC	12,955	15,064	15,108	17,876	24,852	30,248	**116,103**
PNOC	499	505	1,829	3,337	2,119	1,546	**9,835**
LRTA	567	847	810	659	873	1,020	**4,776**
NDC	220	619	633	646	781	480	**3,378**
NEA	383	346	408	397	385	483	**2,402**

Source: Commission on Audit

As GOCCs suffer forex losses as the peso depreciates, the converse is also true. Several GOCCs (e.g. NPC, LRTA) with high foreign debt exposure would experience net forex gains since the peso started appreciating in 2005-2006.

- **Poor collection efficiency and expenditure management**

The national government, wanting to provide service to a larger populace, is less stringent on loan repayments for service-oriented cooperatives (such as electric cooperatives) and does not impose stiff fines on delinquent and erring end-users (such as NIA farmer-beneficiaries). This exacts a moral hazard problem: these service providers and end-users have no incentive to shape up and improve efficiency since the national government is on standby to bail them out and would not allow them to fail. This, in turn, leads to poor collection efficiency for many GOCCs (e.g. NIA, NHA, NEA, LWUA and HGC).

NIA, for example, has historically had problems enforcing collection of irrigation service fees from its farmer-beneficiaries. One of the main reasons for this is the nature of most irrigation systems which do not allow NIA to cut off service for delinquent beneficiaries without negatively affecting downstream paying clients. Furthermore, the current, land-area based method for computing charges is deemed to be a less efficient method as compared to a water-volume consumption charging as the current system is more susceptible to abuse from upstream users.

NHA is in-charge of social housing production and ensuring the sustainability of socialized housing funds. It has come under considerable strain in collecting arrears from its delinquent clients. NHA's collection performance from 1999-2003 was below 50 percent. Only in 2004 did the NHA have a decent collection efficiency of 69 percent. As a result of poor collection efficiency, it faces difficulty jumpstarting new housing projects. Every year, from 1999 to 2004, its accomplishments have been lower than its goals. The percentage of actual projects implemented vis-à-vis the target averaged was around 75 percent. Housing production has been lower than expected with the number of units started (61 percent in 2004) and completed (62 percent in 2004) declining drastically compared to the 1999 level (108 percent and 91 percent, respectively) when the national government's subsidy reached as high as P1.5 billion. Land acquisition and awarding of units have particularly been sluggish, rarely meeting even at least half of the target.

- **Privatization**

There are several success stories for several GOCCs which privatized some of their operations like MWSS and PPA. In 1997, the operational and investment functions of MWSS were privatized via concession agreements with two companies namely the Manila Water Company Incorporated (MWCI or Manila Water) for Metro Manila East Zone and Maynilad Water Services Incorporated (MWSI or Maynilad) for Metro Manila West Zone. The concessionaires, as agents of MWSS in the provision of water and sewer services, took over the land tenancy, operational fixed assets and exclusive rights to produce and treat raw water; transport, distribute and market potable water; and collect, transport, treat, dispose of and reutilize wastewater. Compared to the preconcession period, water services greatly improved with an additional 1.7 million people in Metro Manila receiving water services and with 200,000 new water connections (World Bank, 2005). As a result of the concession agreement, MWSS has had net income starting 2001 to 2004, largely due to the increase in concession fees.

The PPA, the GOCC in-charge of financing, managing, and operating public ports, also generates substantial revenues from spinning off some of its functions to a private company. PPA's largest revenue comes from the collection of a fixed fee from International Container Terminal Services Inc. (ICTSI). ICTSI handles foreign containerized cargo and operates the Manila International Container Terminal (MICT) which is one of the two major Philippine maritime gateways to the rest of the world. The fees from ICTSI have been rising from P1.1 billion in 1999 to almost P2 billion in 2004.

B. Financial Highlights

- **Income and Expenses**

Overall, net income after tax (taking into account all other income and other expenses) of the 16 covered corporations reflected serious deterioration from 1999 to 2003, from an aggregate net loss of P5.57 billion in 1999 to a high net loss of P121.57 billion in 2003. They recovered, though, in 2004 as the net loss dropped to P30.08 billion (Table 11). Nine (9) out of 16 GOCCs incurred net losses in 2004. Leading the list is NPC which incurred P29.90 billion net loss with the NFA as a far second with P6.47 billion net loss. The biggest shortfall that came about in 2003 was traced to the P117.02 billion net loss incurred by NPC, P77.84 billion of which was due to forex transactions. Mitigating the losses of the 14 monitored corporations were net earnings of PAGCor and PCSO, which brought down the aggregate net loss of the 16 corporations to an annual average of P36.96 billion over the period 1999-2004. Both corporations were net earners in all years covered, except in two years for PCSO. Top consistent earners were PNOC, PPA, PAGCor, NHA and PEZA having incurred no loss in the entire six-year period.

Table 11. Net Income after Tax, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004
PNOC	2,359	1,629	1,879	1,251	1,889	5,220
PPA	1,169	210	1,684	1,874	845	1,965
PAGCor	672	909	1,151	1,105	476	1,048
NHA	1,481	1,348	875	739	555	766
MWSS	(1,376)	(1,275)	179	586	1,099	662
PEZA	13	217	588	416	454	492
PCSO	61	(429)	(326)	50	63	22
NEA	(329)	(472)	(753)	(583)	(5,998)	(41)
NIA	(493)	(648)	(293)	(496)	(423)	(132)
LWUA	128	124	24	(197)	(570)	(257)
NDC	(57)	(2,043)	(1,194)	(302)	(395)	(311)
HGC	237	276	15	(204)	(586)	(553)
PNR	(670)	(684)	(559)	(613)	(644)	(1,125)
LRTA	(396)	(865)	(967)	(1,529)	5,348	(1,464)
NFA	(2,413)	(4,282)	(1,757)	(4,121)	(6,663)	(6,470)
NPC	(5,953)	(12,964)	(10,377)	(33,735)	(117,015)	(29,901)
Total	**(5,566)**	**(18,948)**	**(9,831)**	**(35,760)**	**(121,565)**	**(30,080)**

Source: Commission on Audit

The earning power from operations of the 16 GOCCs combined was dismal for the six-year period. Net income from operations (Operating and Service Income less Operating Expenses), while positive from 1999 to 2004, reflected an erratic trend, starting at 11.74 percent of total operating and service income in 1999. It declined annually to hit a low of 1.93 percent in 2003 but recovered to 15.42 percent in 2004. That year, NPC made a dramatic turnaround and registered a P22.15 billion gain from a loss of P5.35 billion the previous year. PAGCor and PNOC also made positive contributions of P5.34 billion and P9.20 billion net operating income, respectively, in 2004. However, the big losers in 2004 were the NFA (P9.04 billion) and PNR (P1.32 billion). NPC booked net operating income from 1999 to 2004 except in 2003 when it incurred a shortfall of P5.35 billion. In contrast, PCSO, NIA, NDC, PNR and NFA consistently registered net operating losses in the six-year period covering 1999 to 2004 (Table 12).

Table 12. Net Income from Operations, 1999-2004
(In million pesos)

	1999	2000	2001	2002	2003	2004
NPC	8,489	5,438	6,837	523	(5,349)	22,149
PAGCor	5,568	6,650	8,156	9,296	6,813	9,344
PNOC	3,108	3,917	4,215	5,492	6,773	9,204
PPA	1,195	256	1,674	1,893	1,618	2,435
MWSS	(1,353)	(1,452)	58	361	917	589
PEZA	(99)	88	500	452	473	235
NEA	153	70	(66)	(122)	(518)	202
HGC	317	238	167	84	11	101
NHA	12	7	5	2	4	5
LWUA	273	385	129	(79)	(117)	(10)
LRTA	71	(85)	(206)	(156)	(269)	(56)
PCSO	(75)	(635)	(504)	(127)	(148)	(132)
NIA	(493)	(701)	(413)	(511)	(423)	(182)
NDC	(30)	(2,768)	(1,768)	(197)	(281)	(232)
PNR	(816)	(843)	(911)	(928)	(856)	(1,321)
NFA	(2,209)	(4,205)	(522)	(3,761)	(5,461)	(9,043)
Total	**14,112**	**6,358**	**17,351**	**12,223**	**3,185**	**33,288**

Source: Commission on Audit

While providing the bulk of operating and service income for the 16 corporations for the period 1999-2004 at a yearly average of 73.72 percent, NPC also accounted for a yearly average equivalent to 76.62 percent of operating expenses of the 16 corporations for the same period. PAGCor was a far second with an annual average of 9.77 percent of operating and service income and a corresponding 5.43 percent annual average of operating expenses from 1999 to 2004. This trend was consistent over the six-year period covered.

Out of the ordinary, NFA registered a negative Operating and Service Income in 2002 to 2004 (Table 13). This happened because the cost of sales of NFA during those years was higher than the price of the goods sold. NFA usually procures rice from farmers at a price higher than the market price and sells at a price lower than the market price.

Table 13. Operating and Service Income, 1999-2004
(In million pesos)

	1999	2000	2001	2002	2003	2004
NPC	89,686	100,119	115,698	116,433	119,179	167,276
PAGCor	11,006	12,987	15,584	18,054	16,571	19,362
PNOC	5,199	6,386	6,839	8,516	9,934	11,958
PPA	4,145	4,507	5,121	5,362	5,402	5,615
PEZA	1,133	3,482	3,887	3,970	4,265	4,988
MWSS	461	294	2,580	2,840	3,385	2,799
LWUA	899	1,016	997	1,338	1,417	1,776
LRTA	1,191	1,105	1,147	1,212	1,257	1,660
PCSO	972	920	1,021	1,212	1,313	1,516
NIA	1,225	1,099	1,205	1,444	1,558	1,373
NDC	669	834	1,126	875	1,076	905
NEA	850	776	700	613	315	876
NHA	727	652	747	734	724	721
HGC	528	474	375	300	264	280
PNR	204	177	236	225	184	184
NFA	1,335	68	2,926	(219)	(1,998)	(5,355)
Total	**120,230**	**134,896**	**160,190**	**162,911**	**164,844**	**215,934**

Source: Commission on Audit

Table 14. Operating Expenses, 1999-2004
(in million pesos)

	1999	2000	2001	2002	2003	2004
NPC	81,197	94,682	108,861	115,911	124,527	145,127
PAGCor	5,438	6,337	7,428	8,758	9,758	10,018
PEZA	1,233	3,394	3,387	3,518	3,792	4,753
NFA	3,543	4,273	3,447	3,542	3,464	3,688
PPA	2,950	4,251	3,447	3,469	3,784	3,180
PNOC	2,091	2,469	2,625	3,024	3,162	2,754
MWSS	1,814	1,745	2,522	2,479	2,468	2,210
LWUA	626	631	868	1,416	1,534	1,786
LRTA	1,121	1,190	1,353	1,368	1,526	1,716
PCSO	1,048	1,555	1,525	1,339	1,461	1,647
NIA	1,717	1,801	1,618	1,955	1,981	1,555
PNR	1,020	1,020	1,147	1,153	1,040	1,505
NDC	699	3,603	2,895	1,072	1,357	1,136
NHA	715	645	741	733	720	716
NEA	697	706	767	734	833	674
HGC	211	236	208	216	253	180
Total	**106,119**	**128,537**	**142,839**	**150,688**	**161,659**	**182,646**

Source: Commission on Audit

- **Assets**

Total assets of the 14 monitored GOCCs plus PAGCor and PCSO reflected an increase from P1.24 trillion in 1999 to P1.54 trillion at end-2004 (Table 15). It registered an average annual increase of 4.66 percent in the six-year period covered incurring a negative growth rate of 8.23 percent in 2003. It recorded a high growth rate of more than 12 percent in years 2000 and 2002. NPC comprised the bulk of GOCC assets, and the PNOC came as a far second. Over the period 1999-2004, NPC's assets averaged 69.55 percent of average assets of all 16 government firms.

Ranked according to their share in total assets as of end-2004, are the following GOCCs: NPC whose share to total was 68.74 percent, followed by PNOC, PPA, MWSS, NIA, LRTA, HGC, NEA, NHA, NFA, LWUA, PNR, NDC, PEZA, PAGCor and PCSO with the smallest share of only 0.25 percent.

As to current assets, a similar trend increase was noted, with the 16 government corporations likewise increasing from P106.92 billion in 1999 to P264.52 billion by 2004. Non-current assets likewise rose over the six-year period from P1.13 trillion in 1999 to P1.27 trillion in 2004.

The ranking changes slightly for current assets. While NPC (at 65.86 percent) and PNOC continued to hold the two highest share to total, the rest are ranked as follows: NIA, NHA, MWSS, NFA, PAGCor, HGC, NEA, PCSO, PPA, NDC, PEZA, LWUA, LRTA and PNR (whose share to total current assets was lowest at 0.17 percent).

Some further shifting in shares to total also occurs when viewing the non-current assets proportions to total. While NPC (at 69.33 percent) and PNOC (at 6.65 percent) remain the top-ranking corporations, the rest are ranked in descending order as follows: PPA, MWSS, LRTA, NIA, HGC, NEA, LWUA, PNR, NFA, NHA, NDC, PEZA, PAGCor and PCSO (0.11 percent).

Table 15. Total Assets, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004
NPC	862,097	989,774	1,005,985	1,153,012	989,999	1,055,552
PNOC	98,668	124,633	122,168	123,527	127,289	105,316
PPA	65,597	65,287	75,739	75,921	76,567	78,835
MWSS	50,697	52,969	57,298	63,134	65,125	69,933
NIA	36,633	36,498	37,641	37,700	44,831	45,437
LRTA	12,617	16,374	18,692	26,522	38,670	42,781
HGC	8,203	11,282	14,248	19,686	21,992	26,624
NEA	20,992	20,617	21,199	20,600	19,895	22,122
NHA	15,750	17,268	18,525	18,515	21,267	21,472
NFA	22,522	19,695	20,543	24,136	23,388	20,046
LWUA	9,634	10,713	11,077	11,930	12,920	14,896
PNR	10,049	10,986	11,254	11,554	11,922	12,348
NDC	14,836	12,743	10,659	12,602	12,262	6,870
PEZA	5,409	5,390	5,507	5,307	4,701	5,325
PAGCor	2,440	2,467	3,132	3,749	4,363	4,254
PCSO	3,741	3,658	4,183	4,838	4,774	3,839
Total	**1,239,883**	**1,400,351**	**1,437,851**	**1,612,733**	**1,479,963**	**1,535,651**

Source: Commission on Audit

In assessing short-term liquidity risk that determines the firm's ability to meet its currently maturing obligations, the average current ratio from 1999 to 2004 over the six-year period for all GOCCs was a respectable 1.201 (Table 16). Best performers in all those years were PCSO, MWSS, LRTA, HGC, NHA, LWUA, PAGCor and PNOC. Worst performing were PNR and NEA which declined tremendously every year, registering an average current ratio of below 0.50 with their lowest of 0.03 and 0.18, respectively attained in 2004. It might be noted that, on the other hand, NPC improved its current ratio from 0.376 in 1999 to 1.146 in 2004.

Table 16. Current Ratio, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
PCSO	2.160	2.969	3.002	3.696	2.801	2.845	**2.912**
MWSS	1.880	1.691	1.663	3.185	1.551	2.258	**2.038**
LRTA	5.639	2.420	1.930	0.985	0.474	0.504	**1.992**
HGC	2.964	4.411	1.407	0.851	1.018	0.323	**1.829**
NHA	2.321	1.603	1.653	1.709	1.318	0.827	**1.572**
LWUA	1.337	1.292	1.611	1.145	1.419	1.412	**1.369**
PAGCor	1.422	1.186	1.444	1.187	1.408	1.411	**1.343**
PNOC	1.460	0.799	1.682	1.067	1.143	1.306	**1.243**
NDC	1.228	0.555	0.991	1.015	0.753	1.331	**0.979**
NIA	1.086	0.816	0.750	0.758	0.865	0.832	**0.851**
PPA	1.728	0.391	0.731	0.775	0.672	0.624	**0.820**
PEZA	0.595	0.567	0.621	0.688	0.691	0.877	**0.673**
NFA	1.043	0.804	0.712	0.641	0.450	0.293	**0.657**
NPC	0.376	0.418	0.361	0.510	0.549	1.146	**0.560**
NEA	0.399	0.402	0.481	0.368	0.208	0.183	**0.340**
PNR	0.062	0.044	0.042	0.038	0.035	0.030	**0.042**
Average	1.606	**1.273**	**1.193**	**1.164**	**0.960**	**1.013**	**1.201**

Source of basic data: Commission on Audit

- **Liabilities**

Total liabilities of the 14 monitored corporations plus PAGCor and PCSO increased from P940.36 billion in 1999 to P1.54 trillion by 2004 (Table 17). Average annual increase was 10.83 percent, which was blunted by a decrease in 2004 (6.68 percent) and a smaller increase in 2001 (3.94 percent). NPC accounted for the bulk of liabilities, comprising 77.68 percent of 2004 total liabilities, and comprising 78.56 percent of the six-year average of all GOCCs. While all corporations reflected an increasing trend in total liabilities, NPC, through the sheer size of its obligations created the heaviest burden, jumping to P1.19 trillion in 2004 from P736.72 billion in 1999. Likewise, for PNOC, there was a jump from P72.92 billion in 1999 to P97.72 billion in 2000, which eventually settled at P88.92 billion in 2004.

Ranked according to their share in total liabilities as of end-2004 are the following GOCCs which came after NPC: PNOC, LRTA, NFA, MWSS, NIA, NEA, HGC, PNR, PPA, LWUA, NHA, NDC, PCSO, PEZA, and PAGCor. The last three had the lowest shares at 0.221 percent, 0.219 percent, and 0.214 percent, respectively.

Current liabilities nearly doubled between 1999 (P158.13 billion) and 2004 (P277.76 billion), although relative to total liabilities, remained at around 18.09

percent of total liabilities. Current liabilities of NPC and NFA comprised the largest shares. Non-current liabilities, which were P1.26 trillion in 2004, comprised 82.05 percent of total, slightly less than its share of 83.18 percent in 1999 at P782.23 billion.

As to shares to total of current liabilities, NPC holds the highest share (54.72 percent). The others follow: NFA, NIA, PNOC, PNR, NEA, HGC, MWSS, NHA, PPA, LRTA, PAGCor, PEZA, NDC, LWUA, and PCSO.

For shares to total non-current liabilities, NPC again dominates the list holding 83.34 percent of total. The others follow: PNOC, LRTA, MWSS, HGC, NFA, LWUA, NEA, PPA, NIA, PNR, NDC, NHA, PCSO, PEZA and PAGCor.

Table 17. Total Liabilities, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004
NPC	736,724	878,643	912,471	1,092,179	1,317,193	1,192,808
PNOC	72,925	97,724	91,167	90,445	93,353	88,919
LRTA	15,433	20,295	23,593	33,399	40,287	45,828
NFA	19,489	20,878	23,848	31,460	39,482	43,204
MWSS	12,376	15,359	19,715	25,199	27,026	31,690
NIA	12,948	13,384	14,898	16,721	23,951	24,565
NEA	14,449	14,895	16,536	17,059	21,791	22,351
HGC	4,507	5,447	8,421	14,192	15,032	20,219
PNR	13,938	15,592	16,448	17,417	18,527	20,124
PPA	8,848	10,568	8,599	9,379	10,341	11,552
LWUA	4,937	5,806	5,946	7,042	9,065	10,931
NHA	3,746	4,606	5,373	5,764	6,780	7,068
NDC	11,069	10,934	10,390	11,213	11,240	6,159
PCSO	2,574	3,197	4,269	4,988	4,348	3,396
PEZA	4,598	4,566	3,987	3,599	3,533	3,368
PAGCor	1,803	1,829	2,314	2,911	3,512	3,281
Total	**940,364**	**1,123,723**	**1,167,974**	**1,382,966**	**1,645,462**	**1,535,464**

Source: Commission on Audit

- **Equity and Retained Earnings**

Net capital or stockholders' equity reflected a serious concern for six GOCCs, namely: NEA, PCSO, LRTA, PNR, NFA, and NPC, with the NPC recording the highest deficit of P137.26 billion in 2004. NPC capital deficiency was caused by big losses (net income after tax) it incurred for the period 1999-2004 at record high of P117.01 billion in 2004 (Table 18).

Table 18. Stockholders' Equity (Capital Deficiency), 1999-2004
(In million pesos)

	1999	2000	2001	2002	2003	2004
PPA	56,748	54,719	67,140	66,542	66,226	67,283
MWSS	38,321	37,610	37,583	37,935	38,099	38,244
NIA	23,685	23,113	22,743	20,978	20,879	20,872
PNOC	25,744	26,909	31,001	33,082	33,936	16,397
NHA	12,003	12,662	13,153	12,751	14,487	14,404
HGC	3,696	5,835	5,828	5,495	6,959	6,406
LWUA	4,697	4,907	5,131	4,888	4,305	3,965
PEZA	811	823	1,521	1,708	1,167	1,957
PAGCor	638	638	818	838	850	973
NDC	3,767	1,808	269	1,389	1,022	711
NEA	6,543	5,723	4,664	3,541	(1,896)	(229)
PCSO	1,167	461	(86)	(149)	(124)	(234)
LRTA	(2,816)	(3,921)	(4,901)	(6,877)	(1,617)	(3,047)
PNR	(3,890)	(4,607)	(5,195)	(5,863)	(6,605)	(7,777)
NFA	3,032	(1,183)	(3,305)	(7,323)	(16,094)	(23,158)
NPC	125,373	111,131	93,514	60,833	(327,194)	(137,256)
Total	**299,519**	**276,628**	**269,876**	**229,768**	**(165,599)**	**(489)**

Source: Commission on Audit

Retained earnings of the 16 corporations as a group reflected an aggregate negative P308.36 billion in 2004, from a positive P12.17 billion in 1999, having steadily and seriously declined to negative balances starting 2000 to 2004 (Table 19). Of the total 16 GOCCs, only 5 registered positive balances on their retained earnings with PPA registering the highest of P10.23 billion, closely followed by NHA with P8.36 billion. The largest deficit of P461.71 billion recorded in 2003 was attributed to NPC. NPC, in a turnaround in 2004, recovered and reduced the deficit to only P308.36 billion.

Table 19. Retained Earnings (Deficits), 1999-2004
(In million pesos)

	1999	2000	2001	2002	2003	2004
PPA	6,867	5,426	7,747	8,930	8,601	10,230
NHA	6,588	7,218	7,751	8,164	8,370	8,357
PNOC	21,958	23,045	26,360	28,442	29,296	3,986
MWSS	(1,486)	(2,659)	1,676	2,028	2,192	2,332
PAGCor	566	566	746	766	779	902
HGC	1,194	1,333	1,197	993	210	(343)
PEZA	(1,596)	(1,585)	(887)	(700)	(1,240)	(450)
LWUA	418	397	289	45	(585)	(1,231)
PCSO	(53)	(728)	(1,270)	(1,300)	(1,274)	(1,426)
NIA	(1,062)	(1,729)	(1,842)	(3,683)	2	(3,921)
NEA	1,375	543	(518)	(1,637)	(7,048)	(5,377)
LRTA	(5,734)	(6,912)	(7,892)	(9,899)	(4,639)	(6,069)
NDC	(4,059)	(6,017)	(7,556)	(7,695)	(8,063)	(8,374)
PNR	(6,453)	(7,171)	(7,759)	(8,427)	(9,169)	(10,301)
NFA	(3,525)	(8,296)	(10,212)	(15,037)	(23,165)	(30,687)
NPC	(2,829)	(17,120)	(34,730)	(67,940)	(455,973)	(265,990)
Total	**12,169**	**(13,689)**	**(26,901)**	**(66,949)**	**(461,705)**	**(308,363)**

Source: Commission on Audit

C. Governance Highlights

Improved corporate governance is important in ensuring GOCCs' financial and operational viability as they perform their intended mandate. The OECD (2005) published guidelines on how to improve corporate governance of SOEs or GOCCs. The OECD recognizes that GOCCs face "distinct governance challenges" such as undue political interference and dilution of accountability-challenges that private corporations do not necessarily confront. Real threats of takeover and bankruptcy which motivate private firms to shape up are largely absent in GOCCs. On top of these, GOCCs receive perks and privileges that private corporations do not enjoy. They receive direct and indirect subsidies from the government as well as borrowing guarantees. There are also instances when GOCCs get preferential treatment and favorable lending rates from government financial institutions (GFIs). In addition, many GOCCs are exempt from the payment of all forms of taxes, duties, fees, imposts as well as costs and service fees. The issues of subsidies, tax exemptions, and borrowing guarantees become more crucial in sectors where GOCCs compete with the private sector in the provision of services since these may lead to market distortions and uncompetitive practices. Economic activities in the Philippines where GOCCs are present and where there are also significant private sector participation include power generation, energy (including alternative fuel) provision and development, housing, and transportation.

- **State Ownership**

OECD (2005) recommends that the state acts as an informed and active owner establishing consistent ownership policy. Moreover, the exercise of ownership rights should be clearly identified, preferably through the setting up of a coordinating entity or centralization of the ownership function. This coordinating or ownership entity should be accountable to Congress.

In the Philippines, the National Government is the sole shareholder for most of the surveyed GOCCs (e.g. NPC, NEA, NHA, HGC, NFA, NIA, PPA, NDC). The shares of the private sector and GFIs in some GOCCs are minimal. For example, less than 1 percent shares of stocks are owned by private shareholders in PNOC-EC. Another PNOC subsidiary, PNOC-EDC, held an initial public offering (IPO) worth around P19.2 billion in the Philippine Stock Exchange (PSE) last December 2006, representing 30 percent to 40 percent block of common shares (*The Philippine Star*, 2006a). For PNR, 6 percent shares of stock are held by GFIs: Philippine National Bank (2.40 percent), Government Service Insurance System (1.85 percent), and Development Bank of the Philippines (1.75 percent).

There is no single entity that exercises the ownership function of the state on the GOCCs. The rights and functions of the state as an owner are largely exercised through the department to which they are attached (Table 20). For example, the three energy-related GOCCs (e.g. NPC, NEA, and PNOC) are under the supervision of the Department of Energy. The NFA and NIA are attached agencies of the Department of Agriculture. The NDC and PEZA are under the Department of Trade and Industry. The PNR, LRTA and PPA are attached to the

Department of Transportation and Communications. The NHA is under the administrative supervision of the Housing and Urban Development Coordinating Council (HUDCC) while HGC is jointly supervised by Department of Finance (DOF) and HUDCC. The MWSS Regulatory Office (MWSS-RO) and LWUA report directly to the Office of the President (OP). The PCSO has been until recently under the OP.

Table 20. List of GOCCs Supervised by or Attached to Department/s

GOCCs	Department/s Supervising GOCC or to which GOCC/s is/are Attached
NPC	DOE
NEA	DOE
PNOC	DOE
NFA	DA
NIA	DA
NDC	DTI
PEZA	DTI
PNR	DOTC
LRTA	DOTC
PPA	DOTC
NHA	HUDCC
HGC	Jointly by HUDCC and DOF
MWSS	OP
PCSO	OP
PAGCor	OP

The monitoring of the overall performance of GOCCs is also dispersed among the various departments in which they are attached. The DOF Corporate Affairs Group, on the other hand, monitors the financial performance of GOCCs. Its role, however, is limited to determining the fiscal implications of GOCCs' corporate operations such as monitoring cash flows and debt, as well as providing technical support. It reports to Congress from time to time during committee hearings and meetings.

The DOF Corporate Affairs Group took over the function of then- Government Corporate Monitoring Committee (GCMC) created in 1984. The GCMC was more influential and powerful than DOF Corporate Affairs Group since the GCMC was a Cabinet-level sub-committee composed of the Prime Minister as Chairman. Its members included key economic managers as well as the supreme state auditing body: Minister of Finance, the Director-General of the Office of Budget and Management, the Governor of the Central Bank, the Director-General of the National Economic and Development Authority, and the Chairman of the Commission on Audit.

The GCMC had the following duties and functions:

(1) Developing appropriate guidelines on the monitoring of the operations of government-owned and -controlled corporations, including their wholly-owned or majority-owned subsidiaries, which monitoring shall include (a) the utilization of General Appropriations funds from the national government; (b)

the contracting and utilization of borrowed domestic and external funds; and (c) the financial and operational conditions of the corporations, including the status of major programs and projects;

(2) Formulating the necessary recommendations on policies and guidelines relevant to government corporate operations for submission to and approval by the President through the Cabinet; and

(3) Determining the priorities, on the basis of the policies and guidelines approved by the President through the Cabinet, and acts upon the various claims of the government corporations for (a) national government funding (b) domestic and external borrowing, whether as loans, suppliers' credits, or otherwise, (c) major projects and programs of government corporate entities, such as capital projects and subsidy programs, and (d) such other matters as may be approved.

Aside from various Cabinet departments and DOF Corporate Affairs Group that monitor GOCCs, there is also the Department of Justice's Office of Government Corporate Counsel (OGCC) which serves as the principal law office exercising control and supervision over the law departments maintained by GOCCs and their subsidiaries. The OGCC reviews, revises or modifies all contracts referred by GOCCs and renders legal opinion on important legal questions. It ensures that the legal positions adopted by GOCCs are not in conflict with each other or that of the national government. The OGCC also conducts performance audit of the legal departments maintained by GOCCs and requires them to submit periodic reports of work performed and accomplished.

- **Board Composition and Responsibilities**

OECD (2005) recommends that the state should not be involved in the day-to-day management of the GOCCs and allow them full operational autonomy. It should let the boards exercise their responsibilities and respect their independence. Thus, OECD (2005) puts a premium on the quality, competency, experience, and objectivity of board directors. It suggests that board directors should have undergone well structured and transparent nomination processes. It also suggests that the Chairman of the board be separate from the CEO and calls for a sufficient number of competent non-executive board members. The GOCC board, when necessary, should set up specialized committees with respect to audit, risk management, and remuneration to support the board in performing its function.

In the Philippines, GOCCs' charter pointed to the appointment of ex-officio members to their board. Many of these ex-officio members are Cabinet Secretaries. In most cases, the cabinet secretary acts as a Chairman of the board and the GOCC President/CEO/Manager acts as the Vice-Chairman.

For NPC, 8 out of 9 board members are cabinet secretaries; for NDC, it's 5 out of 10; for LRTA, 5 out of 9; for PPA, 6 out of 9; and NHA, 6 out of 8. As ex-officio members, they sit on the Board as long as they hold their cabinet portfolio and they have no fixed term. This trend is contrary several decades ago when board directors for many GOCCs (e.g. NPC, NEA, NDC, the forerunners of MWSS, HGC) were appointed by the President of the Philippines with the consent of the Congress through Commission on Appointments (CA). Having a fixed term is likely to increase independent judgment of the board members as they are insulated from whims and caprices of current administration.

The trend toward increasing number of ex-officio members resulted in many cabinet secretaries sitting in many GOCC Boards (Table 21). For instance, the DOF Secretary sits as Chairman of the Board on 4 out of 16 surveyed GOCCs. In addition, he serves as a member of the Board of the other 4 surveyed GOCCs. The DOF Secretary, moreover, sits on the Board of several government financial institutions (GFIs) and also serves as World Bank (WB) and Asian Development Bank (ADB) Governor. The situation of the Secretaries of DTI, DOE, DBM and the NEDA Director-General resembles that of the DOF Secretary.

Table 21. Cabinet Secretaries' Board Memberships

DOF	DTI	NEDA	DOE	DBM
Surveyed GOCCs:				
NPC-Chair TransCo-Chair PSALM-Chair HGC-Chair	NDC- Chair PEZA- Chair		NEA-Chair PNOC- Chair NPC- Vice-Chair PSALM- Vice-Chair TransCo-Vice-Chair	
LRTA-Member NHA-Member NFA-Member PPA-Member	NPC-Member PSALM- Member NHA-Member NFA-Member PPA-Member	NPC-Member PSALM-Member LRTA- Member NHA-Member HGC- Member NIA-Member PPA- Member NDC-Adviser	NDC-Member	NPC- Member PSALM- Member NDC- Member LRTA- Member
Others:				
LBP- Chair PDIC- Chair NTC-Chair NEDA-ICC-Chair Pvt Council-Chair ADB-Governor WB-Governor	CEZA-Chair CITEM- Chair CIAP- Chair CITC- Chair GTEB- Chair PRA- Chair Presidential Comm for The Central Luzon Growth Corridor- Chair TESDA- Co-Chair	PCED- Chair PIDS- Chair		DAP-Chair TLRC- Chair
DBP-Member GSIS-Member SSS- Member PhilExim-	NRDC- Member ARBDC- Member BTPI- Member CDA- Member FPA- Member	PhilExim- Member DAP- Member LLDA- Member PITC- Member TLRC- Member	NRMDC-Member	NKTI- Member LCP- Member PHC- Member PCMC- Member

DOF	DTI	NEDA	DOE	DBM
Member	FTI- Member HDMF- Member LLDA- Member Livelihood Co.- Member MARINA- Member NDA- Member OMB- Member PT ASEAN Aceh Fertilizer- Member PADC- Member PFDA- Member PITC- Member PHIVIDEC- Member SBGFC- Member TLRC- Member TIDCORP- Member			

An unintended consequence of the way GOCC Boards are filled up is that it becomes impossible for them to fulfill their obligations that would be expected of fit and proper directors such as attending religiously board meetings. All of the GOCC Boards are required to meet at least once a month as provided in the Corporation Code. Special board meetings may be called when necessary. Some GOCC Boards meet more often such as NPC (twice a month), MWSS (twice weekly), LWUA (four times a month), NFA (twice a month), NIA (twice a month), PEZA (twice a month), PAGCor (four times a month), and PCSO (four times a month).

The national government has tried partly to address the multiple board membership of cabinet secretaries by appointing instead undersecretaries as in the case of PEZA. When PEZA was created in 1995, the Board was composed mainly of cabinet secretaries. Subsequent amendments to the law increased the Board membership and changed the composition to include mostly undersecretaries. This solution is essential particularly for a working board which has both operational and policy setting functions.

In the Philippines, the selection of board membership in GOCCs remains highly politicized resulting in lack of consistent and active monitoring. Board membership changes with a change in administration. Even if the law provides for a fixed term of office for non ex-officio members, they are encouraged to tender a letter of resignation to allow the new incumbent to appoint new members. The appointment of independent directors, a practice common in private corporations, is on the whole absent in GOCCs.

The existence of specialized committees to support the board in performing its function remains rare in GOCCs. Specialized committees such as risk management committees are supposed to mitigate interest rate and foreign exchange losses. Though some of the surveyed GOCCs have risk management units, they vary in organization and composition. For NPC, the risk management is handled by the Trade Services and Insurance Division of the DOF. NEA addresses risk management through a "cluster approach" wherein different departments are tapped to form a group whose function is to decide and recommend action on multi-faceted issues concerning NEA and ECs. For PNOC, risk management is handled by the PNOC Treasury in coordination with the Legal, Corporate Planning, and Corporate Accounting Departments. PNOC has Financial Risk Management (FRM) policies that guide its management, finance, and operation officers to deal with financial risks associated with foreign exchange and interest rate.

For LRTA, risk management is under its Internal Audit Office. The Internal Audit Office is tasked to (1) monitor/review and appraise policies, plans, and procedures; and (2) assist the management to administer effectively its operations, safeguard company assets, and prevent fraud, wastage, and losses. For PPA, risk management is said to be handled by different units normally attendant with risk. For HGC, risk management is handled by the HGC management with assistance of private risk management consultants. A division of risk management under the Guaranty Group Department is proposed to be created as part of HGC's reorganized structure.

NFA admits it has no formal risk management group. It has, however, a seven-person executive committee that takes on the function of risk management. For PEZA, its Finance Group handles its fund investments in Treasury Bills issued by the National Government (NG) and Special Time Deposits placed under the Land Bank of the Philippines (LBP). For PCSO, risk management is handled by its Finance and Treasury Department.

- **Transparency and Disclosure**

OECD (2005) recommends that GOCCs should be subject to the same high quality accounting and auditing standards as listed companies. Preferably, large GOCCs should also be subject to an annual independent external audit aside from those conducted by the supreme state auditing body. The state, through the coordinating or ownership entity, should develop consistent and aggregate reporting on GOCCs and publish annually an aggregate report. The aggregate report should contain the following: any material risk factors and measures taken to manage the risk, any financial assistance received from the state and commitments made on behalf of the SOEs, and any material transactions with related entities.

In the Philippines, GOCCs are required to prepare an annual accomplishment report that is submitted to the President of the Philippines, the department under which they belong, both houses of Congress, and other government institutions. It is also submitted to GOCCs' creditors, both local and foreign. The annual accomplishment report is quite extensive. It contains operational highlights and financial highlights (e.g. balance sheet, income statement, cash flow, notes to financial statement) as well as outlook for the coming year. The accomplishment report is often posted on the GOCCs' website. But such accomplishment report, more popularly known as annual or management report, does not follow a uniform format due to the absence of a coordinating entity which could impose a standard. In addition, there is no strict monitoring whether GOCCs meet the deadline, around 60 days after the end of the fiscal year, in submitting the report to concerned government offices. This situation is unlike when a corporation is registered with the Securities and Exchange Commission (SEC) or the Philippine Stock Exchange (PSE). [1]

The financial statement (FS), both balance sheet and income statement, of GOCCs are audited annually by COA, the supreme state auditing body. Many FSs also contain statement of cash flows from operating, investing, and financing activities. Comparative figures for the present and previous years are shown to highlight changes in the financial performance. Categories such as current assets, current liabilities, operating revenue, operating expenses, and operating income are presented so that computation of selected financial ratios is facilitated. There are also notes to financial statements providing detailed information on how specific items are computed, brief explanation for marked changes in some items in the FS, and significant accounting policies. The most recent COA-audited FSs are available in the GOCC website and the COA website, www.coa.gov.ph. However, the COA suffers from backlog in auditing GOCCs. For instance, NPC has to wait till January 2007 to remit dividends to national coffers earned in 2005 since COA takes a year or longer to finish its auditing (*Business Mirror*, 2007). This leads to poorer accountability on past performances of GOCC officials and weaker oversight of the executive and legislative branches of government.

- **Legal and Regulatory Framework**

No clear legal and regulatory framework can be observed in the surveyed GOCCs as explicitly manifested in the various exemptions given to the sector. Almost all of them are absolved from all forms of taxes, duties, fees, imposts, import restrictions as well as other necessary charges. Moreover, the sector is limitless or given free rein in terms of borrowing authorities because of the absolute and unconditional guarantee provided by the Philippine government.

The vested borrowing authorities effectively expose the NG to contingent liabilities, increasing fiscal risk. In addition, the guarantees from the NG are a deterrent for GOCCs to improve their financial performance, enhance their collection efficiency and income stream, and rein in imprudent spending and fat allowances and bonuses. In effect, it contributes to the budgetary difficulties which are further aggravated by the non-provision of caps on loans.

[1] PSE-listed corporations are required to file to the Securities and Exchange Commission (SEC) their annual report using a standard form (SEC Form 17-A) within 105 days after the end of the fiscal year. They are also required to file three quarterly reports within 45 days from end of the first three quarters of the fiscal year using a standard form (SEC Form 17-Q). They are also required to submit a schedule of aging accounts receivable together with SEC Form 17-Q. Sanctions ranging from basic fine to automatic suspension to delisting are meted out for non-compliance. Among the surveyed GOCCs, only the two PNOC subsidiaries (PNOC-EDC and PNOC-EC) are listed in PSE.

- **Relations with Stakeholders**

All GOCCs and their subsidiaries are covered by RA 6713 otherwise known as the "Code of Conduct and Ethical Standards for Public Officials and Employees." Under RA 6713, any public official or employee is prohibited from engaging in any government transaction in which he has material or financial interests. He should divest himself of his shareholdings or interests within 60 days from assumption when conflict of interest arises. They are also not allowed to have outside employment nor engage in private practice of their profession during incumbency. They are not allowed to solicit or accept gifts from any person in the course of their official duties.

Under RA 6713, public officials and employees are also obliged to submit under oath their statement of assets, liabilities, net worth, and financial and business interests including those of their spouses and of unmarried children. They are also required to identify and disclose their relatives in the government up to the fourth degree of consanguinity and affinity. This information would be accessible to the public once they are filed. Penalties for violations of RA 6713 range from suspension, removal from service, and imprisonment.

Aside from explicit provisions of RA 6713, some GOCCs have formulated their own code of conduct/ethics. These include NPC, NEA, PNOC, LWUA, PNR, PPA, HGC, PAGCor, and PCSO.

Stakeholders should exercise active participation in the formulation of the sector's policies and budget. Insofar as the surveyed GOCCs are concerned, no clear program or guidelines have been crafted to address the rights of the stakeholders.

VI. CONCLUSION AND RECOMMENDATIONS

It may be generalized that most GOCCs' financial indicators reflect unhealthy positions. From the balance sheet to the income statements to financial ratios, it is clear that these corporations have constituted a heavy drain on the government's finances, through subsidies and other budgetary allocations. Had these corporations been in the private sector, they would have been considered either bankrupt or recommended for dissolution and shareholders would have demanded the heads of the Board Directors and Management.

GOCCs, however, are a different type of institution altogether. As indicated earlier, these corporations were established for specific purposes and with specific mandates. The government, as the principal shareholder representing the Filipino people who may be said to be the end-stakeholders, cannot simply rule for their immediate dissolution. For one thing, government is also the principal authority that created these corporations, either through presidential fiat or through acts of Congress, and therefore must go through legal and regulatory procedures. Many of these corporations, if not all, were each created for a specific purpose, and it might be said that they were intended for the benefit of the Filipino people in one way or another.

The following are general recommendations that arise from the study undertaken:

1. To staunch the hemorrhaging of government resources, it may be necessary to pursue privatization of some government corporations and/or spin off some of their functions which may best be undertaken by the private sector, either through public listing or through the consolidation or merger of corporations which have overlapping or similar mandates.

   Of course public listing of GOCCs that have been created by law or PDs and EOs that have the force of law may require legislative action. Moreover, not every losing GOCC can make it to the equities market in view of stringent requirements of viability that the stock exchange imposes. It may also be recognized that some GOCCs are considered as "cost centers" requiring financial support and they must remain within government control.

2. The appointment of more independent directors in the boards of GOCCs and fewer ex-officio board directors may be a workable option. These "outside" directors should have the attributes of competency, experience, and objectivity without the constraints of being "temporary" in the sense that they hold their positions by virtue of their Cabinet rank or the pleasure of the highest appointing authority.

   Independent directors in the private corporate sector, generally chair important board committees such as the Audit Committee. The creation of such a committee in a GOCC board would be beneficial in the sense that the internal audit offices of the corporations would be accountable to this Board Committee. Towards this end, the laws, circulars, and memoranda for a stronger internal audit mechanism in GOCCs should be fully implemented.

   Other committees, such as Risk Management Committee, Nomination Committee (which could provide a short-list of persons that qualify for directorship), and a Governance Committee may be created to assist the Board.

3. Monitoring and supervision of GOCCs is hampered by the virtual non-existence of an over-all monitoring body to oversee the performance and financial viability of these corporations. The DOF Corporate Affairs Group is hardly in the best position to do this. An option would be a strengthened Executive-Legislative Oversight body.

   COA, the external auditor of GOCCs, may be able to assist such an Executive-Legislative Oversight body by mandating that all GOCCs follow a uniform set manual of accounts and observe internationally accepted accounting standards for better comparability and transparency.

   In relation to the abovementioned, the following three (3) legislative proposals are recommended to be considered and passed by the Congress, to include the executive branch as a partner in the oversight and monitoring body:

- Senate Bill No. 486, *"An Act Directing All Government Corporations To Prepare Their Respective Asset and Liability Management Guidelines That Will Define The Parameters and/or Limits Of Their Financial And Operational Capabilities For Central Control And Monitoring By The Department of Finance"* by Senator Sergio R. Osmeňa III;

- Senate Bill No. 487, *"An Act Providing For a Periodic Review of the Economy, Efficiency and Viability of Government-Owned and -Controlled Corporations by Congress, And For Other Purposes"* by Senator Sergio R. Osmeňa III; and

- Senate Bill No. 2222, *"An Act To Ensure The Accountability Of Government-Owned Or -Controlled Corporations, Government Financial Institutions, State-Owned Universities, And Other Similar Agencies In The Public Sector By Requiring These Entities To Be Evaluated And Subjected To The Test Of Economic And Financial Viability, Creating A Congressional Oversight Committee Therefore, And For Other Purposes"* by Senator Richard J. Gordon.

Transparency, moreover, can be achieved through the full implementation of the E-Commerce law which mandates that all government units and instrumentalities provide universal access to information to the public.

4. GOCC performance, viability, and observance of governance principles would be served with the development of a GOCC governance scorecard. Such a scorecard, based on the OECD Guidelines for SOEs, can help monitor the performance of GOCCs, including their Boards and Management.

PART II

INDIVIDUAL PROFILE OF SIXTEEN (16) PHILIPPINE GOVERNMENT-OWNED AND -CONTROLLED CORPORATIONS

1. Home Guaranty Corporation (HGC)

2. Light Rail Transit Authority (LRTA)

3. Local Water Utilities Administration (LWUA)

4. Metropolitan Waterworks and Sewerage System (MWSS)

5. National Development Company (NDC)

6. National Electrification Administration (NEA)

7. National Food Authority (NFA)

8. National Housing Authority (NHA)

9. National Irrigation Administration (NIA)

10. National Power Corporation (NPC)

11. Philippine Amusement and Gaming Corporation (PAGCor)

12. Philippine Charity Sweepstakes Office (PCSO)

13. Philippine Economic Zone Authority (PEZA)

14. Philippine National Oil Company (PNOC)

- 14.1. PNOC Energy Development Corporation (PNOC-EDC)
- 14.2. PNOC Exploration Corporation (PNOC-EC)
- 14.3. PNOC Petrochemical Development Corporation (PNOC-PDC)
- 14.4. PNOC Shipping and Transport Corporation (PNOC-STC)
- 14.5. PNOC Development and Management Corporation (PNOC-DMC)

15. Philippine National Railways (PNR)

16. Philippine Ports Authority (PPA)

1. HOME GUARANTY CORPORATION

Background. The Home Guaranty Corporation (HGC) is a government - owned and -controlled corporation tasked to operate a credit guaranty program in support of the Philippine government's housing program. HGC's original charter was signed in 1950 under EO 580 and the corporation was known then as the Home Financing Commission (HFC) which was mandated to exist as a corporation for fifty years. In 1979, EO 535 was issued and gave jurisdiction over the regulation and supervision of operations of homeowners associations and increased its capitalization to P1 billion. EO 535 likewise renamed the corporation Home Financing Corporation. Similarly, EO 90 of 1986 also renamed Home Financing Corporation Home Insurance and Guaranty Corporation (HIGC) and likewise placed it under the supervision of the Housing and Urban Development Coordinating Council (HUDCC). When the corporate life of HIGC ended in 2000, RA 8763 was passed to extend the corporation's existence for another fifty years. Under RA 8763, HIGC became HGC and is mandated to: (a) guarantee the payment of any and all forms of mortgages, loans and other forms of credit facilities and receivables arising from financial contracts exclusively for residential purposes and the necessary support facilities; (b) assist private developers to undertake socialized, low- and medium-cost mass housing projects by encouraging private funds to finance such housing projects through a viable system of long-term mortgages, guarantees and other incentives; (c) promote homebuilding and landownership, giving primary preference to the homeless and underprivileged sectors of the society; (d) promote housing by the aided self-help method; and (e) pursue the development and sustainability of a secondary mortgage market for housing. Similarly, other laws expanded HGC's mandate to include administering the cash flow guaranty system of the Abot-Kaya Pabahay Fund (RA 6846) and supervising and regulating building and loan associations (RA 8791).

RA 8763 likewise increased the corporation's authorized capital to P50 billion and ceiling on outstanding loans from 15 percent to 20 percent of the corporation's capital and surplus. The utilization of the corporation's net worth, which is the paid-up capital plus fifty percent of the retained earnings, shall be subject to the following limitations:

- At least 40 percent shall be allocated exclusively for socialized housing, to be distributed equitably among all regions;
- At least 30 percent shall be allocated exclusively for low-cost housing, to be distributed equitably among all regions;
- At least 20 percent shall be allocated exclusively for medium-cost housing to be distributed equitably among all regions; and
- Not more than 10 percent may be allocated for open housing.

Borrowing Authority. The HGC is authorized to borrow from domestic and foreign sources. Domestic borrowing requires the approval of the President of the Philippines after consultation with the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP). Foreign borrowing requires the approval of the President of the Philippines in consultation with the Monetary Board and the Finance Secretary. The aggregate amount of the outstanding obligations should not, at any time, exceed 20 times the capital and surplus of HGC.

The Republic of the Philippines fully and unconditionally guarantees the payment of HGC loans (debentures, bonds and securities) provided that the aggregate amount does not exceed the limit of outstanding obligations.

Regarding credit guarantees, the corporation is obliged to pay the principal and a portion of the interest as follows: up to 11 percent for socialized housing; 10 percent for low-cost housing; 9.5 percent for medium-cost housing; and 8.5 percent for open housing. This provision hopes to encourage infusion of more money to socialized housing and low-cost housing projects.

Products, Guaranty Premiums, Appraisal Fees and Other Charges. The HGC's main product lines are its guaranty programs, namely: (a) Developmental Loan Guaranty – a guaranty facility covering loans extended for the development of subdivisions, townhouses, dormitories, apartments and other residential dwellings; (b) Retail Loan Guaranty – a guaranty coverage on loans/credit facility extended for the purchase/acquisition of a single-family residence; and (c) Guaranty for Securitization Schemes – a guaranty cover on securities or financial instruments or on the receivables backing up the securities. The issuance is backed up by a pool of residential assets such as receivables from loans/mortgages and/or real estate properties.

HGC is mandated to fix and charge guaranty premiums in accordance with sound actuarial practice and the risk characteristics involved. Guaranty premiums shall be fixed in the following manner:

- that no guaranty shall be fixed at less than ½ of 1 percent of the amount of the outstanding principal obligation for socialized housing;
- that no guaranty shall be fixed at less than ¾ of 1 percent for low-cost housing;
- that no guaranty shall be fixed at less than 1 percent for medium-cost housing; and
- that no guaranty shall be fixed at less than 1.5 percent for open housing.

Board of Directors. At its inception in 1950, the HGC Board was composed only of five members who were appointed by the President of the Philippines with the consent of the Commission on Appointments (CA). The present HGC Board is composed of seven members. They are as follows: (1) Secretary of Finance as ex-officio Chairman; (2) Chairman of Housing and Urban Development Coordinating Council (HUDCC) as ex-officio Vice Chairman; (3) NEDA Director-General; 4) President of the HGC, and three other members who are appointed by the President of the Philippines. The three appointed members do not need the consent of the CA but should be of good moral character, of unquestionable integrity, of known probity and patriotism and with expertise and experience of at least ten years in business and finance. Ex-officio members are co-terminus with their position, while the appointed members have a five-year term.

The Chairman presides over meetings while the Vice-Chairman presides in the absence of the Chairman. The decisions of the Board are made by a majority vote. The Board regularly meets once a month. Special sessions are held on a case-to-case basis. The members of the Board receive per diem for each meeting actually attended.

The Board directs the management, operations, and administration of HGC. It formulates, revises, and adjusts periodically all policies, plans and projects subject to the concurrence of the Monetary Board.

Management. The HGC President is appointed by the President of the Philippines for a five-year term. He should possess expertise and experience of at least 10 years in business, finance, and other professions. He should also be of good moral character and of unquestionable integrity, and of known probity and patriotism. The HGC President prepares the agenda for Board meetings and executes and administers the policies and measures approved by the Board.

The Board appoints an Executive Vice President who also serves as the General Manager. Other senior executives are the six Vice-Presidents (VPs for Finance, for Administration, for Legal, for Technical Services, for Project Management and Acquired Assets Disposition, and for Guaranty and Credit Insurance).

The HGC is exempted from the Salary Standardization Law.

Operational Highlights. The following are the HGC's significant operational accomplishments for the period 2001-2003:

- The HGC floated P5 billion worth of HGC Zero Coupon Bonds in 2002 to raise funds for payment of guaranty call obligations of the corporation. The reception of the market for HGC Bonds was considered a success since it was oversubscribed and the HGC's underwriter was even compelled to exercise its "greenshoe" option for another P2 billion offering. This float brought in P4.28 billion for HGC. A total of P3.85 billion was released by the Department of Budget and Management for this period.
- The HGC approved a total of P45.87 billion in guaranty lines for the period. The biggest among this is the enrollment of P20 billion worth of individual housing loans by the Home Development Mutual Fund (HDMF) also known as the Pagtutulungan Para Sa Kinabukasan- Ikaw, Bangko, Industriya at Gobyerno (Pag-IBIG) Fund. It should be noted that the bulk of the outstanding guarantees shifted from higher-cost to lower-cost housing packages. Socialized and low-cost housing units, P2 million and below, accounted for 79 percent of total guarantees for the period.
- As of December 2003, HGC's acquired assets portfolio stood at P13.85 billion. These assets were mostly properties/projects funded through the float of Asset Participation Certificates although these were eventually discontinued. The HGC-acquired asset management efforts were then refocused on the sale and rehabilitation of these assets.
- A total 1,213 housing units valued at P1.28 billion were disposed of through outright cash payment, restructuring, redemption, joint venture and other similar arrangements.
- Rehabilitation and improvement works were also initiated on selected acquired properties to enhance their marketability and contribute revenue for the corporation. The Commonwealth Market Property was rehabilitated and has since generated P2.7 million a month in net income from the lease of market stalls.

Financial Highlights. HGC has been registering net losses in its operations for the three-year period 2002-2004, the largest of which was the P586 million loss in 2003 (Annex 1.1). The losses were due mainly to payments of interest payments on zero coupon bonds, which averaged more than P500 million for the last 3 years. Compounding the large interest expenses were the declining net operating income. Net operating income has been on the decline from 1999 to 2003, largely due to declining income from insurance premiums. The year 2004 was a turnaround year as net operating income increased by P90 million due to better income from insurance premiums and lower expenses on personal services. Among the cost reduction measures adopted were reduction of personnel, transfer to one office building to minimize rental expenses and redeployment of savings to productivity enhancing items. Other significant sources of HGC's income were treasury bond transactions and gains on disposition of foreclosed properties.

HGC's total assets were pegged at P26.6 billion in 2004, less than 10 percent of which were held as current assets (Annex 1.2). Current assets have been on the decline since 2001. In relative terms, current assets have declined compared to non-current assets from the ratio of 1:2 in 1999 to 1:9 in 2004. The significant increase in non-current assets was due to the rise in HGC's acquired assets or foreclosed properties. It increased from a less than P2.5 billion in 1999 to P20 billion in 2004.

HGC's total liabilities were estimated at P20.2 billion in 2004, 60 percent of which were trust and other liabilities (Annex 1.2). The item classified under 'other liabilities' has risen significantly from less than P2 billion in 1999 to more than P10 billion in 2004. Current liabilities were estimated at 40 percent. Equity has increased from P3.6 billion in 1999 to P6.4 billion in 2004. This already includes the P3.85 billion equity infusion from the national government for the said period.

HGC's current ratio has been decreasing from 1999 to 2004 indicating the corporation's difficulty in meeting its short term loan obligations. HGC's debt-to-asset and debt-to-equity ratios have increased in 2004 compared to 1999 indicating heavy reliance on borrowings.

Table 1.1 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	2.964	4.411	1.407	0.851	1.018	0.323	**1.829**
Debt-to-Asset Ratio	0.549	0.483	0.591	0.721	0.684	0.759	**0.631**
Debt-to-Equity Ratio	1.220	0.934	1.445	2.583	2.160	3.156	**1.916**

Source of basic data: Commission on Audit

Annex 1.1

HGC - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
INCOME						
Insurance premiums	252,838	302,257	260,336	199,943	193,203	208,274
Interest income	197,501	78,649	64,732	64,940	51,476	46,246
Fines and penalties	29,449	8,452	10,070	8,625	8,307	9,826
Service income	41,396	78,263	32,912	11,548	3,745	6,320
Rent income	4,227	4,289	3,037	3,508	3,631	7,876
Miscellaneous income	2,645	1,999	3,911	11,595	3,504	1,880
	528,057	473,909	374,998	300,159	263,865	280,421
EXPENSES						
Personal services	115,580	141,499	136,125	136,820	174,254	95,707
Maintenance and other						
operating expenses	95,611	94,785	72,109	79,284	78,931	83,823
	211,191	236,284	208,233	216,103	253,185	179,530
INCOME FROM OPERATIONS	316,866	237,625	166,765	84,055	10,680	100,892
OTHER INCOME (EXPENSES)	72,124	180,778	24,373	40,273	131,540	85,302
Income on treasury bond transactions	9,837	4,685	24,055	39,192	70,348	114,421
Project income-miscellaneous						
Gain/(Loss) on redemption/disposition						
of acquired/foreclosed property	61,866	175,538	309	1,068	61,181	43,560
Net earnings in HGC Subic Corp.				4		
Dividend income	421	11	9	9	11	65
Various project expenses	(16,463)	(19,680)	(101,700)	(75,113)	(90,263)	(72,744)
Interest on promissory notes		5,763	28			
Interest expense	(24,852)		105			
Gain in partial retirement of debenture, bonds through offsetting of premiums		543				
	30,809	166,861	(77,193)	(34,839)	41,277	85,302
INCOME BEFORE FINANCIAL CHARGES	347,675	404,486	89,572	49,216	51,957	186,194
Interest expenses on zero coupon bond				(240,803)	(618,825	(722,816
INCOME/LOSS BEFORE INCOME TAX	347,675	404,486	89,572	(191,588)	(566,868	536,622
Provision for income tax	(100,155)	(120,805)	(8,003)			
Final tax	(8,843)	(5,375)	(1,721)	(12,392)	(19,198)	(16,846)
Creditable withholding tax	(1,819)	(2,266)	(64,528)	(4)	0	
NET INCOME/LOSS	236,857	276,040	15,321	(203,984)	(586,066	(553,468
RETAINED EARNINGS AT BEGINNING OF YEAR	991,391	1,194,11	1,360,20	1,196,99	993,012	210,488
RETAINED EARNINGS AT END OF YEAR	1,194,11	1,333,18	1,325,80	993,012	210,488	(342,981

Source: Commission on Audit

Annex 1.2

HGC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
CURRENT ASSETS						
Cash on hand and in banks	539,519	379,992	106,665	1,258,026	1,874,446	174,255
Short-term investments	109,418	-	7,651,754			
Receivables	2,121,370	4,678,916	-	3,758,490	2,815,621	2,423,477
Inventories	5,439	6,652	6,520	6,894	6,568	7,855
Total Current Assets	2,775,747	5,065,561	7,764,940	5,023,411	4,696,636	2,605,588
NON-CURRENT ASSETS						
Other assets	1,368,206	1,664,998	1,012,214	1,080,987	994,316	1,062,752
Contingent assets	1,765	1,710	1,710	1,710	1,699	1,699
Investments	188	285,647	161,238	824,761	784,846	1,247,716
Acquired assets	2,410,269	2,553,269	3,614,790	11,050,919	13,848,810	20,026,026
Acquired BDC assets-net	120,086	150,922	-			
Assets held-in-trust	1,514,171	1,487,516	1,630,235	1,605,021	1,602,538	1,607,564
Property and equipment-net	12,739	72,337	63,357	99,492	62,777	73,029
Total Non-Current Assets	5,427,427	6,216,401	6,483,545	14,662,892	17,294,989	24,018,790
TOTAL ASSETS	8,203,174	11,281,963	14,248,485	19,686,303	21,991,625	26,624,378
LIABILITIES AND NET WORTH						
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	936,631	1,148,339	4,518,402	5,074,579	3,725,906	7,166,061
Trust Liabilities	1,970,322	2,539,893				
Other payables			1,001,004	826,816	889,038	889,843
Total Current Liabilities	2,906,953	3,688,232	5,519,406	5,901,395	4,614,944	8,055,904
TRUST LIABILITIES			1,630,235	1,605,021	1,602,538	1,607,564
CONTINGENT LIABILITIES						
Accounts Payable	12,099,667					
Cash guarantee		11,295,940	10,796,770	9,566,407	8,642,166	9,669,649
Bonds guarantee	25,827,367	17,216,790	23,117,530	149,505	12,890,635	30,656,133
Standard guarantee				13,397,860	932,557	1,424,433
Total Contingent Liabilities	37,927,035	28,512,730	33,914,300	23,113,773	22,465,360	41,750,216
OTHER LIABILITIES						
Deferred credits	637,796	484,844	429,986	437,356	432,855	439,573
Bonds payable	962,606	1,273,994	841,349			
Public debts, Debenture Bonds				1,753,363	3,344,544	2,929,308
Public debts, Zero Coupon Bonds				4,494,450	5,037,517	7,186,274
Total Other Liabilities	1,600,403	1,758,838	1,271,336	6,685,170	8,814,917	10,555,157
TOTAL LIABILITIES	4,507,357	5,447,071	8,420,978	14,191,587	15,032,400	20,218,626
NET WORTH						

	1999	2000	2001	2002	2003	2004
Paid-in capital, net of Subscription Receivable	2,500,000	4,500,000	4,500,000	4,500,000	6,747,032	6,747,032
Contingent capital	1,704	1,704	1,704	1,704	1,704	1,699
Retained earnings	1,194,112	1,333,187	1,325,802	993,011	210,487	(342,980)
Total Networth	3,695,817	5,834,892	5,827,506	5,494,715	6,959,224	6,405,751
TOTAL LIABILITIES AND NETWORTH	8,203,174	11,281,963	14,248,485	19,686,303	21,991,625	26,624,378

Source: Commission on Audit

2. LIGHT RAIL TRANSIT AUTHORITY

Background. The Light Rail Transit Authority (LRTA) is a wholly-owned government corporation created on July 12, 1980 under EO 603 to undertake the construction, operation, maintenance and/or lease of light rail transit systems in the Philippines. It had an authorized capitalization of P500 million. EO 830, an amendment to EO 603, increased LRTA's capitalization to P3 billion in 1982.

Borrowing authority. The LRTA Board can contract loans with domestic financial institutions and issue bonds provided that the bond issued is subject to the approval of the President of the Philippines upon recommendation of the Minister of Finance. No ceiling for domestic loans is provided for by the law. A sinking fund was required to redeem bonds in the future under the custody of the Central Bank of the Philippines. The contribution to this sinking fund should be sufficient to redeem the bonds at maturity. The bonds issued are exempted from the payment of all taxes.

LRTA is also authorized to contract foreign loans or to issue bonds, the ceiling of which, exclusive of interests, is fixed at $300 million. The Philippine government guarantees the payment of LRTA loans as primary obligor. Aside from government guarantees, the LRTA is exempt from the payment of all direct and indirect taxes, customs duties, fees, imposts, other charges and restrictions, including import restrictions.

Fares. The Authority, through the Board, has the power to set the fares. However, determining the fares should be made in consultation with the Board of Transportation, the Chairman of which is a member of the LRTA Board under EO 603.

Board of Directors. The Board is composed of nine members. The Secretary of Department of Transportation and Communications (DOTC) acts as Chairman. Other ex-officio members are the Secretaries of Department of Finance (DOF), Department of Budget and Management (DBM), and Department of Public Works and Highways (DPWH), the National Economic and Development Authority (NEDA) Director-General, the Chairman of the Land Transportation Franchising and Regulatory Board (LTFRB), the Governor of the Metropolitan Manila Commission (MMC) now the Metropolitan Manila Development Authority (MMDA), and the LRTA Administrator. A representative from the private sector is appointed by the President of the Philippines to serve for a two-year term.

The Board issues, prescribes, and adopts policies, programs, plans, standards, guidelines, procedures, rules, and regulations for implementation, enforcement, and application by the LRTA Management. The Board convenes to resolve operations-related issues and concerns and other matters requiring immediate attention and resolution. The Board also determines the fares charged the commuting public in consultation with the Board of Transportation.

Regular meetings are held monthly. Special meetings of the board may be held at any time upon the call of the Administrator.

Management. The LRTA is headed by an Administrator who serves as its chief executive officer and concurrent member of the Board. He is assisted by 2 Deputy Administrators. They are appointed by the President of the Philippines and they should be Filipino citizens, at least 35 years old, of good moral character and recognized executive ability and competence, with adequate training in either transport planning, management and economics, finance, law, public utility or other transport-related aspects.

The Office of the Administrator gets support from five departments, namely: 1) Planning Department, 2) Finance Department, 3) Administrative Department, 4) Line 1 Operations and Engineering Department, and 5) Line 2 Operations and Maintenance.

Operational Highlights. The LRT system is composed of two lines: the LRT Line 1 and the LRT Line 2.

- The Light Rail Transit System or Line 1 consists of the 15 km elevated railway system traversing Taft Avenue and Rizal Avenue Extension from Pasay City to Caloocan City.
- The Megatren or Line 2 is a 13.8 km mass transit line that traverses five cities in Metro Manila, namely, Pasig, Marikina, Quezon, San Juan and Manila, along the major thoroughfares - Marcos Highway, Aurora Boulevard, Ramon Magsaysay Boulevard, Legarda and Recto Avenue. Line 2 started operations in April 2003.

Line 1

Passenger traffic for LRTA dropped from 129 million passengers in 1999 to 97 million passengers in 2004 (Table 2.1). A big drop in passenger traffic occurred in the 3rd quarter of 2000 due to a strike staged in late July by the employees of system operator Metro Inc. The strike led to the non-renewal of the operation and maintenance contract of Metro Inc. The LRTA took over its operations with the assistance of personnel from DOTC and MRT 3. Passenger traffic also dropped in the first quarter of 2001 as an aftermath of the December 2000 bombing. Passenger traffic dropped by almost 10 percent from 2003 to 2004 largely due to the fare increase implemented in late 2003. Passenger traffic generally drops during the start of summer as students have their summer break.

Table 2.1 Passenger Traffic in LRT Line 1, 1999-2004

(In Million Passengers)

Month	1999	2000	2001	2002	2003	2004
January	10.58	11.77	7.74	9.34	9.62	8.50
February	9.84	10.70	8.58	8.46	8.85	7.98
March	10.51	10.64	10.02	8.09	9.27	8.24
April	8.65	8.30	8.02	8.12	7.08	6.32
May	10.03	9.46	9.04	8.45	7.68	7.38
June	10.48	9.59	9.63	8.75	8.55	7.82
July	11.69	7.71	10.44	8.87	9.36	8.51
August	11.36	4.25	10.85	9.84	9.30	8.37
September	11.34	6.60	8.95	9.45	9.39	8.52
October	11.47	6.93	8.89	9.34	9.49	8.40
November	11.25	7.57	8.56	8.96	9.32	8.25
December	12.06	8.93	9.22	9.33	9.33	8.57
Total	129.26	102.45	109.94	107	107.24	96.86

Source: LRTA Report of Accomplishments for 2004, LRTA Website

Revenue collection has been on the rise since 2000 (Table 2.2). The revenue collection rose in 2004 due to the fare increase.

Table 2.2 Gross Revenue Collection in LRT Line 1, 1999-2004

(In Million Pesos)

Month	1999	2000	2001	2002	2003	2004
January	97.13	109.22	83.83	106.63	109.69	123.40
February	89.89	106.34	89.34	96.13	100.44	114.57
March	95.66	116.29	100.52	91.13	104.67	118.10
April	79.52	92.03	77.11	92.46	79.78	91.02
May	92.35	105.49	89.28	96.54	88.62	106.61
June	96.19	106.96	96.63	99.70	98.12	112.45
July	107.12	86.37	103.93	100.87	106.10	121.56
August	103.57	47.36	105.20	111.80	105.10	119.64
September	106.78	73.01	98.94	107.08	106.42	121.39
October	105.28	77.15	99.57	105.68	106.89	119.91
November	106.26	85.37	97.49	102.36	105.80	118.30
December	111.91	100.08	104.14	105.54	119.93	122.76
Total	1191.66	1105.67	1145.98	1215.92	1231.56	1389.71

Source: LRTA Report of Accomplishments for 2004, LRTA Website

The Line 1 system's revenues generally exceeded operating expenses for the period 1999 to 2004 as indicated by the farebox ratio (Table 2.3). Farebox ratio is defined as the ratio of rail-based revenues to operating expenses excluding debt-services. The farebox ratio was also higher for most months of 2004 compared to 2003 reflecting greater financial viability due to fare increase.

Table 2.3 Farebox Ratio in LRT Line 1, 1999-2004

Month	1999	2000	2001	2002	2003	2004
January	2.63	1.88	1.55	2.29	1.36	1.96
February	1.83	1.53	1.33	1.25	1.96	1.71
March	1.78	1.99	2.86	0.69	1.25	1.49
April	1.20	1.21	1.36	1.12	0.63	1.03
May	1.33	1.17	0.79	1.23	1.07	1.53
June	1.95	1.74	1.2	2.08	1.15	1.62
July	2.09	1.28	1.31	1.17	1.25	1.68
August	1.75	1.26	0.99	0.92	1.47	1.65
September	1.87	1.44	1.35	2.49	1.48	1.48
October	1.53	1.19	1.21	1.26	1.5	1.63
November	1.48	1.49	0.96	1.07	1.3	1.18
December	0.42	0.68	0.72	0.78	1.04	1.23

Source: LRTA Report of Accomplishments for 2004, LRTA Website

Line 2

Line 2 commenced partial operation from Santolan to Cubao in April 2003. Passenger traffic from April 2003 to March 2004 was low due to the short distance traversed by the rail system. Passenger traffic started to increase beginning April 2004 when the operations of Line 2 extended from Cubao to Legarda. Passenger traffic increased by more than 25-fold to 702,000 passengers in April 2004 compared to just 26,000 passengers in April 2003 (Table2.4). The increase in passenger traffic became more pronounced in late 2004 as Line 2 became fully operational with the opening of the Recto Station. Looking at the farebox ratio, revenues approximated operating expenses on the second half of 2004. Prior to that, farebox ratio seldom reached the 0.5 mark.

Table 2.4 Key Performance Indicators of LRT Line 2, 2003-2004

	Passenger Traffic (in thousand passengers)		Gross Revenue Collection (in million pesos)		Farebox Ratio	
Month	2003	2004	2003	2004	2003	2004
January	-	399.61	-	4.86	-	0.323
February	-	390.87	-	4.73	-	0.284
March	-	377.09	-	4.5	-	0.267
April	25.86	701.71	0.37	9.75	0.027	0.479
May	42.04	1,159.23	0.52	15.35	0.035	0.649
June	122.42	1,760.60	1.84	23.84	0.106	0.777
July	322.64	2,508.35	3.91	33.13	0.233	1.017
August	330.3	2,485.19	4.02	32.71	0.240	1.017
September	399.82	2,706.31	4.85	35.15	0.304	1.122
October	372.82	2,405.88	4.47	31.6	0.284	0.972
November	361.00	2,807.99	4.42	38.15	0.198	0.944
December	383.61	2,967.20	4.62	39.47	0.187	1.143

Source: LRTA Report of Accomplishments for 2004, LRTA Website

Financial highlights. LRTA has registered net losses through most of the period except in 2003 (Annex 2.1). The net income of P5.4 billion earned in 2003 was due to the P7.6 billion subsidy from the National Government, a significant increase compared to P831 million in 2002. LRTA was again in the red in 2004 due to NG subsidy reduction. Much of the losses of LRTA stemmed from huge forex losses that reached as high as P1.6 billion in 2002. Moreover, interest and bank charges have gone up in recent years.

LRTA has registered net operating losses since 2000, the largest of which was the P220 million loss in 2003 (Annex 2.1). The loss was contained to P19 million in 2004 largely due to fare increase. Aside from fares, LRTA gets substantial income from rents and advertising. Income from advertising increased from a measly sum of P90,890 in 2000 to about P7 million in 2002 and a high of P16.7 million in 2003. It however dropped to P11 million in 2004. The bulk of operating expenses comes from depreciation, personal services, and maintenance expenses. Additionally, personal services expenses have been increasing while maintenance expenses have been on the decline.

LRTA's assets increased from P12.6 billion in 1999 to P42.8 billion in 2004 (Annex 2.2). The increase came primarily from fixed assets which increased from P9.8 billion in 1999 to P40.3 billion in 2004. Net fixed assets were estimated at almost 95 percent of LRTA's assets. Receivables also increased by 714 percent from P42.0 million in 2003 to P342.0 million in 2004. The increase in receivables is mainly due to receivables from the Line 1 South Extension Project amounting to P282.4 million in favor of SNC-LAVALIN International, Inc. of Canada.

LRTA's total liabilities were pegged at P45.8 billion in 2004, more than 90 percent of which were public debt – loans and advances (Annex 2.2). Current liabilities increased from P323 million in 1999 to 2.8 billion in 2004. The majority of the increase came from payables and current portion of public debt – loans and advances.

A look at the current ratio reveals that short-term liquidity has deteriorated except for a mild recovery in 2004, reflecting an increase in payables and current portion of public debt, and a decline in short-term investment (Table 2.5). The increase in receivables coupled with the decline in short-term investment cast doubts on the company's liquidity position. Debt-to-asset and debt-to-equity ratios are greater than unity in absolute terms reflecting excessive reliance on borrowings.

Table 2.5 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	5.639	2.42	1.93	0.985	0.474	0.504	**1.992**
Debt-to-Asset Ratio	1.223	1.239	1.262	1.259	1.042	1.071	**1.183**
Debt-to-Equity Ratio	(5.48)	(5.176)	(4.814)	(4.857)	(24.91)	(15.041)	(10.046)

Source of basic data: Commission on Audit

Annex 2.1

LRTA - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
REVENUE						
Sales	1,191,688	1,105,813	1,147,771	1,215,916	1,260,581	1,663,871
Sales discount	-384	-593	-580	-738	-893	-1,788
Sales refund			-156	-3,255	-3,021	-2,280
SMART						-15
	1,191,304	1,105,221	1,147,035	1,211,922	1,256,667	1,659,788
OPERATING EXPENSES (METRO)						
Labor	399,159	274,573				
Materials	75,279	79,767	107,295	98,495	138,718	188,522
Overhead	58,620	146,178	145,627	133,991	187,445	237,900
Power	123,780	114,228	139,344	150,454	209,691	305,327
Management fee	5,000	2,917				
	661,838	617,662	392,265	382,941	535,854	731,749
OPERATING INCOME BEFORE OTHER OPERATING EXPENSES	529,465	487,559	754,770	828,981	720,814	928,039
OTHER OPERATING EXPENSES						
Personal services	11,809	49,185	135,894	170,414	243,470	290,167
Maintenance & other operating expenses	83,626	172,334	458,296	444,235	373,274	258,781
Depreciation	336,518	324,191	340,034	342,594	343,365	352,880
Amortization-Organization cost	26,931	26,931	26,931	26,931	29,094	81,544
Bad debts				1,068	1,040	1,108
	458,884	572,641	961,155	985,242	990,243	984,481
OPERATING INCOME (LOSS) AFTER OTHER OPERATING EXPENSES	70,581	-85,082	-206,385	-156,261	-269,429	-56,442
OTHER INCOME FROM OPERATIONS						
Rental	21,289	19,983	19,169	20,680	22,178	25,472
Advertising		91	625	6,927	16,748	11,020
Dividends	16	17	26	229	229	16
Miscellaneous	6,433	760	1,117	863	9,501	449
	27,739	20,850	20,938	28,699	48,656	36,957
INCOME / LOSS FROM OPERATIONS	98,320	-64,232	-185,448	-127,562	-220,773	-19,485
OTHER INCOME (EXPENSES)						
Interest Income	55,447	43,956	29,659	15,172	6,479	6,231
Extraordinary Receipt-Discount on Buy-Back of Lloyds Loan	10,799	10,799	10,799	5,399	0	0
Extraordinary Receipt-Subsidies from the National Government				830,619	7,569,843	34,669
Extraordinary Income-Miscellaneous					48,871	5
Income fr. Public Enterprises/Investment	1,471	213	213			
Sale of Asset-Scrap of Fixed Asset	1,478			1,154		
Interest/Bank Charges	-567,486	-847,271	-809,839	-658,834	-872,558	-1,019,829
Loss on Foreign Exchange	3,906	-8,660	-12,606	-1,595,298	-1,183,732	-465,192
N E T INCOME (LOSS)	-396,065	-865,195	-967,222	-1,529,350	5,348,076	-1,463,599

Source: Commission on Audit

Annex 2.2

LRTA - Balance Sheet, 1999-2004

(In thousand pesos)

ASSETS	1999	2000	2001	2002	2003	2004
FIXED ASSETS net	9,799,589	13,582,279	16,172,714	24,476,612	36,495,222	40,312,080
INVESTMENTS	36,364	36,366	36,366	36,366	36,414	36,414
CURRENT ASSETS						
Cash & cash equivalents	198,986	552,206	228,095	96,444	121,725	246,984
Short-term investments	546,316	185,010	189,648	59,181	1,396	6,401
Receivables	103,671	96,110	65,121	31,261	41,969	342,026
Inventories	975,396	1,056,766	1,142,443	847,312	824,795	847,659
Total Current Assets	1,824,369	1,890,092	1,625,307	1,034,198	989,886	1,443,071
OTHER ASSETS	951,169	860,177	852,604	939,342	1,112,912	954,271
CONTINGENT ASSETS	5,053	4,813	4,905	35,567	35,567	35,567
TOTAL ASSETS	12,616,544	16,373,727	18,691,896	26,522,085	38,670,001	42,781,403
LIABILITIES AND CAPITAL DEFICIENCY						
PUBLIC DEBT - LOANS AND ADVANCES	15,109,465	19,513,526	22,750,930	32,349,027	38,199,779	42,964,038
CURRENT LIABILITIES						
Payables	146,707	476,651	451,063	802,362	1,429,603	1,499,081
Accrued interest payable	44,660	163,909	236,207	137,610	396,012	409,060
Trust liabilities	31,374	50,777	21,404	35,006	33,888	35,731
Miscellaneous liabilities and deferred credits	30,887	20,458	9,834	4,698	4,821	6,515
Depository liabilities	758	830	2,707	1,182	1,119	1,221
Current portion of public debt - loans & advances	69,112	68,367	120,912	69,281	222,127	912,634
Total Current Liabilities	323,499	780,993	842,127	1,050,139	2,087,570	2,864,243
	15,432,964	20,294,519	23,593,057	33,399,166	40,287,348	45,828,280
CAPITAL DEFICIENCY						
Paid-in capital	2,911,950	2,985,546	2,985,546	2,985,546	2,985,546	2,985,546
Contingent surplus	5,053	4,813	4,905	35,567	35,567	35,567
Invested surplus	-7	-7	-7	-7	-7	-7
Appraisal surplus	231	231	231	231	231	231
Donated surplus	338	338	338	338	338	338
Deficit	-5,733,986	-6,911,714	-7,892,174	-9,898,756	-4,639,022	-6,068,553
	-2,816,421	-3,920,792	-4,901,161	-6,877,081	-1,617,347	-3,046,878
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	12,616,544	16,373,727	18,691,896	26,522,085	38,670,001	42,781,403

Source: Commission on Audit

3. LOCAL WATER UTILITIES ADMINISTRATION

Background. The Local Water Utilities Administration (LWUA) was initially created as a specialized lending agency in 1973 to promote, develop, and finance local water utilities (LWUs). It became a stock corporation with an authorized capital stock of P500 million in 1975. An amendment in 1978 increased the capital stock to P2.5 billion.

The following are the functions of LWUA:

- To provide a specialized lending facility with peculiar expertise in the financing of LWUs;
- To establish minimum standards and regulations in order to assure acceptable standards of construction materials and supplies, maintenance, operation, personnel, training, accounting, and fiscal practices for local water utilities (LWUs);
- To provide technical assistance and personnel training programs for LWUs;
- To monitor and evaluate local water standards; and
- To effect system integration, joint investment, and operations district annexation and deannexation.

LWUA was initially an agency under National Economic and Development Authority (NEDA). It was attached to the Office of the President in 1975.

Borrowing Authority. LWUA is authorized to borrow from domestic and foreign sources. Ceiling on domestic loans was set at P 1 billion while that for foreign loans was put at $500 million.

The Philippine government guarantees the payment of LWUA loans as primary obligor and not merely as surety. Aside from government guarantees, the LWUA is exempt from the payment of all direct and indirect taxes, customs duties, fees, imposts, other charges and restrictions, including import restrictions.

Loan standards, enforcement powers, and water rates. When LWUA was created in 1973, it was granted a revolving loan fund amounting to P20 million for the purpose of granting loans to local water utilities (LWUs).

Certain conditions and criteria must be met before loans can be granted to local water utilities. They are:

- Qualification of borrower: The LWU should hold a valid Certificate of Conformance from LWUA and meet other loan requirements;
- Feasibility studies may be required by LWUA to be undertaken by the water district, LWUA, or by its pre-qualified consultant; and
- Loan documents and procedures that include provisions of security, payment, and default.

The LWUA may take as collateral mortgage on property and bonds. The amount of loan should be programmed to ensure completion of the project. In the event of default in payment, LWUA may take over and operate the facilities of the district.

Water rates or charges set by LWUs are subject to the review of LWUA. Any rate or charge should be adequate to provide for (1) the cost of systems expansion (2) the operation and maintenance cost of the district; (3) service debt of the water district; (4) a reasonable surplus for replacement, extension and improvement; and (5) revenue for all water deliveries and service performed by the district.

LWUA also establishes and regulates standards for LWUs in terms of (1) minimum drinking water standards including testing and deporting system; (2) minimum criteria for the design and construction of new or additional water facilities; (3) standards for the optimum selection and effective utilization of equipment for wastewater collection, treatment, and disposal; (4) standard procedures for operating and maintaining equipment and facilities; (5) personnel; (6) organization and institutional criteria to assure independent operation and funding of LWUs; and (7) accounting.

Board of Trustees. The Board of Trustees of LWUA is composed of 5 members with the LWUA Administrator acting as an ex-officio member of the Board. The Board elects a chairman from among its members. The trustees are appointed by the President of the Philippines for a five-year term each with the exception of the ex-officio member.

One trustee should have, at any time, at least 10 years experience in banking, finance, and business. Another trustee should possess sufficient background in economics, another trustee should have experience in management or systems operations, 2 trustees should be civil or sanitary engineers experienced in water supply or wastewater operations. Not more than one trustee should represent a private investor-owned utility and at least 3 of the trustees must be employees of the National Government (NG). No elected official may act as a trustee.

The Trustees receive a per diem as fixed by the Board for each meeting actually attended. The present board meets four times a month.

When LWUA was created in 1973, the LWUA Administrator was not part of the Board of Trustees. The Board of Trustees was composed of 5 members with the following qualifications: Two trustees at any time shall each have at least 10 years experience in banking or finance and employed by the NG. Two trustees at any time shall be a manager, an engineer, an accountant, or an attorney employed by a Local Water Utility, each with at least 4 years experience related to water supply or wastewater operations. One trustee shall be a civil or sanitary engineer employed by the NG.

Management. The Management is composed of an Administrator, a Senior Deputy Administrator, and 3 Deputy Administrators (Deputy Administrators for Area Operations, for Investment and Financial Services, and for Administrative Services).

The Administrator is selected by the appointed trustees and he should not come from the appointed trustees. The Administrator then employs and appoints additional personnel. However, the appointment of personnel in the supervisory level is subject to the confirmation of the Board.

Operational Highlights. LWUA is responsible for financing the development of water utilities in the country's provincial urban areas and self-reliant water districts. As of December 2003, 588 water districts have been formed. Four hundred forty-four (444) of these are operational and serve 12 million people that represent 63 percent of the urban population in operational water district areas. This was made possible through the provision of water supply development loans which reached P13 billion as of December 2003. In 2004, LWUA invested an additional P2.4 billion, a large chunk (P1.6 billion) of which comes from Official Development Assistance (ODA) while the rest comes from local counterpart and equity funding. In 2004, LWUA also completed 53 water system improvement and expansion projects worth about P1.3 billion which gives an additional 250,000 people access to potable water supply. Seventeen (17) of these projects were completed for the people of Central Luzon, 14 for Visayas, and 11 for North Luzon and Mindanao.

The loan collection ratio level of LWUA for 2004 was at 80.90 percent, which dropped by about 3 percent from 2003. Cash collection, however, increased by P77 million to P1.173 billion in 2004 from 2003. Loan collection for 2003 stood at 84 percent, the same as 2002's but cash collection increased by P163 million from 2002's P933 million to 2003's P1.096 billion. For the years 1997 to 2001, the average collection ratio was at 85 percent.

In 2004, LWUA was threatened by a lack of project funds because by 2005, all on-going foreign-funded program packages would be completed. Thus, no foreign funds would come in. Further, there was little prospect for traditional sources of funds from the NG and congressional initiatives to be channeled to LWUA. In addition, LWUA's authority to borrow from foreign and local sources of funds was almost exhausted by then, which could be resolved only through a congressional amendment of its charter (Thirty-one Years of Hard Work, 1973-June 2004 Accomplishments, Issues and Prospects for 2005). But at the end of 2004, funding support for the pending water projects of LWUA was resumed by the NG with the release by the Department of Budget and Management (DBM) of about P194 million.

Financial Highlights. LWUA's net income has been constantly declining from P128 million in 1999 to a net loss of P574 million in 2003. The year 2003 was a historic low for LWUA when net losses almost tripled from P197 million in 2002 to P574 million in 2003. The net loss was partly contained in 2004 when LWUA registered a lower net loss of P261 million. From 1999 to 2004, LWUA's operating and service income increased from P899 million in 1999 to P1.776 billion in 2004. Operating expenses grew at a much faster pace and almost tripled during the same period. Operating expenses overtook operating and service income by nearly P79 million in 2002 and about P117 million in 2003. This condition improved (in 2004) when losses from operations decreased to about P10 million in 2004. Other charges increased by 390 percent from P93 million in 1999 to P457 million in 2003 and decreased to P251 million in 2004 (Table 3.1).

Table 3.1 Income Statement,1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Operating and Service Income	898,943	1,016,028	996,987	1,337,544	1,416,936	1,776,095
Less: Operating Expenses	(625,974)	(630,541)	(868,227)	(1,416,466)	(1,534,106)	(1,786,007)
Income (Loss) from Operations	272,969	385,487	128,760	(78,922)	(117,170)	(9,912)
Less: Other Charges	(92,985)	(209,347)	(103,756)	(117,896)	(456,936)	(250,603)
Income before Income Tax	179,985	176,140	25,004			
Less: Current	(51,750)	(59,362)	(8,693)			
Add: Deferred		7,378	8,030			
Net Income (Loss)	128,235	124,156	24,341	(196,818)	(574,106)	(260,515)
Retained Earnings at the Beginning of the Year	335,466	417,967	396,918	288,774	45,434	(585,018)
Cash Dividends	-	(39,688)	(59,227)	(18,310)		
Prior Period Adjustments-Net of Tax	(45,734)	(105,517)	(73,258)	(28,212)	(56,346)	(385,408)
Retained Earnings at the End of the Year	417,967	396,918	288,774	45,434	(585,018)	(1,230,941)

Source: Commission on Audit

Personal Services (PS) increased from about P284 million in 1999 to a little more than P438 million in 2003 and again decreased to P406 million in 2004. The increase in PS was mainly caused by per diem, compensation and non-commutable allowances along with bonuses and incentives (Table 3.2).

Maintenance and Other Operating Expenses (MOOE) increased at a higher rate from about P626 million in 1999 to about P1.79 billion in 2004 (Table 3.2). The bulk of MOOE came from the amortization of deferred charges which amounted to P314 million in 2002 and P540 million in 2004. Interest expense and other debt service charges more than doubled from P190 million in 1999 to about P425 million in 2004 while other services more than tripled from P61.4 million in 1999 to P217.7 million in 2004. Depreciation and bad debts also increased from P73 million in 2002 to P151 million in 2004.

Table 3.2 Operating Expenses Summary,1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Personal Services						
Total PS	283,955	285,729	347,175	431,994	438,146	406,025
Maintenance and Other Operating Expenses						
Total MOOE	342,019	344,812	521,052	984,472	1,095,959	1,379,982
Total Operating Expenses	625,974	630,541	868,227	1,416,466	1,534,106	1,786,007

Source: Commission on Audit

Furthermore, LWUA incurred escalating expenses due to other charges, in particular, the losses from foreign currency valuation which increased from about P55 million in 1999 to close to P277 million in 2004. This is due to the revaluation of outstanding foreign loans in accordance with the new financial accounting standards as set by COA. A big increase in the losses from foreign currency valuation occurred during the years 2002 to 2003 - P123 million in 2002 to P461 million in 2003.

LWUA's assets increased from P9.6 billion in 1999 to P14.9 billion in 2004. The increase amounting to about P5.3 billion during the period 1999 to 2004 was mainly the result of the increase in non-current assets amounting to about P4.9 billion.

Total liabilities increased from about P4.9 billion in 1999 to P10.9 billion in 2004 registering an increase amounting to about P6 billion. The increase was primarily from the long term liabilities and deferred credits which more than doubled during the period 1999 to 2004 (Table 3.3).

Table 3.3 Balance Sheet Summary, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Assets						
Current Assets	1,105,176	1,257,447	1,273,663	1,068,143	1,345,794	1,491,569
Non Current Assets	8,528,972	10,713,188	11,077,077	10,861,871	12,023,839	13,404,138
Total Assets	**9,634,148**	**11,970,635**	**12,350,739**	**11,930,014**	**13,369,633**	**14,895,707**
Liabilities						
Current Liabilities	826,835	972,957	790,372	932,941	949,993	1,056,684
Non Current Liabilities	4,109,999	4,833,051	5,155,247	6,108,955	8,114,988	9,873,962
Total Liabilities	**4,936,834**	**5,806,008**	**5,945,619**	**7,041,896**	**9,064,981**	**10,930,646**
Stockholders' Equity	4,697,314	4,907,180	5,131,458	4,888,118	4,304,652	3,965,061
Total Liabilities and Stockholders' Equity	**9,634,148**	**10,713,188**	**11,077,077**	**11,930,014**	**13,369,633**	**14,895,707**

Source: Commission on Audit

The current ratio is above unity but may be considered disturbing since more than half of current assets are composed of receivables and current portion of long-term loans receivables (Table 3.4). The trends of debt-to-asset and debt-to-equity ratios indicate greater reliance on borrowing than on equity.

Table 3.4 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	1.337	1.292	1.611	1.145	1.419	1.412	**1.369**
Debt-to-Asset Ratio	0.512	0.542	0.537	0.59	0.702	0.734	**0.603**
Debt-to-Equity Ratio	1.051	1.183	1.159	1.441	2.106	2.757	**1.616**

Source of basic data: Commission on Audit

Annex 3.1

LWUA - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Operating and Service Income	898,943	1,016,028	996,987	1,337,544	1,416,936	1,776,095
Operating Expenses	(625,974)	(630,541)	(868,227)	(1,416,466)	(1,534,106)	(1,786,007)
Personal Services						
Per diem, compensation and non commutable allowances	41,190	38,241	76,969	159,866	145,419	136,406
Salaries and wages	129,192	138,156	136,633	139,644	137,380	136,665
Bonuses and incentives	75,566	68,583	95,874	87,403	111,027	90,092
Social security insurance premiums	30,744	33,152	31,957	34,826	37,364	35,501
Terminal leave and gratuity pay	2,097	2,572	875	4,876	2,229	4,049
Other benefits	2,900	2,774	2,634	2,947	2,523	1,786
Honorarium	1,450	1,333	1,400	1,522	1,608	965
Commutable allowances/fringe benefits	412	472	466	620	378	377
Overtime	52	71	108	160	199	185
Study grant and scholarship	353	376	258	128	19	
Total PS	283,955	285,729	347,175	431,994	438,146	406,025
Maintenance and Other Operating Expenses						
Amortization of deferred charges				313,537	313,537	540,123
Interest expense and other debt service charges	190,000	224,484	213,693	241,636	274,207	424,949
Other services	61,444	42,669	136,741	222,018	277,974	217,741
Grants, subsidies and contributions	3,629	3,209	72	86,806	46,297	-
Depreciation and bad debts	47,393	31,304	33,476	73,271	123,383	150,552
Water, illumination and power	7,606	9,795	10,644	12,479	10,589	12,905
Traveling expenses	11,282	11,489	12,111	12,202	11,004	9,777
Auditing services	4,527	4,909	5,281	6,085	296	5,606
Repairs and maintenance-government facilities	2,698	2,318	2,267	3,355	2,072	3,505
Training and personnel improvement	1,675	2,240	3,313	2,801	2,850	3,298
Communication services	2,295	2,397	1,958	2,319	2,068	2,702
Taxes, duties and fees	2,845	3,983	2,140	2,222	2,815	2,687
Maintenance of motor vehicles	2,242	2,263	2,356	2,199	1,653	1,670
Supplies and materials	2,138	2,014	95,529	1,686	25,501	3,172
Rent	330	1,391	1,180	1,263	1,240	1,174
Consultants' and specialists' fees	419	321	249	510	398	95
Donations	1,495	26	41	85	77	25
Total MOOE	342,019	344,812	521,052	984,472	1,095,959	1,379,982
Income (Loss) from Operations	272,969	385,487	128,760	(78,922)	(117,170)	(9,912)
Other Charges						
Losses from foreign currency valuation	(55,276)	(77,156)	(92,950)	(123,090)	(460,929)	(276,776)
Provision for foreign exchange reserve	(37,313)	(133,478)	(11,102)			
Final tax withheld on interests on savings deposits	(5,813)	(5,686)	(8,477)	(3,861)	(1,517)	(481)
Final tax withheld on interests on STI					(2,604)	(3,179)
Collections from training/seminars	1,226	1,925	3,004	2,037	3,375	4,225
Interest income on housing/car loans	2,105	2,222	2,271	989	310	939
Gain on sale of fixed assets	52	855	399	332	149	278

	1999	2000	2001	2002	2003	2004
Dividend on stocks	22	23	22	15	23	23
Miscellaneous income	2,013	1,947	3,077	5,681	4,257	24,368
Total Other Charges	(92,985)	(209,347)	(103,756)	(117,896)	(456,936)	(250,603)
Income before Income Tax	179,985	176,140	25,004			
Current	(51,750)	(59,362)	(8,693)			
Deferred		7,378	8,030			
Net Income (Loss)	128,235	124,156	24,341	(196,818)	(574,106)	(260,515)
Retained Earnings at the Beginning of the Year	335,466	417,967	396,918	288,774	45,434	(585,018)
Cash Dividends		(39,688)	(59,227)	(18,310)		
Prior period adjustments-net of tax	(45,734)	(105,517)	(73,258)	(28,212)	(56,346)	(385,408)
Retained Earnings at the End of the Year	417,967	396,918	288,774	45,434	(585,018)	(1,230,941)

Source: Commission on Audit

Annex 3.2

LWUA - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current assets	**1,105,176**	**1,257,447**	**1,273,663**	**1,068,143**	**1,345,794**	**1,491,569**
Cash & cash equivalents	729,370	876,568	818,378	298,238	501,047	421,064
Short-term loans receivable		180,095	203,814			
Receivables	28,104	33,729	55,110	256,032	294,696	483,469
Current portion of long-term loans receivable-net	143,213			248,080	214,914	311,642
Inventories	6,740	7,091	8,386	10,901	11,917	12,102
Other current assets	197,749	159,964	187,976	254,892	323,220	263,291
Non-current Assets	**8,528,972**	**10,713,188**	**11,077,077**	**10,861,871**	**12,023,839**	**13,404,138**
Long term receivables	7,007,405	7,501,425	7,915,168	9,166,375	10,633,458	12,840,931
Investments	277	277	277	175,967	173,409	291,470
Property and equipment-net	45,342	42,971	57,947	56,830	51,961	90,952
Deferred Charges	1,375,967	1,802,517	1,716,109	1,460,999	1,163,321	178,750
Other Assets	99,573	108,551	113,913	1,699	1,690	2,036
Contingent Assets	408					
Total Assets	**9,634,148**	**11,970,635**	**12,350,739**	**11,930,014**	**13,369,633**	**14,895,707**
LIABILITIES						
Current Liabilities	**826,835**	**972,957**	**790,372**	**932,941**	**949,993**	**1,056,684**
Accounts payable and accrued expenses	132,054	218,348	172,444	196,971	178,532	118,118
Accrued interest on foreign loans		191,124	146,439	135,710	126,259	122,231
Trust liabilities	294,057	276,363	219,415	208,403	217,006	222,502
Current portion of long term debt	293,787	159,115	147,405	264,848	282,534	452,729
Other current liabilities	106,938	128,006	104,669	127,009	145,662	141,103
Non-current liabilities	**4,109,999**	**4,833,051**	**5,155,247**	**6,108,955**	**8,114,988**	**9,873,962**
Long-term liabilities	4,098,631	4,818,601	5,109,876	6,042,041	8,036,463	9,752,457
Deferred credits	11,367	14,450	45,371	66,913	78,525	121,505
Stockholders' equity	**4,697,314**	**4,907,180**	**5,131,458**	**4,888,118**	**4,304,652**	**3,965,061**
Capital stock						
Authorized-12500000 shares at P 200 par value issued and outstanding	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Donated surplus	1,777,630	2,008,952	2,341,374	2,341,374	2,341,523	2,647,854
Miscellaneous surplus		1,310	1,310	1,310	48,147	48,147
Retained earnings	417,967	396,918	288,774	45,434	-585,018	-1,230,941
Contingent Surplus	670					
Capital - Miscellaneous	1,048					
Total Liabilities and Stock holders equity	**9,634,148**	**10,713,188**	**11,077,077**	**11,930,014**	**13,369,633**	**14,895,707**

Source: Commission on Audit

4. METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

Background. The Metropolitan Waterworks and Sewerage System (MWSS) is one of the oldest government water systems in Asia with the first system constructed in 1878. The initial water system infrastructure consisted of a pumping system from the Marikina River to an underground reservoir in San Juan and a 650 mm transmission main conveyed by gravity. To meet the demand of increasing population in what is now Metro Manila and its environs, several dams were constructed. These included the Wawa Dam in the 1910s, the Ipo Dam in the 1920s, and the Angat Dam in the 1960s.

The present MWSS was spun from the Metropolitan Water District (MWD) created in 1919 as a common water institution to serve adjoining cities and municipalities in Metro Manila. The MWD was eventually replaced by the National Waterworks and Sewerage Authority (NAWASA) in 1955 and NAWASA took over water supply and sewerage services for the whole country. The NAWASA owns and has jurisdiction, supervision and control over all territory, then embraced by the Metropolitan Water District, as well as all areas served by existing government-owned waterworks, sewerage and drainage systems within the boundaries of cities, municipalities, and municipal districts in the Philippines. The NAWASA's mandate was later expanded to include the construction, maintenance, operation and control of non-self supporting and non-revenue producing water systems and sanitary works undertaken by the government. The NAWASA was dissolved in 1971 with the creation of the Metropolitan Waterworks and Sewerage System (MWSS). MWSS has jurisdiction and control over all waterworks and sewerage systems in a 200,000-hectare service area including the National Capital Region, the entire province of Rizal and part of the province of Cavite. Its charter mandates MWSS to operate and maintain water and sewerage services in Metropolitan Manila as an autonomous government-owned and -controlled corporation.

In 1997, the operational and investment functions of MWSS were privatized via concession agreements with two companies namely the Manila Water Company Incorporated (MWCI or Manila Water) and Maynilad Water Services Incorporated (MWSI or Maynilad). The concessionaires, as agents of MWSS in the provision of water and sewer services, took over the land tenancy, operational fixed assets and exclusive rights to produce and treat raw water; transport, distribute and market potable water; and collect, transport, treat, dispose of and eventually reutilize wastewater, including industrial effluents discharged into the sewerage system.

As part of MWSS' restructuring, two independent government entities were then created: the MWSS-Corporate Offices (named Residual) and the MWSS-Regulatory Office (RO). The following are the functions of the two MWSS-related entities:

- <u>MWSS – Corporate Offices</u> (erstwhile named Residual) – to facilitate the takeover by the Concessionaire of its agency powers; administer and manage retained assets; administer existing loans; provide bulk water; develop new water sources; and provide such other services or functions as are assigned under the Concession Agreement;
- <u>MWSS – Regulatory Office (RO)</u> – to monitor and/or enforce the Concession Agreement; ensure appropriate measures are undertaken in case of

Concessionaires' non-compliance; review water supply and sewerage rates and implement extraordinary price adjustment and rate rebasing provisions; and to prosecute or defend proceedings before the Appeals Panel. The RO is autonomous but is under the same MWSS Board. It is primarily responsible for monitoring and computation activities. The MWSS Board, on the other hand, is responsible for formulating and adopting policies and measures for the management and the day-to-day operation of the System.

Borrowing Authority. The MWSS is authorized to issue bonds or securities to finance its operations subject to the approval of the President of the Philippines upon the recommendation of the DOF Secretary. These bonds and securities are guaranteed by the National Government (NG). MWSS is exempt from the payment of all taxes, duties, fees, imposts, and all other charges.

Water and Sewerage Rates. Under the Concession Agreement entered into by the MWSS with the two concessionaires, the MWSS-Regulatory Office reviews and monitors water and sewerage rates; implements the Extraordinary Price Adjustment (EPA) and rate rebasing provisions of the concession agreements; determines the rate of return of the concessionaries, amendments to the service obligation, and assessment of penalties for failure to meet service obligations.

The MWSS-RO is also involved in the decision on early termination and payments due to events of termination of the concession agreement.

The rates and fees fixed by the Board of Trustees for the MWSS and by the local governments for the local systems should not exceed the rate of return of 12 percent on a rate base composed of the sum of its assets in operation as revalued from time to time plus two (2) months' operating capital. Complaints against the rates are filed with the then-Public Service Commission. The MWSS income is disposed of according to the following priorities: (1) pay its contractual and statutory obligations and meet its essential current operating expenses; (2) reserve at least 50 percent of the balance exclusively for the expansion, development and improvement of the MWSS; (3) allocate the residual amount enhancing the efficient operation and maintenance of the MWSS which includes increases of administrative expenses or adjustment of salaries and other benefits of the employees.

Board of Trustees. The Board of Trustees is composed of nine (9) members consisting of the Secretary of Department of Public Works and Highways as ex-officio Chairman, unless the President of the Philippines appoints another person as Chairman; the Administrator of the System as Vice-Chairman; six (6) members who are appointed by the President of the Philippines, and the Government Corporate Counsel (of the Office of the Government Corporate Counsel or OGCC) as ex-officio member who serves as a legal adviser of the Board. The Chairman, if appointed, and the six (6) appointive members hold office for a period of five (5) years.

The following are the powers and duties of the MWSS Board of Trustees:

- To formulate and adopt policies and measures for the management and the operation of the System;
- To adopt an annual and supplemental budget of receipts and expenditures of the System according to its requirements;

- To determine the System's staffing pattern and the number of personnel, to fix their salaries including other emoluments, and to define their power and duties;
- To recommend to the President of the Republic of the Philippines the appointment of the Administrator and the Senior Deputy Administrator, and to fix their compensation; and
- To issue such rules and regulations as may be necessary for the sanitary protection of watersheds, reservoirs, conduits, springs and other water sources; for the proper operation of water supply lines and sanitary sewers; for the preservation and protection of water service as soon as established; and for proper procedures in applying for approval of, and connection to, water and/or sewer services which rules shall take effect after publication at least once a week for three consecutive weeks in a newspaper of general circulation in the territory served by the System.

The Board of Trustees should possess any or a combination of the following qualifications: a duly licensed professional of recognized competence in civil engineering and/or sanitary engineering, business management and finance, and law; or a recognized labor leader within the ranks with sufficient training, particularly in the field of labor-management relations or corporate practice; all of good moral character; with at least five years of actual and distinguished experience in their respective fields of expertise.

The present Board meets twice weekly. A majority constitutes a quorum for the transaction of business.

When NAWASA was created in 1955, the 5-member Board of Directors reported to the President and Congress of the Philippines. All corporate powers of the NAWASA were exercised, its business managed and its properties kept and preserved, by a Board of Directors composed of a chairman, 3 other members, and the general manager of the Authority who is ex-officio Board member. Two of the Board members must possess knowledge of waterworks, public works and/or sanitary engineering; one, knowledge of public health; one, knowledge of business management and finance. The chairman and the three other members of the Board were appointed for a term of 6 years by the President of the Philippines, with the consent of the CA.

When MWSS was created in 1971, the chairman and the three members of the Board were appointed by the President of the Philippines with the consent of the CA. The Chairman and the 3 members of the Board held office for a period of 3 years. A majority of the Board constituted a quorum for the transaction of business and the affirmative vote of 3 was required for the adoption of any action.

Management. The MWSS Executive Officers are composed of the Administrator, the Deputy Administrator, and three (3) Department Managers (Department Managers for Engineering and Project Management, for Assets and General Services, and for Administration and Finance). Their appointments are recommended by the Board for approval of the President of the Philippines.

The MWSS Administrator is tasked with the following functions:

- To direct and manage the System in accordance with and to carry out the policies of the Board;
- To control, direct and supervise all the officers and employees under him;
- To submit to the Board an annual budget and plantilla of personnel not later than 60 days prior to the beginning of a fiscal year, and thereafter such supplemental budgets as may be necessary; and
- To submit to the Board, not later than the 20th of every month, a financial and operational report for the month preceding; and not later than 90 days after the close of each fiscal year, an annual report; and from time to time, such partial reports as he may see fit to render or as may be required by the Board.

When NAWASA was created in 1955, the General Manager, Assistant General Manager, chief engineer and treasurer were appointed by the President of the Philippines with the consent of the Commission on Appointments. The management of the system was vested in the General Manager to be assisted by four (4) Assistant General Managers – one for Engineering, one for Operation, one for Finance and Administration, one for Commercial and Customer Service, and the heads of departments. The Assistant General Managers were appointed by the Board with the approval of the President. They were required to be persons of integrity, competence and with experience in the technical and executive fields.

Operational Highlights. Prior to the MWSS privatization in 1997, it was supplying water to two-thirds of Metro Manila's 11 million residents, considered one of the lowest in Asia in terms of service coverage. A third of Metro Manila residents are serviced by underground wells. Water availability in connected areas was averaging only 16 hours per day. More than half of the potable water that MWSS produced was lost to leaks, pilferage, illegal connections and operating inefficiencies. Shortly before the privatization, non-revenue water (NRW) or losses, reached more than 60 percent, way above the 10-20 percent for efficiently managed systems.

MWSS was considered overstaffed with about 8,000 employees. Its productivity ratio stood at 8.5 staff per 1000 connection – much lower than to the ratios of other East Asian cities. Kuala Lumpur had an impressive 1.8 productivity ratio while Singapore, Hong Kong and Seoul have between 2 and 3 (Hondrade, 2004).

MWSS administers some on-going projects, with some outstanding MWSS loans and assets not directly needed for the operation of the water and sewer system. For major water source development projects, MWSS continues to develop them by borrowing and guaranteeing the financing requirements.

An overview of the operational performance of the two concessionaires from 2000 to 2003 shows that the total number of water connections more than doubled, servicing a total of 9.0 million people out of the 13.1 million service population. Services to the urban poor likewise improved from 79,466 connections in 2000 to 174,935 in 2003.

Financial Highlights. MWSS posted net income starting in 2001 and up to 2004 after suffering from net losses 1999 and 2000, the largest of which was P1.35 billion in 1999 (Annex 4.1). The net income was due to revenues from concession and rentals on leased properties. MWSS' income surged upwards particularly after 2000 when revenues from concessions increased. The bulk of expenses came from interest expenses, depreciation cost, personal services and organization cost.

MWSS' total assets were pegged at P 69.9 billion in 2004, more than 15 percent of which were held as current assets (Annex 4.2). Current assets are mainly accounts receivables, followed distantly by cash and cash equivalent, and with a small sum in inventories. Cash position deteriorated from over P4 billion in 2002 to P2.5 billion in 2004. On the other hand, account receivables have increased nearly twenty five times from less than P400 million in 2003 to more than P9 billion in 2004. This was due to the P 6.7 billion worth of fees that remained unpaid by the concessionaires. Net fixed assets were estimated at almost 75 percent of MWSS' assets.

MWSS' total liabilities were estimated at P 31.7 billion in 2004, about 75 percent of which were held as long term liabilities. Current liabilities were estimated at less than 10 percent, much of which were accounts payable and current portion of long term liabilities. Current liabilities have doubled from P1.5 billion in 1999 to P3 billion in 2004.

A look at the current ratio (Table 4.1) reveals that short term liquidity has been on the decline since 1999 except for a strong recovery in 2002 and 2004, reflecting an increase in cash and cash equivalents in 2002 and an increase in account receivables in 2004. Debt-to-asset and debt-to-equity ratios reflect minimal reliance on borrowings.

Table 4.1 Selected Financial Ratios, 1999-2004

Ratio/Year	1999	2000	2001	2002	2003	2004	Ave.
Current Ratio	1.880	1.691	1.663	3.185	1.551	2.258	2.038
Deb-to-Asset	0.244	0.290	0.344	0.399	0.415	0.453	0.358
Debt-to-Equity	0.323	0.408	0.525	0.664	0.709	0.829	0.576

Source of basic data: Commission on Audit

Annex 4.1

MWSS - Income Statement, 1999-2004

(In thousand pesos)

ITEM	1999	2000	2001	2002	2003	2004
Operating and Service Income	**461,330**	**293,607**	**2,580,170**	**2,840,114**	**3,384,607**	**2,798,754**
Revenue from concession	233,014	247,972	2,537,035	2,792,815	3,334,565	2,751,720
Interest income	171,793					
Rentals - leased properties	49,486	45,635	43,135	47,299	50,042	47,034
Miscellaneous income	7,037					
Operating Expenses	**1,814,110**	**1,745,154**	**2,521,761**	**2,479,351**	**2,468,030**	**2,210,217**
Personal services	75,403	91,666	106,976	117,893	129,846	147,265
Depreciation	1,368,357	1,330,647	1,291,906	1,237,618	1,230,212	1,352,741
Bad debts						
Amortization of water rights	902	902	902	902	2,826	6,674
Amortization of organization cost	299,048	267,592	267,592	219,987	16,088	
Amortization of R & D cost						
Maintenance & Other Operating Expenses	70,399	54,346	535,121	856,446	1,089,058	703,538
Income from Operations	**(1,352,779)**	**(1,451,547)**	**58,409**	**360,764**	**916,577**	**588,537**
Add: Other income	-	4,775	3,528	14,880	47,103	16,175
Interest income	-	136,417	118,956	195,547	107,851	106,218
Gain on sale of Gen Admin. Equipment	-	-	-	-	-	6
Gain from forex	2,585	35,688	(2,045)	14,657	28,132	(48,929)
Net Income (Loss) Before Other Expenses	**(1,350,194)**	**(1,274,667)**	**178,848**	**585,848**	**1,099,663**	**662,007**
Less: Other Expenses - Interest expense	(25,442)					
Net Income (Loss)	**(1,375,636)**	**(1,274,667)**	**178,848**	**585,848**	**1,099,663**	**662,007**
Retained Earnings, Beginning	**1,663,804**	**(1,485,971)**	**(2,659,013)**	**1,676,034**	**2,028,122**	
Adjustments to Surplus/(deficit)	(1,774,139)	101,625	4,156,199	(233,760)	(935,417)	
Retained Earnings, End	**(1,485,971)**	**(2,659,013)**	**1,676,034**	**2,028,122**	**2,192,367**	

Source: Commission on Audit

Annex 4.2

MWSS - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Assets						
Fixed Assets						
Property, plant & eqpt	36,226,459	35,069,468	33,771,533	32,541,110	31,577,237	32,561,643
Construction progress	9,920,281	12,279,224	16,724,484	18,949,243	20,347,354	19,653,078
Current Assets	-	-	-			-
Cash and Cash equivalent	1,716,816	2,079,752	2,020,763	4,186,421	3,101,123	2,564,552
Accounts receivables	351,790	481,519	2,117,110	1,683,481	369,800	9,170,885
Miscellaneous receivables	268,090					-
Inventories	475,393	82	82	430	434	345
Advances and deposits	368,008					
Non-Current and Other Assets	-	-				
Stocks and Securities of Service Enterprises	2,206					
Non-current receivables				168,678	7,959,756	4,071,787
Investments	270,169	257,418	239,751	233,109	196,975	347,702
Contingent assets	107,650	107,647	107,820	107,813	107,813	107,813
Re-organization cost	893,174					
Miscellaneous assets & deferred assets	97,315	2,693,541	2,316,150	2,263,462	1,464,856	1,455,525
Total Assets	50,697,351	52,968,652	57,297,693	63,133,748	65,125,347	69,933,330
Liabilities	-		-			-
Long term liabilities - net of current portion	10,873,859	13,492,905	15,442,245	16,297,773	15,904,241	23,886,639
Bonds payable		-	1,039,900	796,440	2,169,225	780,000
Notes payable		-	380,000	5,309,600	5,834,745	1,406,675
Current Liabilities	-		-			-
Depository liabilities	59,860	38,893,	39,052	38,755	923	906
Accounts payable	1,237,324	1,081,272	2,010,888	1,333,117	1,491,381	2,172,457
Current portion of long-term liabilities	144,708	214,175,	225,181	250,282	528,744	585,755
Trust liabilities	54,023	180,537	213,474	221,075	217,339	251,862
Deferred credits, other non-current liabilities and deferred credits	6,483	-				2,407,773
Miscellaneous liabilities		257,558	270,642	754,217	682,066	-
Contingent liabilities		93,520	93,520	197,630	197,580	197,580
Total Liabilities	**12,376,257**	**15,358,862,**	**19,714,904**	**25,198,888**	**27,026,243**	**31,689,647**
Equity/Capital Stock						
Authorized 80 M shares at P100 par Issued and outstanding shares	6,095,487	6,095,487,	6,095,487	6,095,487	6,095,487	6,095,487
Donated capital	1,046,971	1,046,971,	1,046,971	1,046,971	1,046,971	1,046,971
Retained earnings	(1,485,971)	(2,659,013)	1,676,034	2,028,122	2,192,367	5,114
Appraisal capital	28,656,478	28,656,478	28,656,478	28,656,466	28,656,466	28,656,466
Contingent capital/surplus	107,650	107,670	107,820	107,813	107,813	107,813
Invested capital	3,900,480	4,362,197				
Total Equity/Capital	**38,321,094**	**37,609,789**	**37,582,789**	**37,934,859**	**38,099,105**	**38,243,683**
Total Liabilities and Equity/Capital	**50,697,351**	**52,968,652,**	**57,297,693**	**63,133,748**	**65,125,347**	**69,933,330**

Source: Commission on Audit

5. NATIONAL DEVELOPMENT COMPANY

Background. The National Development Company (NDC) is one of the oldest government-owned corporations having been created in 1919. Its function is mainly to undertake critical investments, including infrastructure projects where the private sector is unwilling to venture. Its functions have been evolving since then to respond to the changing needs of the economy. A major reorganization of its mandate was made in 1979 to enable the NDC to provide capital and managerial expertise for projects and enterprises. This also aligned NDC's strategic role with the government's priorities in achieving its target of industrial development. In 2003, NDC was further reorganized to redirect and refocus its thrust in order to support the government in its effort to market the country as a premier investment site. Part of its reorganization was the realignment of its programs and priorities to synchronize its tasks with the Department of Trade and Industry (PTI), and support the economic agenda of the government.

At present, NDC's primary activities focus on promoting agriculture modernization through the issuance of agri-agra bonds, supporting market-oriented reforms by enhancing competitiveness through its small and medium enterprises (SMEs) and information and communication technology (ICT) programs and encouraging free enterprise through its privatization program. The NDC would be the leading GOCC for off-budget infrastructure and development projects programmed during the Arroyo administration. The Philippine Infrastructure Corporation (PIC), a subsidiary of NDC, would be the fund manager for NDC- funded projects. Other functions of PIC include structuring, packaging, bidding out, and awarding of infrastructure projects.

The NDC had an initial capital stock of P50 million, at least 51 percent of which should be subscribed by the national government (NG) and the rest offered to provincial, city, and municipal governments. The subscribed capital, however, remained at P29 million almost 40 years later. NDC's capitalization was increased to P200 million in 1975 to be fully subscribed by the NG. Most of the increased capitalization came from the conversion of NDC's long-term obligations to the National Treasury as additional subscription. The capitalization was further increased to P450 million in 1977, P210 million of the additional capitalization of which would be used as equity participation in the copper smelting project of the Philippine Associated Smelting and Refining Corporation (PASAR). The authorized capitalization was further increased to P10 billion, the amount to be subscribed by the National Government and to be paid up in accordance with project funding requirements. The NDC assumed the outstanding obligation of Philippine National Construction Corporation (PNCC) to PNOC in 1984 and 1985. The compensation to PNOC was through the issuance of a 7 percent cumulative non-voting preferred shares of stock worth P369.15 million. The preferred shares should have been redeemed from 2001 to 2005.

The NDC is empowered to hold agricultural lands and mineral lands in excess of the area permitted in a public corporation. It can also organize subsidiary companies over which it has control. The NDC was further authorized in 1975 to acquire, hold, develop, and dispose of all lands acquired by the Americans in the country after the termination of the Parity Amendment.

The NDC, throughout its existence, invested in different economic ventures the private sector was perceived to be too timid to undertake. This includes survey of petroleum and mineral deposits, generation of electric power, manufacture of cement, coal mining, development of marble quarries, abaca and ramie fiber processing, manufacture of textile and yarns, sugar refining, meat and fish canning, airlines, acquisition and operation of oceangoing vessels, paper mills, manufacture of electric lamps and bulbs, production of gas fuel, nail manufacture, warehousing, shoemaking, land distributions, and pineapple growing. It has entered into agreements with public and private companies such as Philippine Airlines, National Power Corporation, National Housing Authority, Dole Philippines, Inc., Philippine Packing Corp., Manila Gas Corp., Republic Telephone Co., Resort Hotels Corp., Royal Industries of the Philippines, Philippine Electrical Manufacturing Co., Philippine Communications Satellite Corp., Gomez Cellulose International Inc., Crowntex Corp., and Industrial Estate Corp.

The NDC was authorized to issue agri-agra bonds worth P50 billion in December 1998 to be used exclusively for agricultural and agrarian reform development projects such as rice production joint ventures and establishment of food chains, livestock, and agri-processing support services and facilities. The DOF has granted sovereign guarantee to the proposed NDC's P20 billion bond flotation in 2006, largely to finance agri-agra projects.

NDC was placed under the Office of the President of the Philippines in 1975. It was later reorganized as the government investment arm under the DTI.

Borrowing Authority. The NDC was authorized to contract loans and to issue bonds and other obligations. It is also authorized to purchase as well as guarantee bonds issued by duly incorporated companies. All loans are guaranteed by the National Government.

Presented in the table below are pertinent laws and other issuances that are related to NDC.

Table 5.1 Pertinent Laws and Other Issuances Related to the NDC

Law (Date)	Salient Provisions
Act 2849 (1919)	The National Development Company (NDC) was created.
Commonwealth Act 182 (13 November 1936)	The NDC was dissolved and a stock public corporation with the same name was created. The capital stock was set at P50 million.
Commonwealth Act 311 (9 June 1938)	The management of NDC was vested under a seven-man Board of Directors.
Executive Order 562 (1 October 1979)	The composition of the seven-man Board was changed to include the following: Minister of Industry as Chairman, Minister of Finance, Minister of Energy, Chairman of the Development Bank of the Philippines, the NDC General Manager, and two private sector representatives.

Executive Order 671 (19 March 1981)	The NDC was instructed to assume the outstanding obligation of the Construction and Development Corporation of the Philippines (CDCP) to PNOC. The compensation to PNOC was through the issuance of preferred shares.
Presidential Decree 668 (7 March 1975)	The corporate life of NDC was extended for another 25 years. The authorized capital stock of NDC was increased to P200 million.
Presidential Decree 747 (15 July 1975)	The outstanding obligation of the NDC with the National Treasury was converted as additional subscription of the National Government in NDC and formed part of the P200 million capitalization of the company.
Presidential Decree 1169 (11 July 1977)	The authorized capital stock of NDC was increased to P450 million, P210 million of which was used as equity participation in the copper smelter project of the Philippine Associated Smelting and Refining Corporation (PASAR).
Executive Order 680 (23 April 1981)	The number of directors of NDC was increased from 7 to 9 which include the Minister of Budget, Governor of the Central Bank of the Philippines, and the Vice-Chairman of the Board of Investments. The number of private sector representatives was decreased from two to one.
Executive Order 775 (25 February 1982)	The number of directors of NDC was increased to 10 to include the Minister of Natural Resources.

Board of Directors. The current NDC Board of Directors has 10 members. The DTI Secretary acts as Chairman of the Board. Other cabinet-level members of the Board include the Secretaries of DOF, DBM, DOE, and DENR. The Governor of the Bangko Sentral ng Pilipinas (BSP), the Chairman of Development Bank of the Philippines (DBP), the Governor of the Board of Investments (BOI), the General Manager of NDC, and a private sector representative also sit in the Board.

Regular board meetings are held monthly. Special meetings of the board may be held at any time upon the call of the NDC General Manager.

The General Manager of NDC and the private sector representative are appointed by the President of the Philippines. Ex-officio members are co-terminus with their position.

The financial statements of NDC are annually audited by COA.

When NDC became a stock public corporation in 1936, the Board of Directors was composed of seven members consisting of the Secretary of Agriculture and Commerce, Secretary of Finance, and five appointive directors. The five directors were appointed by the President of the Philippines with the consent of the CA and they served for 3 years. Any appointive director was subject to removal by the President. The President of the Philippines designated the Chairman of the Board.

When the NDC Charter was reorganized in 1979, the composition of the Board of Directors was modified. The seven-member Board was composed of the following: Secretaries from Industry, Finance, and Energy; Chairman of DBP; NDC President; and two private sector representatives. The NDC president and the two private sector representatives were appointed by the President of the Philippines.

When the NDC Charter was amended in 1981, the number of directors was increased from seven to nine and included the Secretary of the Budget, the Governor of the Central Bank of the Philippines, and the Vice-Chairman of the Board of Investments (BOI). The number of private sector representatives was decreased from two to one. When the Charter was further amended in 1982, the number of directors was increased to ten to include the Secretary of Natural Resources.

Management. The senior executives of NDC are the General Manager, three Assistant Managers (Asst. Managers for Corporate Support Group, Asset Management Group, and Special Projects Group), and a Legal Department Manager.

Operational Highlights. NDC enters into joint ventures with the private sector to undertake critical infrastructure projects. It also extends loans to fund developmental projects as well as the management of its assets. At present, the NDC is involved in the following projects:

- School Building Program. In cooperation with the Department of Education (DepEd), the NDC assists LGUs in augmenting the country's classroom requirements and addressing the backlog by providing a lending window based on concessional terms. As of December 2004, the School Building Program has already released P121 million to fund the construction of 181 classrooms. The whole program is expected to result in the construction of 1,300 classrooms amounting to P591.7 million.

- SLEX Rehabilitation. The NDC has a joint venture agreement with the Philippine National Construction Corporation (PNCC) to undertake the rehabilitation of the South Luzon Expressway (SLEX). As of December 2004, the project was still in the preparatory phase. The Joint Investment Proposal to the Toll Regulatory Board (TRB) has been submitted and the Right of Way (ROW) acquisition has been prepared.

- Financing of the NorthRail Relocation Project. The NDC would be tapped by the National Housing Authority (NHA) to finance the relocation of informal dwellers affected by the NorthRail Project.

- NDC disposes of and leases some of its assets to generate funds for its projects. It sold its land in Sasa Davao and is expected to earn almost P100 million. It has land and building lease agreements with several entities (e.g. Caltex Philippines, Philippine Phosphate Fertilizer Corp., BOI Bldg.)

- NDC continued to pursue the sale and disposition of its shareholdings in its subsidiaries and affiliates. It sold its shares in the PASAR and received cash dividends from the Manila Exposition Complex Incorporated (MECI).

Financial Highlights. NDC has consistently registered net losses from 1999 to 2004, the largest of which was the P2.0 billion loss in 2000 (Annex 5.1). The losses posted in 2000 and in the succeeding year were due to higher provisions for decline in value of investments and for doubtful accounts. Bulk of the devaluation of their investments was due to the closing of the National Steel Corporation's operation in Iligan in November 1999 and closing of NDC's other subsidiaries (e.g. Herdis Group of Companies and Luzon Stevedoring Corporation). NDC's losses have been contained for the last three years (2002-2004) averaging less than P400 million.

NDC earned a little over P900 million in 2004, which declined by more than 15 percent compared to the previous year (Annex 5.1). The trend in operating income follows largely movements of interest on deposits and dividends on stocks. NDC's expenses were pegged at P1.1 billion, which declined by almost 20 percent compared to the previous year. Personnel expenses have been stable from 1999 to 2002. The company implemented streamlining of its manpower and operations in 2003 which resulted to increase in personnel benefits in that year and a reduction in salaries and wages the following year. Maintenance and other operating expenses alone exceeded income for most of the period except in 1999. The company is saddled with high interest expenses and foreign exchange losses in addition to occasional provisions for investment decline and doubtful accounts.

NDC's total assets were pegged at P6.9 billion in 2004, with investments accounting for 42 percent of total assets. Investment includes stocks and venture capital and land acquired from International Corporate Bank (ICB). NDC's assets have been declining since 2000 as a result of revaluation of many of its significant accounts.

NDC's liabilities were estimated at P6.2 billion in 2004, more than 40 percent of which are long term liabilities (Annex 5.2). Current liabilities and bonds payable account for 24 percemt and 32 percent, respectively, of the company's liabilities. Current liabilities have declined markedly compared to 1999. The decline on bonds payable in 2004 was due to the redemption of agri-agra bonds in April. The stockholders' equity has been declining since 2002. It was estimated at P0.7 billion in 2004, a decline by a third compared to the previous year due to persistent net losses.

The current ratio averaged almost unity from 1999 to 2004 indicating that current assets are just enough to cover current liabilities (Table 5.2). Debt-to-asset and debt-to-equity ratio averaged 0.88 and 12.55, respectively, indicating NDC's heavy reliance on borrowing.

Table 5.2 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	1.228	0.555	0.991	1.015	0.753	1.331	0.979
Debt-to-Asset Ratio	0.746	0.858	0.975	0.890	0.917	0.897	0.880
Debt-to-Equity Ratio	2.939	6.046	38.586	8.071	10.999	8.665	12.551

Source of basic data: Commission on Audit

Annex 5.1

NDC – Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
INCOME	669,001	834,337	1,126,482	875,059	1,075,795	904,921
Gain on sales of assets	619	-	3,997	6,356	12,011	30,576
Operating and Service Income	288,119	675,565	902,718	682,642	822,098	643,010
Interest on deposit	172,087	565,255	520,389	528,464	670,676	496,115
Foreign exchange gain	-	-	233,772	-	-	-
Rental and leasehold	106,542	105,365	148,480	154,100	151,344	146,818
Guarantee fees	9,418	4,869	-	-	-	-
Management fees	72	77	78	78	78	78
Income from Investments	378,220	158,621	219,724	172,928	240,722	230,019
Dividends on stocks	236,059	77,539	217,630	169,724	238,000	220,111
Interest on loans	131,831	79,513	-	877	749	9,108
Income from other investments	9,096	-	-	-	-	-
Interest from receivables	1,234	1,570	2,094	2,326	1,974	800
Miscellaneous income	2,044	150	43	13,134	964	1,315
EXPENSES	698,823	3,602,542	2,894,629	1,072,249	1,356,958	1,136,448
Personal services	39,095	44,044	39,894	47,098	144,141	8,640
Salaries and wages	22,425	19,445	20,251	20,374	23,363	2,363
Other benefits	3,878	3,013	3,950	6,348	99,148	169
Provident fund premiums	2,920	11,004	4,767	8,889	7,355	0
Non-commutable allowances	3,056	4,532	4,396	5,020	5,573	4,647
Social security benefits	2,247	2,481	2,717	2,579	2,255	278
Bonus and incentives	2,504	2,390	2,629	2,593	2,979	324
Overtime pay	391	608	354	277	467	12
Training and personal development	1,672	571	829	1,017	3,001	846
Maintenance and other operating expenses	659,728	3,558,499	2,854,735	1,025,151	1,212,818	1,127,807
Foreign exchange loss	329,951	199,660	0	230,952	295,540	97,602
Interest expense	219,560	618,993	633,178	645,996	781,079	479,558
Depreciation	60,381	63,250	62,615	71,193	64,347	63,987
Taxes and licenses	10,620	11,294	10,509	31,391	11,554	12,876
Provision for doubtful accounts	-	916,508	693,538	-	-	230,039
Other services and legal fees	15,454	27,205	18,878	23,024	26,048	31,322
Provision for decline in value of investments	-	1,697,385	1,409,636	-	-	130,747
Light, water and power	2,904	3,374	4,139	3,066	3,210	3,203
Auditing services	2,178	2,857	3,355	2,581	10,992	1,588
Repair and maintenance of facilities	6,015	1,200	4,823	4,581	4,809	5,315
Communication services	1,308	1,405	1,530	1,868	1,710	1,359
Rentals	1,366	1,082	991	977	967	1,097
Traveling expenses	951	1,174	1,027	894	550	741
Supplies and materials	1,087	1,228	978	842	648	430
Maintenance and motor vehicles	506	520	465	515	426	664
Special studies	757	4,346	785	1,400	3,664	1,861
Depreciation on appreciation	315	1,062	-	-	-	-
Meetings/planning and conference	1,026	382	1,181	419	1,335	973
Grants, subsidies and contributions	40	27	3	7	11	1
Miscellaneous expenses	5,309	5,547	7,103	5,445	5,929	64,445
(LOSS) INCOME BEFORE INCOME TAX	(29,821)	(2,768,206)	(1,768,147)	(197,190)	281,163	231,527
PROVISION FOR INCOME TAX	27,130	(725,705)	(574,307)	104,825	113,688	79,607
NET (LOSS) INCOME	(56,951)	(2,042,500)	(1,193,840)	(302,015)	(394,851)	(311,134)
DEFICIT AT BEGINNING OF YEAR	(4,279,783)	(4,058,779)	(6,362,487)	(7,393,461)	(7,667,889)	(8,062,740)
DEFICIT AT END OF YEAR	(4,058,779)	(6,017,138)	(7,556,327)	(7,695,476)	(8,062,740)	(8,373,874)

Source: Commission on Audit

Annex 5.2

NDC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Total Current Assets	2,956,271	1,323,343	2,234,200	1,252,389	1,168,088	1,978,436
RECEIVABLES-non current, net	1,798,781	953,807	215,841	210,705	178,246	218,590
INVESTMENTS – net	9,392,006	7,624,421	6,204,744	9,218,430	9,088,977	2,894,390
PROPERTY AND EQUIPMENT- net	686,928	606,919	587,611	384,318	313,875	246,468
OTHER ASSETS AND DEFERRED CHARGES – net	1,676	2,234,107	1,416,926	1,536,051	1,512,890	1,532,383
TOTAL ASSETS	14,835,662	12,742,596	10,659,322	12,601,894	12,262,077	6,870,267
LIABILITIES						
Total Current Liabilities	2,406,460	2,383,029	2,253,886	1,233,489	1,550,565	1,486,728
Total Long Term Liabilities	3,662,384	3,551,107	3,124,637	2,969,645	2,689,558	2,672,719
Bonds Payable	5,000,000	5,000,000	5,000,000	7,000,000	7,000,000	2,000,000
TOTAL LIABILITIES	11,068,844	10,934,136	10,390,051	11,212,675	11,240,123	6,159,447
TOTAL EQUITY	3,766,818	1,808,459	269,271	1,389,219	1,021,954	710,820
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	14,835,662	12,742,596	10,659,322	12,601,894	12,262,077	6,870,267

Source: Commission on Audit

6. NATIONAL ELECTRIFICATION ADMINISTRATION

Background. The National Electrification Administration (NEA) was initially created as a government agency in 1960, then called the Electrification Administration, to promote electrification on an area-coverage basis and to assist in setting up viable rural electric cooperatives (ECs). It was later mandated to provide loans for the development of dendro-thermal and mini-hydro power plants. In 1973, NEA became a wholly-government-owned stock corporation with an authorized capital stock of P1 billion. Subsequent laws increased capitalization to P2 billion in 1978 and to P5 billion in 1979.

With the Electric Power Industry Reform Act (EPIRA) of 2001, all outstanding financial obligations of ECs to NEA were assumed by Power Sector Assets and Liabilities Management (PSALM) Corporation. NEA was mandated to prepare ECs in operating under the deregulated electricity market through their conversion into stock cooperatives. NEA was also mandated to act as guarantor for purchases of electricity in the wholesale electricity spot market by ECs. As such, the authorized capital stock of NEA was increased to P15 billion. However, the National Government has not yet made any additional subscription.

Borrowing Authority. When the NEA became a corporation in 1973, it was provided with a borrowing authority subject to the approval of the President of the Philippines upon the recommendation of the Secretary of Finance. There was no ceiling on the domestic loans that could be borrowed. A sinking fund was supposed to be created to pay for the loans incurred.

NEA was authorized to contract foreign loans, with a ceiling fixed at US$500 million in 1973. Subsequent legislation increased the ceiling on foreign loans to US$800 million in 1979.

The Philippine government guarantees, absolutely and unconditionally as primary obligor, the payment of NEA loans. Aside from government guarantees, the NEA and its subsidiaries are exempt from the payment of all forms of taxes, duties, fees, imposts, other charges and restrictions, including import restrictions by the Republic of the Philippines or any branch thereof.

Returns on loan, loan standards, and enforcement powers. When the NEA was created in 1960, it was granted a revolving fund of P25 million to provide loans to ECs. The ceiling on interest rate on loans was fixed at 3 percent per annum with the loan contract specifying that the cap on electric cooperatives' Return on Rate Base (RORB) be set at 6 percent per annum. Moreover, government financial institutions (GFIs) (e.g. Government Service Insurance System [GSIS], the Social Security System [SSS], and the Development Bank of the Philippines [DBP]) were directed to grant loans to electric cooperatives not exceeding the total of P50 million with interest ceiling pegged at 5 percent. Loans from these institutions required the recommendation of the NEA Administrator and the approval of the National Economic Council (NEC).

Subsequent laws, particularly PD 269, detailed conditions for the granting of loans as well as changes in interest rate charges and loan ceilings. The conditions, changes in interest rate charges and loan ceilings are as follows: The NEA Board has to fulfill certain criteria before granting loans to ECs. These include determining project's financial viability, availability of sufficient funds, and adequate collateral. It is also tasked to fix the interest rate charged on loans and repayment schedule. Enforcement powers vested upon NEA to regulate ECs include refusal to make or approve new loans, withholding of NEA advances, and foreclosure of mortgages.

Board of Directors. The current Board of Administrators has four members composed of a Chairman, the NEA Administrator as Vice-Chairman, and two board members. No qualifications were mentioned in the law. The DOE Secretary serves as the Chairman. The NEA Administrator presides over Board meetings in the absence of the Chairman. The board members are appointed by the President and have a fixed term of 6 years.

The Board is mandated (1) to make loans to public service entities such as cooperatives for electrification, (2) to approve or disapprove loans of public service entities from other lenders, (3) to adopt and amend the budget for NEA's borrowing and lending programs subject to the approval of NEDA, and (4) to fix the compensation of the Administrator and his deputies subject to the approval of the President of the Philippines.

The Board meets at least twice a month. The presence of at least 3 members of the Board constitutes a quorum. The affirmative vote of a majority of the members present is necessary for the approval of any resolution, decision or order. The Board directors receive a per diem for each meeting actually attended.

The NEA was initially under the direct supervision of the Office of the President. It was later attached to the Department of Energy.

Management. The Administrator serves as a Chief Executive Officer. The qualification for the administrator is that he should be a person of known integrity, competence, and experience in technical and executive fields. He is appointed by the President of the Philippines and could only be removed for a cause. Other senior executives are the four deputy administrators (Deputy Administrators for Electric Distribution Utilities Services, for Fields Operations Group, for Corporate Resources and Financial Services, and for Legal Services). They shall also be appointed by the President of the Philippines and shall serve a term of 6 years, provided that the terms of the first appointees shall be 6 years for the chairman and 1 member, and 3 years for the 2 other members.

The administrator's duties include preparing an annual report on the activities of the NEA and submitting a copy to the President of the Philippines and the Congress. The annual report, as specified in the law, should present the status of electrification of the Philippines including a comprehensive reporting of loans made, loan funds advanced, loans secured from other sources and the advances made, the names and locations of the borrowers, the number of services contemplated by such loans, the number of households who have and still do not have access to electricity, the number of usage by consumers, loan and other activities programmed for the ensuing years. Currently, the NEA publishes an annual report which includes a statistic-based Rural Electrification Chronicle.

When the Electrification Administration was created in 1961, conflicts of interest and code of conduct clauses were already stipulated such as the following:

- No member, officer, attorney, agent, or employee of the Administration shall participate in the determination of any question affecting any corporation or association in which he is directly or indirectly interested.
- No officer or employee of the Administration nor any government official shall become a guarantor, endorser, or surety for loans from the Administration to others.
- No loan shall be granted by the Administration to any person related to the Administrator within the third degree of consanguinity or affinity, or to any corporation, partnership, or company wherein the Administrator is a shareholder.
- No fee, commission, gift, or charge of any kind shall be exacted, demanded, or paid for obtaining loans from the Administration.

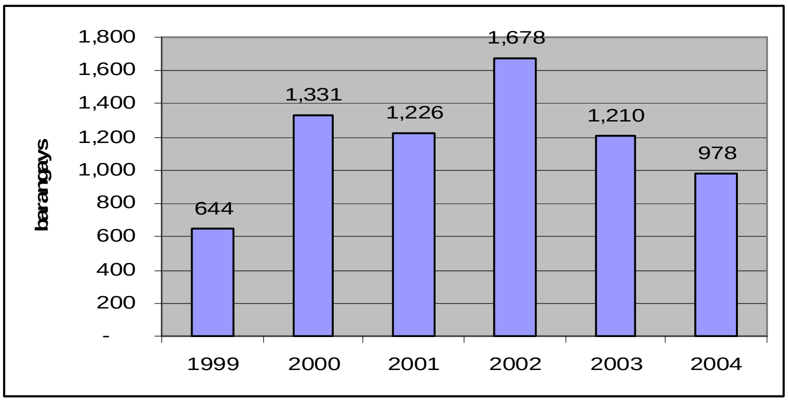
Penalties were provided for violations of the said provisions.

Operational Highlights. The NEA's main objective is to bring electricity to the entire country. They accomplish this task by providing either loans or subsidies to electric cooperatives to put up infrastructure and establish operations and facilities necessary for electrification.

NEA supervises 119 electric cooperatives (ECs) all over the country. These ECs are responsible for distributing electricity to the 36,003 barangays within their designated franchise area. As of December 2004, 32,935 barangays or 91 percent of barangays within the ECs' franchise areas have access to electricity.

The additional number of barangays electrified by ECs reached 7,067 in the last five years (Figure 6.1). In 2004, 978 additional barangays were newly energized, lower than the 1,210 newly energized barangays in 2003.

Figure 6.1 Energized Barangays by Electric Cooperatives, 1999-2004

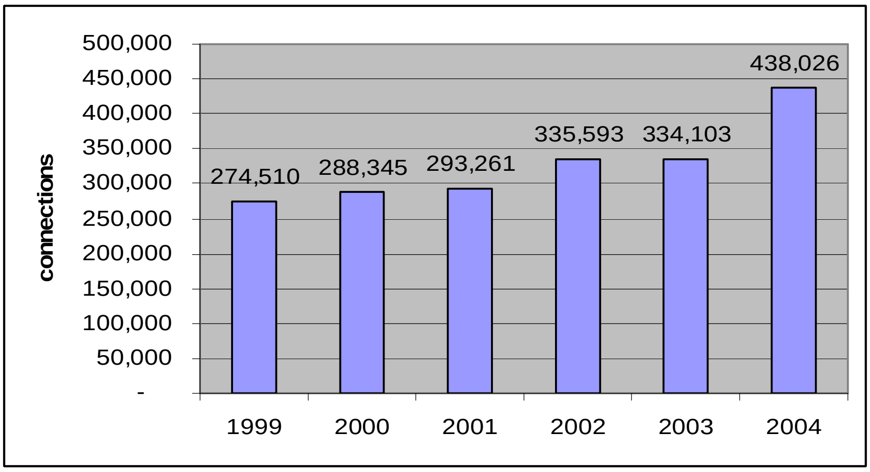


Source: NEA

ECs serviced a total of 6.7 million connections at the end of 2004. This represented 60 percent of a potential 11 million connections (based on 2003 population estimates) for ECs.

New connections grew steadily from 1999 to 2004. There were 438,026 new connections energized by ECs in 2004, 31 percent more than the 334,103 connections made in 2003 (Figure 6.2).

Figure 6.2 Connections Energized by Electric Cooperatives, 1999-2004



Source: NEA

NEA also works to promote the institutional development of electric cooperatives by providing them with technical and financial assistance for capacity building. NEA monitors the performance of electric cooperatives through a system of categorization and classification.

ECs are categorized based on a scoring system from 1-100 which takes into account their achievement in terms of operational and financial performance and other factors such as amortization payment, systems loss, collection efficiency, payment to power supplier and non-power cost. The score is then converted into a category ranging from A+ (highest) to E (lowest).

EC performance in terms of categorization showed tremendous improvement in 2004 as 14 more ECs rose to A+ level while only 17 ECs remained at E level from 20 cooperatives the previous year (Table 6.1). Efforts are ongoing, however, to revise the criteria and scoring system for determining EC categorization. The present system does not place as much weight on financial performance as it does on operational aspects due to the fact that ECs are supposed to be non-stock, non-profit organizations.

Table 6.1 Categorization of Electric Cooperatives, 1999-2004

Categorization	1999	2000	2001	2002	2003	2004
A+	41	42	47	40	45	59
A	25	18	16	16	16	13
B	13	12	15	21	15	19
C	8	11	7	2	10	6
D	11	14	13	13	13	5
E	21	22	21	27	20	17

Source: NEA

Classification on the other hand is a measure of the size and scope of operations including management responsibility and financial capacity of the ECs. ECs are classified based on amount of sales, number of connections and kilometers of lines installed on a score of 1-100. EC performance in this regard has surpassed expectations lately so NEA saw the need to revise classification standards, adding the Mega-Large category in 2002 and beyond (Table 6.2).

Table 6.2 Classification of Electric Cooperatives, 1999-2004

Classification	1999	2000	2001	2002	2003	2004
Mega-Large	-	-	-	24	28	29
Extra Large	46	48	58	39	38	39
Large	31	32	24	27	27	32
Medium	26	23	23	19	17	11
Small	16	16	14	10	9	8

Source: NEA

The financial performance of ECs over the last five years has been erratic. As recently as 2002, only 57 of 120 ECs recorded a net profit after depreciation and interest expenses (Table 6.3). This was reversed in 2003 as 70 ECs reported a net profit as against 50 that reported a net loss before dropping again in 2004 to the same level as 2002. Although ECs have been constantly improving their collection efficiency and reducing their systems losses, these are offset by the very low distribution rates they have been allowed by the Energy Regulatory Commission (ERC) to charge their customers.

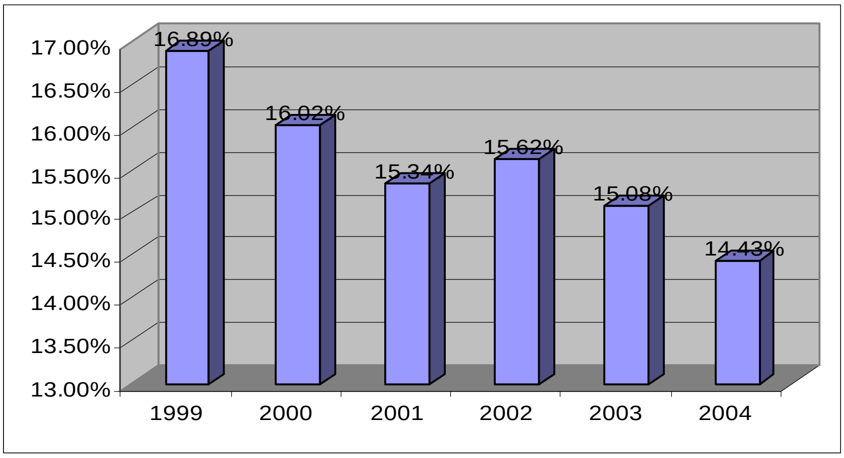
Table 6.3 Financial Performance of Electric Cooperatives, 1999-2004

	1999	2000	2001	2002	2003	2004
ECs with Net Profit	48	36	46	57	70	57
ECs with Net Loss	72	84	74	63	50	63

Source: NEA

System loss is defined as the electricity lost or unaccounted for during transmission or distribution between the power source and the consumer. This could either be through technical losses such as line and equipment losses or losses due to pilferages. NEA and the ECs continue to work together to improve EC efficiency and further reduce system loss. Their combined efforts have resulted in a slight decrease in system loss from 15.08 percent in 2003 to 14.43 percent in 2004, although losses increased slightly between 2001 and 2002 (Figure 6.3). In comparison, Meralco maintained a system loss of 11.1 percent for 2004.

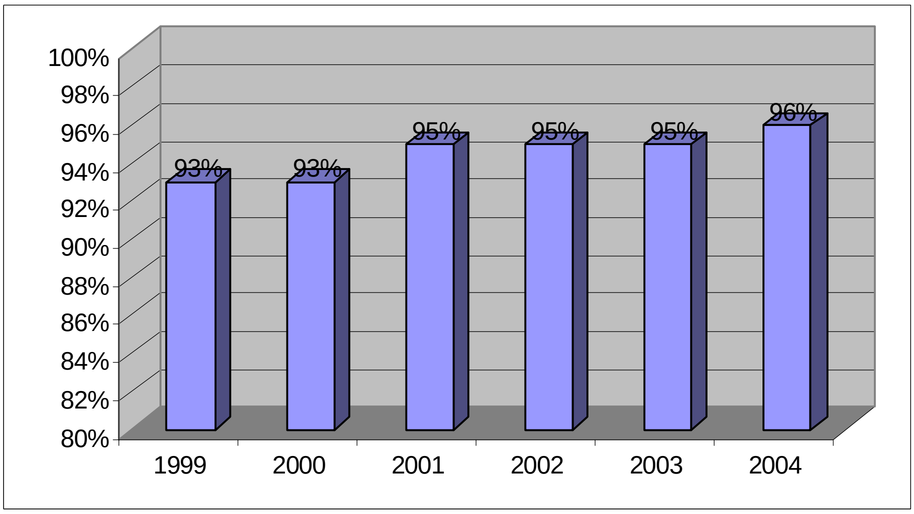
Figure 6.3 Average System Loss of Electric Cooperatives, 1999-2004



Source: NEA

Collection efficiency is the ratio of total collection against total energy billed by an EC to its customers. This is a generally problem-free area for ECs as they have even managed to increase their collection rate to 96 percent after holding steady at 95 percent efficiency from 2001-2003 (Figure 6.4).

Figure 6.4 Average Collection Efficiency of Electric Cooperatives, 1999-2004



Source: NEA

NEA provides financial assistance to electric cooperatives around the country to aid their respective barangay electrification programs by providing funds for expansion or rehabilitation projects. It uses loans and subsidies to implement this program. Loans are sourced from NEA's internally generated funds and must be repaid by the EC while the subsidy fund comes from the National Government and is considered a grant to the ECs.

Rural electrification loans are released to ECs to address their operational and technical requirements. These are intended for rehabilitation, upgrading, expansion and construction of electricity distribution infrastructure. NEA has released P2.48 billion worth of loans to ECs over the last three years, with P507 million released in 2004.

Loans released by NEA to the ECs prior to June 2001 have been assumed by the PSALM. The EPIRA mandates that all outstanding financial obligations as of June 26, 2001 of ECs to NEA incurred for the purpose of financing the rural electrification program be condoned and assumed by the PSALM.[2] The total financial obligations assumed by PSALM amounted to P18 billion (Table 6.4).

Table 6.4 Loan Releases to Electric Cooperatives, 2001-2004

(In million pesos)

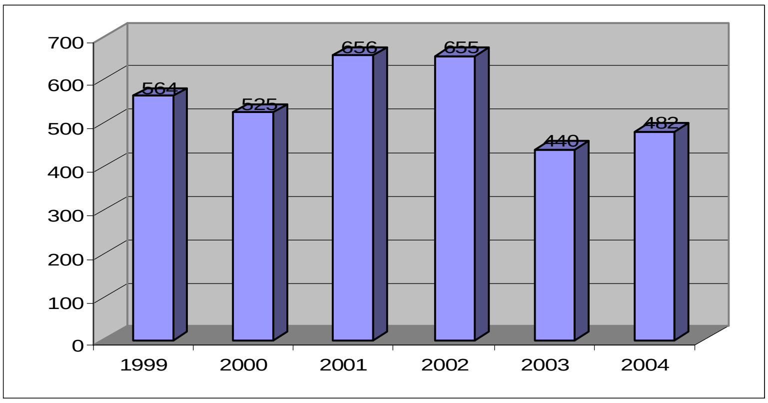
Year	Loan Releases
2001	603
2002	1,140
2003	234
2004	507
Total 2001-2004	2,484
Before June 2001*	17,963

**assumed by PSALM as per EPIRA*
Source: NEA

Subsidies are the financial exposure of the government to the rural electrification program in order to fund the electrification of financially unviable areas in the country. These subsidies are released to the ECs through the NEA and are covered by a Memorandum of Agreement between the ECs and the NEA. Releases may either be in the form of money or equipment/materials. The government has released a total of P3.3 billion worth of subsidies over the last six years (Figure 6.5).

Figure 6.5 Subsidy Releases to Electric Cooperatives, 1999-2004

(In million pesos)



Source: NEA

The repayment rate of electric cooperatives with regards to their NEA loan amortization had been steadily declining from 1999 to 2003 before improving again in 2004 (Table 6.5). NEA's collection efficiency stood at 91 percent in 1999 but dropped to as low as 77 percent in 2003 before increasing again to 95 percent in 2004. The sudden drop in collection efficiency, however, is attributable to the assumption by PSALM of the EC obligations. By the latter part of 2001, NEA was only able to collect on amortization on newer loans of ECs. Collections from PSALM were scheduled to begin towards the end of 2003 continuing on to the present thus accounting for the sharp increase in 2004.

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[2] The resulting savings from the removal of amortization payments are meant to help ensure a commensurate reduction in rates charged by ECs to their customers.

Table 6.5 Loan Repayments from Electric Cooperatives, 1999-2004
(In thousand pesos)

Year	Amount	Collection Efficiency (%)
1999	1,079,570	91
2000	1,019,224	88
2001	1,044,123	83
2002	948,224	78
2003	646,611	77
2004	1,936,707	95

Source: NEA

Financial Highlights. NEA has been posting a net loss over the last six years. It experienced its biggest net loss of P5.9 billion in 2003, a 900 percent increase from its previous year's net loss of P583 million. The net loss was contained to P41 million in 2004 (Annex 6.1). This resulted to the improvement of the corporation's negative retained earnings (deficit) at the end of 2004 to only P5.4 billion from P7.0 billion in 2003.

NEA derives most of its income from interest on loans made to ECs. Before 2004 though, this income had been steadily declining from P770 million in 1999 to P283 million in 2003 due mostly to the condonation of electric cooperative loans as mandated in the EPIRA. NEA estimates the foregone income from the condonation of EC loans at P10 billion. NEA was able to recover in 2004 when its income from interest on loans increased by 185 percent to P807 million. The P561 million increase in interest income was a result of NEA's approval of the request of 10 electric cooperatives for the restructuring of their loans.

NEA also experienced an increase in revenue from miscellaneous income in 2004 rising from P22 million in 2003 to P56 million. The rise was a result of the increase in the service fee that NEA charges on subsidy releases from 3.5 percent to 5 percent effective May 1, 2004 as approved by the NEA board.

NEA was able to reduce its expenses for personal services in 2004 by 73 percent from P326 million in 2003 down to P88 million in 2004. This was due to the restructuring of the corporation as mandated in the EPIRA which resulted in the agency's 736 personnel complement dropping to only 312 by 2004. The restructuring was also the main reason behind the massive increase in the corporation's expenses in 2003 (rising from P230 million in 2002 to P326 million in 2003) due to NEA's payment of terminated employees of P81.6 million in the form of Terminal Leave Pay and P27 million in the form of Legal Separation and Loyalty Service Awards. NEA also paid around P390 million in social security benefits to employees in 2003 as a result of the restructuring.

Forex differential represents losses incurred on payment of interest and maturing portion of all foreign loans as well as losses incurred in updating all outstanding foreign and domestic loans using the year-end BSP guiding rate. Losses on forex differential in 2002 was only at P680 million but this grew tremendously to P4.5 billion in 2003 due to the one-time corrections arising from changes in the rules for accounting for foreign exchange losses as mandated in SFAS 8A. In 2004, these losses went down to P208 million contributing to the relatively better financial performance of NEA in 2005 and 2006.

In 2003, NEA booked a loss of P581 million for provision for market decline of inventory. It refers to an adjustment in the value of unserviceable Mini Hydro / Dendro Equipment and Materials as of December 31, 2003. This was taken up in the books to conform with the Commission on Audit recommendation to adjust the value of the said inventory account to the appraised value of the materials as determined by COA. Except for 2003 when the adjustment was made, this account does not appear in the other reports of NEA between 1999 and 2004.

Subsidies from the National Government are a combination of regular subsidies and those from the Priority Development Assistance Fund (PDAF) for release to electric cooperatives. These subsidies hit a 4-year high in 2002 when NEA received P787 million. These, however, fell again in 2004 to P439.7 million. Of this amount, 97 percent (P425 million) consisted of regular subsidy while the remaining 3 percent (P14.7 million) consisted of funds from PDAF.

NEA's total assets were pegged at P22.1 billion in 2004, a little over 10 percent of which were held as current assets. Current assets are mainly loan receivables from ECs which have declined substantially from its peak in 2002. Cash position has improved in 2004 compared to the previous year while inventories have been on the decline due to book value adjustments. Long-term loans receivable account for more than 85 percent of NEA assets (Annex 6.2).

NEA's total liabilities were pegged at P22.4 billion in 2004, 40 percent of which are long-term debts. Current liabilities are estimated at around 60 percent, mostly account payables (Annex 6.2). Due to consistent losses incurred over the last six years, it resulted to a capital deficit for 2003 and 2004.

The current ratio averaged 0.34 from 1999 to 2004 and has been on the decline since 2001 due to (1) increasing account payables and current portion of long-term debt and (2) declining loan receivable and inventories. This is alarming because this means that NEA's current liabilities are much greater than its current assets thus indicating that NEA is less capable of meeting currently maturing obligations. Debt-to-asset and debt-to-equity averaged 0.85 and -16.0, respectively, indicating NEA's reliance on borrowings. It is also important to note that NEA's Debt-to-Asset Ratio increased through the years which indicates a worsening capability to meet maturing obligations and withstanding losses.

Table 6.6 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	0.399	0.402	0.481	0.368	0.208	0.183	0.340
Debt-to-Asset Ratio	0.688	0.722	0.780	0.828	1.095	1.010	0.854
Debt-to-Equity Ratio	2.208	2.603	3.546	4.817	(11.493)	(97.555)	(15.979)

Source of basic data: Commission on Audit

Annex 6.1

NEA - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
OPERATING AND SERVICE INCOME	**849,670**	**775,828**	**700,414**	**612,740**	**315,085**	**876,447**
Interest on Loans	769,933	737,951	650,030	556,471	283,037	806,990
Interest on Deposits	17,120	7,728	14,118	14,646	10,314	12,960
Miscellaneous Income	62,617	30,149	36,266	41,623	21,734	56,498
OPERATING EXPENSES	**696,505**	**706,255**	**766,564**	**734,312**	**833,236**	**674,130**
Personal Services	201,392	224,208	245,512	230,929	326,151	88,842
Interests	383,479	346,196	407,799	396,994	384,728	482,614
Depreciation/Amortization	16,983	16,310	14,051	14,207	24,804	17,189
Fees for Foreign Contracts	5,408	31,989	14,814	5,029	14,275	11,699
Water, Illumination and Power Service	3,753	7,157	10,192	9,464	11,937	9,840
Traveling Expenses	14,982	16,158	14,968	14,911	10,878	11,093
Auditing Services	5,901	5,571	5,595	7,752	6,009	n/a
Communication Services	4,310	4,959	5,080	5,068	5,335	3,877
Supplies and Materials	4,573	7,441	6,030	5,042	5,325	8,744
Rents	19,249	8,903	3,508	3,864	4,000	290
Extraordinary and Miscellaneous Expenses	2,301	3,053	2,421	3,000	3,535	n/a
Taxes, Duties and Fees	3,347	1,499	2,098	2,846	2,054	2,618
Gasoline, Oil and Lubricants	1,072	1,579	1,688	1,669	1,837	942
Fidelity Bond and Insurance Premiums	1,999	720	522	599	1,392	77
Repairs & Servicing	1,080	895	1,219	2,553	1,300	n/a
Training and Seminar Expenses	1,207	1,792	1,370	1,024	842	n/a
Bad Debts Expense	0	0	0	0	604	1,866
Library Books and Materials	0	0	0	0	316	46
Transportation Services	0	12	20	0	51	367
Awards and Indemnities	0	0	0	222	0	0
Other Services - In House	25,469	27,814	29,677	29,140	27,861	n/a
Professional Services	n/a	n/a	n/a	n/a	n/a	21,669
Training Expenses	n/a	n/a	n/a	n/a	n/a	4,748
Insurance Expenses	n/a	n/a	n/a	n/a	n/a	2,652
Representation Expenses	n/a	n/a	n/a	n/a	n/a	1,001
Miscellaneous Expenses	n/a	n/a	n/a	n/a	n/a	958
Repairs and Maintenance	n/a	n/a	n/a	n/a	n/a	714
Printing and Binding	n/a	n/a	n/a	n/a	n/a	160
Subscription Expenses	n/a	n/a	n/a	n/a	n/a	116
Advertising Expenses	n/a	n/a	n/a	n/a	n/a	103
Commitment Fees	n/a	n/a	n/a	n/a	n/a	10
Bank Charges	n/a	n/a	n/a	n/a	n/a	8
Other Maintenance and Operating Expenses	n/a	n/a	n/a	n/a	n/a	1,887
NET INCOME (LOSS) FROM OPERATIONS	**153,165**	**69,573**	**(66,150)**	**(121,572)**	**(518,151)**	**202,317**

	1999	2000	2001	2002	2003	2004
OTHER INCOME	**435,689**	**540,055**	**284,585**	**786,773**	**424,550**	**447,279**
Grants and Aids from Foreign Countries	1,911	5,161	0	0	0	0
Subsidies from the National Gov't.	433,778	534,894	284,585	786,773	424,550	439,667
Gain on Sale of Disposed Assets (Note 16)	0	0	0	0	0	7,612
Forex Gains	0	0	0	0	0	0
OTHER EXPENSES	**917,849**	**1,081,233**	**971,306**	**1,248,516**	**5,904,781**	**690,622**
Releases from CIDA Grant	18,780	8,291	0	0	0	0
Releases from USAID Grant	1,911	955	0	0	0	0
Releases for Institutional Strengthening	7,179	13,947	16,091	0	0	0
Subsidy to ECs - RE Projects	508,501	548,042	279,002	565,256	428,004	482,588
Social Security Benefits	1,949	2,495	2,278	2,856	396,155	0
Provision for Market Decline of Inventory	0	0	0	0	580,685	0
Forex Losses	379,530	507,502	673,935	680,404	4,499,937	208,034
NET INCOME (LOSS)	**(328,995)**	**(471,604)**	**(752,871)**	**(583,315)**	**(5,998,382)**	**(41,025)**

n/a not applicable
Source: Commission on Audit

Annex 6.2

NEA - Balance Sheet, 1999-2004
(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	434,838	395,307	536,529	701,461	468,017	521,727
Loans Receivables from ECs, Matured Portion	1,158,878	1,274,513	1,603,892	1,923,777	1,296,206	1,234,623
Inventories	957,464	1,179,984	1,910,302	768,592	425,289	269,080
Receivables- Others (Net)	612,346	615,855	614,101	611,796	540,773	448,028
Prepayments	0	0	0	0	0	14,318
Total Current Assets	3,163,527	3,465,659	4,664,824	4,005,626	2,730,284	2,487,775
LONG TERM LOANS RECEIVABLES	15,325,985	14,923,667	14,408,840	14,852,093	16,512,267	19,054,506
PROPERTY, PLANT AND EQUIPMENT						
Land	39,217	45,281	45,704	45,704	45,704	0
Acquired Assets	79	79	190,139	197,533	200,366	0
Building and Structures	261,502	283,590	284,834	284,834	284,834	0
Less: Accumulated Depreciation	0	0	0	0	(45,524)	0
	300,799	328,950	520,678	284,834	239,311	0
Furniture, Fixtures, Equipment and Books	124,586	163,175	167,778	167,879	158,185	0
Less: Accumulated Depreciation	(82,452)	(100,301)	(109,685)	(122,450)	(130,719)	0
	42,134	62,874	58,093	45,429	27,466	0
	342,933	391,824	578,770	573,501	512,846	511,947
OTHER ASSETS						
Miscellaneous Assets and Deferred Charges	1,530,608	1,195,666	904,246	530,218	106,879	67,744
Inventories, Miscellaneous (Net)	608,305	608,305	608,140	607,997	27,298	0
Contingent Assets	20,309	31,975	34,480	30,876	5,073	0
	2,159,222	1,835,946	1,546,867	1,169,091	139,250	67,744
TOTAL ASSETS	**20,991,666**	**20,617,096**	**21,199,301**	**20,600,311**	**19,894,648**	**22,121,973**
LIABILITIES AND CAPITAL						
CURRENT LIABILITIES						
Payables	6,994,502	7,821,791	8,745,810	9,999,509	11,422,333	12,409,934
Trust Liabilities	178,122	239,714	293,948	149,306	103,846	0
Current Portion of Long-term Debt	749,097	554,252	656,784	737,634	1,293,249	1,129,340
Other Current Liabilities	2,274	2,792	4,126	3,648	320,613	81,094
Total Current Liabilities	7,923,996	8,618,548	9,700,669	10,890,096	13,140,041	13,620,368
LONG-TERM LIABILITIES						
Loans and Advances to National Government	3,875,197	3,947,933	4,760,255	4,356,591	5,502,985	5,671,011
Loans Payable- Foreign	2,649,526	2,328,109	2,074,583	1,812,210	3,147,690	2,798,644
Deferred Credits	n/a	n/a	n/a	n/a	n/a	261,061
Total Long-Term Liabilities	6,524,723	6,276,042	6,834,838	6,168,801	8,650,675	8,730,717
TOTAL LIABILITIES	14,448,718	14,894,590	16,535,507	17,058,897	21,790,716	22,351,085
CAPITAL AND SURPLUS						

Paid-in Capital	4,970,461	4,970,461	4,970,461	4,970,461	4,970,461	4,970,461
Donated Capital	176,793	176,792	176,792	176,792	176,792	177,560
Retired Earnings/ Deficit	1,375,384	543,278	(517,940)	(1,636,715)	(7,048,395)	(5,377,134)
Contingent Surplus	20,309	31,975	34,480	30,876	5,073	0
TOTAL CAPITAL AND SURPLUS	6,542,948	5,722,506	4,663,794	3,541,414	(1,896,068)	(229,112)
TOTAL LIABILITIES AND CAPITAL	**20,991,666**	**20,617,096**	**21,199,301**	**20,600,311**	**19,894,648**	**22,121,973**

Source: Commission on Audit

7. NATIONAL FOOD AUTHORITY

Background. The National Food Authority (NFA) was created by PD 1770 in 1981 to strengthen the country's strategy for the integrated growth and development of the food industry and to ensure adequate and continuous supply of food items at reasonable prices. The NFA took over the function of the National Grains Authority (NGA) which was tasked to promote the growth of the grains industry (e.g. rice, corn, wheat, and feed grains) and their substitutes (e.g. mongo, soybeans, and cassava). The NFA, as part of its expanded mandate, included non-grain commodities such as fresh and processed food products. The NFA's expanded mandate served as a basis for the establishment of Kadiwa stores or rolling stores which sold low-priced food and household items during the Marcos administration. The rolling store program was later revived by the Estrada and Arroyo administrations (CPED, 2002). NFA has an authorized capital stock of P5 billion.

The issuance of EO 1028 in 1985 effected a policy shift when the private sector was encouraged to participate in the production and trading of food grains and agricultural inputs such as fertilizers, seeds, and pesticides. It deregulated the price of milled rice, allowed open importation and distribution of fertilizer, and permitted private sector participation in the importation of wheat and distribution of flour.

The EO 1028 also limited the stabilization function of the NFA to rice and corn. The NFA, however, was authorized to intervene in the trading of other food items for stabilization purposes if so warranted by conditions. This provision was exercised by President Fidel V. Ramos when NFA intervened in the stabilization of the price of sugar and by President Joseph Ejercito-Estrada when NFA intervened in the marketing operations of several basic food items. NFA continued to have exclusive authority to import rice.

Today, the NFA is tasked to achieve and maintain an adequate supply of food grains at mutually satisfactory price levels for both farmers and consumers, primarily through reliance upon the market mechanism and by encouraging the participation of competitive private enterprises. The NFA fulfills its mandate through the following activities: procurement of palay from farmers and their organizations, buffer stocking, processing activities, dispersal of palay and milled rice to strategic locations and distribution to various marketing outlets.

At present, NFA is an attached agency of the Department of Agriculture.

Source of Funding. The NFA Charter has identified six sources of funding. They are the following: (1) official development assistance to the Philippine Government such as food aid; (2) payments made by the NG on loans drawn by or for the NFA and NGA; (3) subsidy from the NG out of funds appropriated in the annual budget; (4) funding and organizational provisions intended for the national food programs including those provided as special financing program seed fund, cooperatives loans, and livelihood projects; (5) loans from the government and domestic private lending institutions; and (6) Central Bank of the Philippines (CBP) now the Bangko Sentral ng Pilipinas (BSP).

Borrowing authority. The NFA is authorized to incur domestic and foreign loans. No ceiling on domestic loan was specified. The cap on foreign loans was set at US$500 million. The Philippine government guarantees, absolutely and unconditionally, the payment of NFA loans as primary obligor and not merely as surety. Aside from government guarantees, the NFA is exempt from the payment of all forms of taxes, duties, fees, imposts as well as import restrictions.

Setting the Price of Agricultural Outputs and Inputs. When the NGA was created in 1972, it was mandated to ensure the adequacy of supply of food grains and stability of consumer prices at levels within the reach of the low-income families, while maintaining the announced floor price for the producers. It gave preference to producers' cooperatives, farmers' associations, and those actually produced by the farmer in his own farm. The NGA was tasked to determine the floor price of the grain crop which assured the farmer or producer a fair return on his investment. The law specified that the floor price for the grain crop in any season is the sum total of the season's anticipated cost of production per cavan plus P5. A subsequent amendment replaced the provision of P5 with a reasonable mark up. The retail prices of milled rice, corn grits, and other grains were subject to price controls set by the NGA Council. These price ceilings were periodically adjusted for significant changes in inflation.

The issuance of EO 1028 deregulated the price of milled rice. However, NFA was still mandated to engage in the procurement of palay from farmer-producers at a floor price or support prices it may determine for the purpose of stabilizing the price of palay or of maintaining a desirable buffer stock level.

Presented in the table below are pertinent laws and other issuances related to NFA.

Table 7.1 Pertinent Laws and Other Issuances Related to NFA

Law (Date)	Salient Provisions
Annex to Presidential Decree No. 4 (6 September 1972)	The National Grains Industry Development Administration (or National Grains Authority [NGA]) was created to promote the integrated growth and development of the grains industry.
Presidential Decree No. 699 (12 May 1975)	The mandate of the NGA was further expanded to include the establishment, acquisition, and/or operations of grains processing, handling, storage, and transport facilities aside from the development, culture, or production of grains.
Presidential Decree No. 1485 (11 June 1978)	The mandate of NGA was expanded to include the growth and development of grain substitutes such as mongo, soybeans, and cassava. The NGA was granted regulatory and supervisory powers exercised by the NGA Council. The NGA Council was also mandated to establish rules and regulations concerning the importation of grains and their substitutes.
Presidential Decree No. 1770 (14 January 1981)	The NGA was reconstituted as the National Food Authority (NFA) with the mandate to promote the integrated growth and development of basic food commodities. The authorized capital stock was set at P5 billion. The composition of the NFA Council was

	modified to include the Minister of Human Settlements as Chairman. The investment and loans of the Human Settlements Development Corporation in the Food Terminal, Inc. were transferred to NFA.
Executive Order No. 1028 (31 May 1985)	It is declared a state policy to achieve and maintain an adequate supply of food grains at mutually satisfactory price levels for both farmers and consumers, primarily through reliance upon the market mechanism and by encouraging the participation of competitive private enterprises in the production and trading of food grains as well as of related agricultural inputs, such as fertilizer, seeds, and pesticides. The stabilization functions of the NFA are limited to rice and corn. NFA was mandated to relinquish or transfer to another government entity or to the private sector its non-grain stabilization and trading activities. The price of milled rice was deregulated. The importation of wheat and distribution of flour were opened to the private sector. The open importation and distribution of fertilizer were also opened to the private sector. All remaining fertilizer subsidies were removed.
Executive Order No. 398 (31 January 1997)	The NFA was authorized to intervene in the stabilization of the price of sugar.
Executive Order No. 22 (9 September 1998)	The NFA was authorized to include in its commodity coverage basic food items other than staple cereals, which it deemed necessary to stabilize the country's basic food commodity supply and process.

Board of Directors. The NFA Council is composed of 10 members. They are the following: 1) DA Secretary as Chairman, (2) NFA Administrator as Vice-Chairman, (3) BSP Governor, (4) DBP Chairman, (5) LBP President, (6) PNB President, (7) DOF Secretary, (8) DTI Secretary, (9) and (10) a representative each of the President of the Philippines and the farmers' sector.

The NFA Council meets regularly at least once a month. The Chairman convenes special meetings to discuss urgent matters.

The Administrator and other representatives are appointed by the President. Ex-officio members are co-terminus with their position. Presidential appointees serve at the pleasure of the President.

The NFA Annual Report is submitted to the Department of Agriculture, the President of the Philippines, and to the Cabinet Secretaries.

Management. The NFA Administrator is in charge of the management of the Authority. He is assisted by one Senior Deputy Administrator and two Deputy Administrators

(Deputy Administrators for Operations and for Finance and Administration). Other senior executives are four Assistant Administrators (Assistant Administrators for Stabilization, for Industry Development, for Finance, and for Administration).

Operational Highlights.

Buying Operations. NFA procures palay and corn from local farmers and their organizations. It also imports rice. From 1998 to 2004, the average NFA palay procurement was estimated at a little less than 380,000 MT, representing 3 percent of total Philippine palay production (Table 7.2). The less than 100,000 MT palay procurement in 1998 reflects the effects of El Niño phenomenon and higher prevailing market farm price compared to NFA buying price (Table 7.2). Palay procurement has been on the downward trend since 2000. The average value of NFA palay procurement was pegged at around P3.6 billion annually (Table7.2). The decline in the value of palay procurement since 2000 reflects primarily declining NFA purchases.

Table 7.2 NFA Total Palay Procurement, 1998-2004

Year	Volume (in MT)	Value (in million pesos)	Total RP Palay Prod'n (in MT)	NFA Procured/ Total Palay Prod'n (%)
1998	62,498	505	8,554,000	0.73
1999	595,089	5,556	11,786,600	5.05
2000	681,128	6,624	12,389,400	5.50
2001	486,029	4,613	12,954,900	3.75
2002	307,243	2,949	13,270,653	2.32
2003	300,153	2,775	13,499,884	2.22
2004	213,165	2,025	14,496,784	1.47
Average	377,901	3,578	12,421,746	3.01

Source: NFA

More than half of NFA-procured rice in 2004 came from Southern Tagalog followed distantly by Bicol (10.4 percent), Ilocos region (10.1 percent) and Western Visayas (9.5 percent). Less than 5 percent were sourced from Mindanao (Table 7.3).

Table 7.3 NFA Palay Procurement by Region, 2003-2004

(In MT)

	2003	2004		2003	2004
Philippines	**296,384**	**207,625**			
M. Manila			E. Visayas	1,353	959
Ilocos Region	58,728	20,880	W. Mindanao	2,115	358
Cagayan Valley	17,107	8,201	N. Mindanao	7,069	340
C. Luzon	17,356	8,215	S. Mindanao	3,975	380
S. Tagalog	113,909	119,395	C. Mindanao	11,690	4,201
Bicol	19,981	21,519	ARMM	2,447	2,714
W. Visayas	40,578	19,648	Caraga		766
C. Visayas	76	49			

Source: NFA

NFA imported on the average, a little over 950,000 MT per year costing P10.7 billion (Table 7.4). The rice imports accounted for less than 15 percent of total domestic production. NFA imports exceeded domestic procurement for most years except in 2000 (Table 7.5).

Table 7.4 NFA Rice Importation, 1998-2004

Year	Volume (in MT)	Value (in million pesos)	Domestic Rice Production (in MT)	Imports/ Domestic Production (%)
1998	1,976,354	23,939	5,560,100	35.55
1999	844,135	9,157	7,661,290	11.02
2000	617,123	5,631	8,503,110	7.26
2001	599,466	5,660	8,420,685	7.12
2002	1,236,905	12,161	8,625,924	14.34
2003	641,723	6,636	8,774,925	7.31
2004	863,852	11,636	9,422,910	9.17
Average	968,508	10,689	8,138,421	13.11

Source: NFA

Table 7.5 Summary of NFA Rice Operations, 1998-2004

	BUYING					SELLING	
Year	NFA Procurement (in MT)	Value (in million pesos)	NFA Imports (in MT)	Value (in million pesos)	Total (in million pesos)	Volume (in MT)	Value (in million pesos)
1998	62,498	505	1,976,354	23,939	24,444	1,622,655	21,485
1999	595,089	5,556	844,135	9,157	14,713	1,380,589	17,581
2000	681,128	6,624	617,123	5,631	12,255	1,227,767	16,519
2001	486,029	4,613	599,466	5,660	10,273	724,840	10,367
2002	307,243	2,949	1,236,905	12,161	15,110	1,222,785	17,113
2003	300,153	2,775	641,723	6,636	9,411	1,077,230	14,907
2004	213,165	2,025	863,852	11,636	13,661	1,311,963	19,050

Source: NFA

The NFA corn procurement has been minimal except for 1998 (Table 7.6). In fact, there were years when NFA did not procure any. The volume of corn distributed by NFA accounted for one percent of the total demand for corn (Table 7.7).

Table 7.6 NFA Total Corn Procurement, 1998-2004

	Total Corn	
Year	Volume (in MT)	Value (in million pesos)
1998	62,498	1,300
1999	10,660	67
2000	8,156	53
2001-2003	No corn procurement	
2004	189	1

Source: NFA

Selling operations. The volume of rice distributed by NFA accounted for 12 percent of the total demand for rice in 2004 (Table 7.7). The highest demand for NFA rice was recorded at more than 20 percent in 1998. The share of NFA rice to total consumption decreased from 21.8 percent in 1998 to just 12.2 percent in 2004.

Table 7.7 NFA Total Rice and Corn Distribution, 1998-2004

Year	RICE				CORN			
	Volume* (in MT)	Value* (in million pesos)	Total RP Consumption**	Distribution/ Consumption (%)	Volume* (in MT)	Value* (in million pesos)	Total RP Consumption**	Distribution/ Consumption (%)
1998	1,622,655	21,485	7,431,000	21.83	107,167	699	5,361,000	1.99
1999	1,380,589	17,581	8,410,000	16.41	157,135	996	5,335,000	2.94
2000	1,227,767	16,519	8,891,000	13.80	19,524	146	5,509,000	0.35
2001	724,840	10,367	9,124,000	7.94	33,719	262	5,623,000	0.59
2002	1,222,785	17,113	9,645,000	12.67	15	0	5,783,000	0.00
2003	1,077,230	14,907	9,747,000	11.05	0	0	5,887,000	0.00
2004	1,311,963	19,050	10,735,000	12.22	0	0	6,045,000	0.00

Source: NFA

Almost 60 percent of NFA rice were distributed in 2003-2004 to Metro Manila and other regions in Luzon (Table 7.8). Mindanao corners 25 percent of NFA rice, roughly similar to what Metro Manila gets. Regions getting at least 100,000 MT of rice are Metro Manila, Southern Mindanao, Ilocos, Central Luzon and Southern Tagalog.

Table 7.8 NFA Rice Distribution by Region, 2003-2004

(In MT)

	2003	2004		2003	2004
Philippines	**1,142,242**	**1,342,152**			
M. Manila	362,874	327,964	E. Visayas	69,003	69,431
Ilocos Region	105,426	120,546	W. Mindanao	42,243	70,072
Cagayan Valley	36,491	31,698	N. Mindanao	73,733	57,860
C. Luzon	100,373	118,729	S. Mindanao	39,319	124,447
S. Tagalog	102,565	107,765	C. Mindanao	11,809	21,590
Bicol	77,226	86,481	ARMM	16,268	28,007
W. Visayas	36,336	57,310	Caraga		36,222
C. Visayas	68,575	84,030			

Source: NFA

Price of palay and rice. The NFA buying price for palay exceeded prevailing market farm price from 1999 to 2004, the highest margin recorded in 1999 (Table 7.9). The margin has been declining and was estimated at 13 centavos in 2004. It is worth noting the trends in NFA buying and selling prices of palay. The trend in farm market prices has been erratic throughout the period (Table 7.9). As farm market prices fell significantly in 1999, NFA raised its buying price by more than P1.50 per kilo in 1999. This perhaps reflects the pro-poor thrust of then-President Estrada. The margin of more than a peso was sustained from 1999 to 2001.

Table 7.9 Average Price of Palay, 1998-2004
(In pesos/kg)

Year	NFA Buying Price	Average Prevailing Ex-Farm Price	Difference
1998	8.00	8.11	-0.11
1999	9.54	7.87	1.67
2000	9.50	8.42	1.08
2001	9.50	8.17	1.33
2002	9.50	8.82	0.68
2003	9.50	8.84	0.66
2004	9.58	9.45	0.13

Sources: NFA, Bureau of Agricultural Statistics

The price of NFA rice was pegged at P14 per kilo from 1998 to 2000 (Table 7.10). It was later increased by P2 per kilo in 2001 and the price remained at P16 per kilo since then. Comparing the NFA selling price of rice (Table 7.10) and NFA buying price for palay (Table 7.9), the margin between the two prices ranged from around P4.50 per kilo to P6.50 per kilo. The NFA selling price was kept steady at P14 from 1998 to 2000 in spite of higher buying price for palay (Table 7.9) and increasing selling price of non-NFA rice (Table 7.10). This indicates that the NFA selling price of rice was largely unresponsive to fluctuations in the selling price of non-NFA rice.

Table 7.10 Average Selling Price of Rice, 1998-2005
(In pesos/kg)

Year	NFA Regular-Milled Rice	Non-NFA Rice (Ordinary Rice)	Difference
1998	14.00	17.11	-3.11
1999	14.00	17.26	-3.26
2000	14.00	17.59	-3.59
2001	16.00	17.54	-1.54
2002	16.00	18.00	-2.00
2003	16.00	17.95	-1.95
2004	16.00	18.71	-2.71
2005	16.00	20.67	-4.67

Source: NFA Bureau of Agricultural Statistics

Financial Highlights. NFA has consistently incurred losses from 1999 to 2004, the largest of which was the P6.7 billion loss in 2003 (Annex 7.1). Net income losses increased from 2001 to 2003 and fell by around P200 million in 2004 despite the infusion of government subsidy which averaged P1.5 billion annually. Note, however, that the sharp rise of government subsidy to P4.8 billion in 2004 was largely in the form of duty-free importation of imported rice.

Net operating income has also consistently been in the red, the largest of which was the P9.0 billion loss in 2004 (Annex 7.1). The trends in sales and cost of sales showed erratic patterns. Sales exceeded cost of sales from 1999 to 2001 but the pattern was reversed in the succeeding years. The shift in the trend starting in 2002 was largely due to a spike in importation, increased capitalized expenses, and higher cost of milling/remilling/dehulling.

Operating expenses continued to comprise the bulk of NFA's expenses. Administrative expenses, on the other hand, increased significantly starting in 2002. It went up from a little over P400 million in 2001 to P1.3 billion in 2002. Major items listed under administrative expenses that rose sharply were salaries, other services, supplies and materials, and bonuses and incentives. Contributing markedly to NFA's deteriorating financial position were the increases in extraordinary and other expenses (e.g. interest payments and forex losses) that even reached as high as P3.0 billion in 2004.

The poor financial picture of NFA can be gleaned from negative gross margins indicating that sales revenues were not enough to cover even the cost of sales (Table 7.11). The situation is troubling considering that NFA's gross margin in the early 1990s was estimated at 9 percent (Gustilo, 1999). NFA needs to have a gross margin of at least 20 percent of sales to at least break even and cover administrative and operating expenses. The way to achieve this is to bring down the cost of grain purchases or increase the selling price of NFA rice. Both options, however, are politically unpopular.

Table 7.11 Average Breakdown of NFA's Incurred Losses, 1998-2004

	As percentage of sales
Sales	100.0
Cost of Sales	103.0
Gross Margin	-3.0
Administrative and Operating Expenses	20.3

Source of basic data: Commission on Audit

NFA's total assets were pegged at P20.0 billion in 2004, more than a quarter of which were held as inventories (Annex 7.2). Inventories consist mainly of stocks of grain for sale. Cash position has improved marginally since 2001. More than a quarter of NFA's assets are in the form of long-term investments in stocks and bonds.

NFA's total liabilities were estimated at P43.2 billion in 2004, 75 percent of which were current liabilities. Account payables have ballooned from P16.2 billion in 1999 to P31.3 billion in 2004. Account payables are largely letters of credit extended to finance importation of rice and sugar. Long-term liabilities, mostly loan payables, stood at more than P10 billion in 2004. More than 90 percent of these loan payables were domestic borrowings. The new domestic borrowings were loans from Landbank of the Philippines, Equitable PCI Bank, and Metrobank. Proprietary capital was in deficit since 2000.

The financial performance of the NFA, in terms of income generation, profitability and liquidity risk, is dismal as shown by the computed financial ratios (Table 7.12). The current ratio continued to decline suggesting that the NFA may have difficulty meeting its short-term obligations. Similarly, the debt-to-asset and debt-to-equity ratio point out NFA's heavy reliance on borrowings.

Table 7.12 Selected Financial Ratios, 1999-2004

Ratio\Year	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*Ave.*
Current Ratio	1.043	0.804	0.712	0.641	0.450	0.293	0.657
Debt-to-Asset	0.865	1.060	1.161	1.303	1.688	2.155	1.372
Debt-to-Equity	6.427	(17.646)	(7.216)	(4.296)	(2.453)	(1.866)	(4.508)

Source of basic data: Commission on Audit

Annex 7.1

NFA - Income Statement, 1999-2004

(In million pesos)

PARTICULARS	1999	2000	2001	2002	2003	2004
Sales	20,653.66	21,698.50	12,760.29	18,067.43	15,336.81	19,802.80
Cost of Sales	19,319.05	21,630.67	9,834.74	18,286.36	17,334.33	25,157.84
Beginning Inventory	13,412.93	11,842.03	8,099.51	8,536.04	12,431.80	9,875.94
Add: Receipts:						
Procurement	5,598.49	6,420.00	3,132.97	2,987.10	1,324.36	2,845.24
Importation	9,788.51	7,278.12	5,184.00	12,329.46	6,712.73	11,636.41
Drying	103.36	161.33	95.83	47.48	56.94	63.23
Milling/Remilling/Dehulling	3,362.62	9,924.89	3,106.07	6,288.16	2,799.65	4,070.34
Dispersal of Stocks	24,358.56	30,680.77	13,040.97	16,395.16	15,005.82	15,295.09
Capitalized Expenses	1,160.49	2,605.86	1,019.85	7,420.75	3,979.06	6,409.43
Total Receipts	44,372.03	57,070.97	25,579.69	45,468.11	29,878.56	40,319.75
Total Available for Sale	57,784.95	68,913.00	33,679.20	54,004.14	42,310.36	50,195.69
Less: Inventory End	11,444.86	8,099.51	8,536.04	12,431.80	8,542.06	5,338.72
Total Issues	46,340.10	60,813.49	25,143.16	41,572.34	33,768.30	44,856.97
Less: Issues Other than Sale						0.00
Drying	96.45	211.12	86.86	44.72	49.98	95.75
Milling/Remilling/Dehulling	2,120.83	8,075.03	2,598.47	4,493.94	1,364.76	2,219.40
Dispersal of Stocks	23,953.62	29,884.62	12,125.27	17,810.30	14,473.57	17,131.15
Losses/Spillages/Shrinkage	581.66	131.22	46.69	86.67	53.81	44.94
Others	268.50	880.85	451.12	850.34	491.86	207.88
Total Issues Other than Sales	27,021.04	39,182.83	15,308.42	23,285.98	16,433.98	19,699.13
Gross Profit (Loss)	1,334.61	67.84	2,925.54	(218.93)	(1,997.52)	(5,355.04)
Less: Expenses						
Administrative	373.80	459.54	426.41	1,337.38	1,420.56	1,400.22
Salaries and Wages	134.59	139.26	143.57	527.62	1,015.40	1,028.03
Other Services	0.00	9.72	14.88	139.04	0.00	0.00
Transportation Services	3.38	16.32	0.01	4.89	0.00	0.00
Supplies and Materials	9.38	29.95	28.20	130.66	0.00	0.00
Rent	31.68	55.38	46.53	59.68	0.00	0.00
Losses/Depreciation/Depletion		0.00	0.02	1.74	0.00	0.00
Consultants and Special Fees and Allowances		0.00	0.00	0.00	0.00	0.00
Transfer Cost Variance		0.00	0.00	0.00	0.00	0.00
Depreciation of Fixed Assets	13.08	14.46	18.80	70.55	0.00	0.00
Auditing Services	15.04	64.20	48.30	0.00	0.00	0.00
Social Security Insurance Premium	15.02	16.17	17.20	63.89	128.74	130.29
Bonuses and Incentives	0.00	16.24	16.25	62.23	140.57	118.54
Trading/Production	8.37	0.00	0.00	1.46	0.00	0.00
Water/Illumination and Power Services	5.24	14.34	15.73	49.25	0.00	0.00
Fidelity Bonds and Insurance Premiums	11.82	15.79	18.11	37.24	0.00	0.00
Taxes, Duties and Fees	64.83	8.14	9.23	10.05	0.00	0.00
Other Benefits	7.30	8.51	5.96	30.25	72.70	70.65
Overtime	7.52	5.84	5.73	23.23	48.56	38.22
Traveling Expenses	2.91	6.96	5.99	27.23	0.00	0.00

PARTICULARS	1999	2000	2001	2002	2003	2004
Repair and Maintenance of Government Facilities	6.29	2.21	2.49	15.01	0.00	0.00
Communication Services	17.84	11.85	7.22	25.04	0.00	0.00
Extraordinary and Miscellaneous Expenses	6.56	6.91	6.89	13.80	0.00	0.00
Non-Commutable Allowances	0.00	5.37	5.24	12.52	14.58	14.49
Social Security Benefits, Rewards and Other Claims	3.95	2.14	4.77	11.21	0.00	0.00
Grants, Subsidies and Contributions	5.92	0.02	0.00	1.48	0.00	0.00
Repair and Maintenance of Government Vehicles	1.22	0.40	0.37	6.33	0.00	0.00
Advertising and Publication Expenses	1.83	4.29	1.52	3.93	0.00	0.00
Commitment Fees and Other Charges	3.10	0.98	0.32	0.91	0.00	0.00
Training and Seminar Expenses	0.44	1.37	1.13	3.89	0.00	0.00
Confidential and Intelligence Expenses	2.25	2.75	2.00	4.00	0.00	0.00
Awards and Indemnities	0.00	0.00	0.00	0.25	0.00	0.00
Operating	3,169.53	3,813.56	3,021.03	2,204.32	2,043.17	2,287.36
Salaries and Wages	777.70	816.74	840.78	475.30	0.00	0.00
Other Services	856.50	374.29	330.79	250.39	301.03	381.38
Transportation Services	243.03	398.44	271.27	385.37	222.26	268.27
Supplies and Materials	297.98	281.76	227.98	126.74	269.75	145.86
Rent	353.84	262.68	178.92	207.45	264.11	205.16
Losses/Depreciation/Depletion	189.75	662.66	209.36	351.52	348.60	274.90
Consultants and Special Fees and Allowances	0.00	0.00	0.00	0.00	0.00	0.00
Transfer Cost Variance	143.68	98.04	178.30	(208.09)	(163.13)	(132.41)
Depreciation of Fixed Assets	101.42	106.56	120.35	80.97	159.29	148.60
Auditing Services	87.79	0.14	0.08	0.23	56.73	56.88
Social Security Insurance Premium	90.41	97.43	101.07	57.96	0.00	0.00
Bonuses and Incentives	(374.91)	94.85	97.15	55.79	0.00	0.00
Trading/Production	48.83	168.13	98.90	124.73	113.18	123.54
Water/Illumination and Power Services	57.21	53.10	57.57	26.89	81.66	84.47
Fidelity Bonds and Insurance Premiums	46.24	66.49	39.17	22.58	59.68	59.76
Taxes, Duties and Fees	65.45	29.26	39.52	51.48	69.96	135.87
Other Benefits	46.03	53.25	49.72	27.96	0.00	0.00
Overtime	38.90	75.16	35.73	32.87	0.00	0.00
Traveling Expenses	34.53	39.88	32.87	21.63	49.58	49.31
Repair and Maintenance of Government Facilities	21.96	41.50	29.88	15.69	27.82	24.69
Communication Services	46.00	25.82	22.79	6.82	34.73	33.46
Extraordinary and Miscellaneous Expenses	14.42	16.90	15.03	5.70	19.60	15.66
Non-Commutable Allowances	2.07	8.49	8.98	1.82	0.00	0.00
Social Security Benefits, Rewards and Other Claims	6.75	9.40	8.64	3.91	5.50	17.46
Grants, Subsidies and Contributions	3.21	14.91	8.97	2.87	5.13	2.06
Repair and Maintenance of Government Vehicles	7.42	7.60	7.29	2.39	8.07	7.35
Advertising and Publication Expenses	4.67	3.48	3.63	1.49	5.88	5.87
Commitment Fees and Other Charges	3.39	3.08	3.08	71.25	73.58	357.02
Training and Seminar Expenses	2.05	2.82	2.09	0.61	7.90	2.58
Confidential and Intelligence Expenses	0.00	0.00	0.00	0.00	6.00	14.00
Bad Debts	0.00	0.00	0.00	0.00	15.60	5.64
Awards and Indemnities	0.00	0.71	1.12	0.00	0.66	0.00

PARTICULARS	1999	2000	2001	2002	2003	2004
TOTAL	3,543.33	4,273.10	3,447.44	3,541.70	3,463.73	3,687.57
Net Income (Loss) from Operation	(2,208.72)	(4,205.26)	(521.90)	(3,760.63)	(5,461.25)	(9,042.61)
Add/(Deduct)	0.00	0.00	0.00	0.00	0.00	0.00
Misc. Income	277.61	516.30	399.84	290.57	228.27	745.97
Withholding Tax on Net Income	0.00	0.00	0.00	(4.73)	(3.77)	(3.78)
Before Withholding Tax	277.61	516.30	399.84	295.30	232.04	749.75
Registration and Licensing	54.26	94.16	86.94	92.56	93.38	90.49
Extraordinary and Other Expenses	(1,674.30)	(1,763.60)	(1,725.22)	(1,553.22)	(2,352.34)	(3,004.85)
TOTAL	(1,396.69)	(1,247.30)	(1,325.38)	(1,262.64)	(2,124.07)	(2,258.89)
Net Income (Loss) Before Government Subsidy	(3,605.41)	(5,452.56)	(1,847.28)	(5,023.27)	(7,585.32)	(11,301.50)
Add: Government Subsidy	1,192.64	1,170.99	90.00	902.00	922.10	4,831.49
NET INCOME/LOSS	(2,412.77)	(4,281.57)	(1,757.28)	(4,121.27)	(6,663.22)	(6,470.01)

Source: Commission on Audit

Annex 7.2

NFA - Balance Sheet, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and Cash Equivalents	**3,044.38**	**2,100.22**	**1,822.43**	**1,925.87**	**2,331.21**	**2,158.10**
Short-term Investments	**92.24**	**111.42**	**110.00**	**116.24**	**0.00**	**0.00**
Receivables, net	**1,214.48**	**3,117.29**	**2,799.21**	**2,701.51**	**2,206.56**	**1,916.70**
Inventories, net	**13,675.82**	**9,257.92**	**10,689.20**	**14,148.48**	**9,963.18**	**5,485.07**
Total Current Assets	**18,026.92**	**14,586.85**	**15,420.84**	**18,892.10**	**14,500.95**	**9,559.87**
Long-term Investments	***504.48***	***504.48***	***504.48***	***502.83***	**4,002.83**	**5,583.38**
Stocks and Bonds	502.01	502.01	502.01	502.00	4,002.00	5,582.55
Other Investments	2.47	2.47	2.47	0.83	0.83	0.83
Property, Plant and Equipment	***1,415.96***	***1,467.37***	***1,656.10***	***1,549.36***	**1,438.13**	**1,407.68**
Contingent Assets	***2,395.80***	***2,973.15***	***2,750.05***	***2,984.47***	**3,105.06**	**3,154.55**
Other Assets	***178.51***	***162.88***	***211.49***	***207.67***	**341.00**	**340.57**
Total Non-current Assets	**4,494.74**	**5,107.87**	**5,122.11**	**5,244.33**	**8,887.02**	**10,486.17**
TOTAL ASSETS	**22,521.66**	**19,694.72**	**20,542.96**	**24,136.43**	**23,387.96**	**20,046.04**
LIABILITIES AND EQUITY						
Current Liabilities						
Payables	**16,180.74**	**16,997.42**	**20,529.22**	**28,463.29**	**31,032.64**	**31,110.43**
Trust Liabilities	**732.17**	**728.85**	**719.19**	**731.55**	**1,033.84**	**1,346.84**
National Government	321.14	100.69	120.03	125.85	277.47	621.92
Government Owned/Controlled Corporation	11.69	15.34	11.87	12.16	13.37	16.29
Miscellaneous	399.34	612.82	587.29	593.54	743.00	708.62
Depository Liabilities	**104.70**	**108.31**	**95.02**	**85.16**	**110.59**	**109.16**
Current Maturities of Loans Payable	**260.92**	**299.04**	**318.69**	**176.65**	**79.04**	**79.70**
Total Current Liabilities	**17,278.52**	**18,133.61**	**21,662.11**	**29,456.65**	**32,256.12**	**32,646.12**
Long-term Liabilities						
Loans Payable	**1,880.75**	**2,041.92**	**1,683.64**	**1,580.78**	**5,100.76**	**10,070.82**
National Government	0.00	0.00	0.00	0.00	0.00	0.00
Loans Payable-Foreign	1,541.04	1,740.34	1,401.72	1,156.81	1,079.18	1,049.90
Loans Payable-Domestic	600.62	600.62	600.62	600.62	4,100.62	9,100.62
Contingent Liabilities	**0.27**	**0.05**				
Other Liabilities	**329.81**	**702.31**	**502.00**	**422.38**	**2,124.71**	**486.70**
Total Non-current Liabilities	**2,210.56**	**2,744.23**	**2,185.64**	**2,003.16**	**7,225.47**	**10,557.52**
TOTAL LIABILITIES	**19,489.35**	**20,877.89**	**23,847.75**	**31,459.81**	**39,481.59**	**43,203.65**
EQUITY						
Capital						
Authorized Capital Stock P5 B divided into 50 M shares with par value of P100per share Paid-in Capital	3,891.35	3,890.59	3,890.59	3,890.59	3,890.59	3,890.59

	1999	2000	2001	2002	2003	2004
Retained Earnings (Deficit)						
Balance Beginning	(1,207.39)	(3,524.80)	(8,295.60)	(10,212.50)	(15,037.39)	(23,165.25)
Add/Deduct: Prior Period Adjustments	95.36	(489.23)	(159.62)	(703.62)	(1,464.64)	(1,051.74)
Net Income	(2,412.77)	(4,281.57)	(1,757.28)	(4,121.27)	(6,663.22)	(6,470.01)
Deficit, End	**(3,524.80)**	**(8,295.60)**	**(10,212.50)**	**(15,037.39)**	**(23,165.25)**	**(30,687.00)**
Donated Capital	**472.89**	**473.10**	**482.19**	**471.33**	**471.53**	**471.74**
Cash	7.59	7.59	7.59	7.59	7.67	7.67
Fixed Assets	465.30	465.50	474.60	463.74	463.86	464.07
Contingent Capital	**2,395.24**	**2,972.81**	**2,749.40**	**2,984.20**	**3,105.25**	**3,154.53**
Interbranch Account	**(202.38)**	**(224.08)**	**(214.48)**	**367.89**	**(395.74)**	**12.54**
TOTAL EQUITY	**3,032.31**	**(1,183.18)**	**(3,304.80)**	**(7,323.38)**	**(16,093.63)**	**(23,157.60)**
TOTAL LIABILITIES AND EQUITY	**22,521.66**	**19,694.72**	**20,542.96**	**24,136.43**	**23,387.96**	**20,046.04**

Source: Commission on Audit

8. NATIONAL HOUSING AUTHORITY

Background. The National Housing Authority (NHA) was organized as a government-owned and -controlled corporation in July 1975 to integrate the government's housing efforts which were then dispersed among various agencies. It had an initial capitalization of P500 million.

Prior to the creation of NHA, several agencies were mandated to provide housing. These agencies were the People's Homesite and Housing Corporation (PHHC), the Presidential Assistant on Housing and Resettlement Agency (PAHRA); the Tondo Foreshore Development Authority (TFDA); the Central Institute for the Training and Relocation of Urban Squatters (CITRUS); the Presidential Committee for Housing and Urban Resettlement (PRECHUR); the Sapang Palay Development Committee (SPDC); the Inter-Agency Task Force to Undertake the Relocation of Families in Barrio Nabacaan, Villanueva, Misamis Oriental. They were all abolished with the creation of the NHA.

NHA was originally tasked to develop and implement a comprehensive and integrated housing program which shall embrace, among others, housing development and resettlement, sources and schemes of financing, as well as promotion of private sector participation. Its mission was to provide and maintain adequate housing for the greatest possible number of people. NHA's mandate and functions became more specific in 1986 with the issuance of Executive Order 90 under President Corazon Aquino. It was mandated to be the sole government agency engaged in shelter production, focusing on the housing needs of the lowest 30 percent of the urban population.

NHA is under the policy and program supervision of the Housing and Urban Development Coordinating Council (HUDCC), the umbrella agency for all shelter-related organizations. Initially, it was placed under the Office of the President.

Borrowing Authority. NHA is allowed to issue bonds or contract loans, credits, or indebtedness, including suppliers credit or any deferred payment arrangements whether domestic or foreign for the implementation of its housing programs. The law creating NHA does not provide for any borrowing limit.

Board of Directors. The NHA is governed by a Board of Directors whose composition is on an "ex-officio" capacity. The eight-person Board is composed of the following: General Manager of NHA; Secretaries of the Department of Finance, Department of Labor and Employment, Department of Trade and Industry, Department of Public Works and Highways, the Executive Secretary and the Director-General of the National Economic and Development Authority. Initially, the Chairman of the Board is chosen by the members, but with the issuance of EO 90, the Chairman of HUDCC now sits as the NHA Chair.

The Board is mandated to act upon NHA's annual and supplemental budgets, approve its organizational structure, staffing pattern, as well as salaries, powers and duties of the personnel, as submitted by the General Manager. The Board can also enter into contract or agreements and is expected to render annual and special reports to the President.

The NHA Board has regular monthly meetings and special meetings as called by the General Manager. Four members of the Board constitute a quorum and all decisions of the Board require the concurrence of at least four members.

Management. The NHA is headed by the General Manager who acts as the Chief Executive Officer and is appointed by the President. The qualifications of a GM are quite general: He or she must possess managerial ability and must be a recognized authority on housing and/or related fields. No term limit has been specified for the General Manager.

The General Manager's duties and responsibilities include the following:

- To direct and supervise the operations and internal affairs of NHA;
- To prepare the agenda for the meetings of the Board and to submit for the consideration of the Board policies and measures as he may believe necessary;
- To execute, administer and implement the policies and measures approved by the Board; and
- To fix the number and salaries of, and appoint, the subordinate officers and personnel, and to remove or otherwise discipline any such officer or employee subject to the approval of the Board.

The second ranking official is the Assistant General Manager, also a presidential appointee.

NHA employees are covered by the Salary Standardization Act.

Operational Highlights. While other government housing and shelter agencies deal with the regulatory and financing components of the National Shelter Program (NSP), NHA is primarily in-charge of social housing production. It is tasked to fast-track the determination and development of government lands suitable for housing and to ensure the sustainability of socialized housing funds. Its programs include the development of sites and services, slum upgrading, community land acquisition, grants-in-aid housing, emergency housing assistance, construction of core housing , temporary, cooperative and medium-rise housing, resettlement, as well as land tenurial and technical assistance.

A six-year assessment of NHA accomplishments would, however, show that the agency has generally failed to meet the targets it has set for itself.

Every year, from 1999 to 2004, its accomplishments have been lower than its goals (Table 8.1). The percentage of actual projects implemented vis-à-vis the target averaged around 75 percent. Housing production has been lower than expected with the number of units started and completed declining drastically compared to the 1999 level. Land acquisition and awarding of units have particularly been sluggish, rarely meeting even at least half of the target. This is attributed by the agency to both internal factors such as technical revisions, funding constraints and land-related issues and external factors like lack of support from partner agencies, LGU priorities, bad weather, unstable peace and order situation. Moreover, NHA's collection performance throughout most of the period was below 50 percent (Table 8.2). Only in 2004 did the NHA have a creditable collection efficiency.

Table 8.1 NHA Performance Indicators, 1999-2004

Critical Performance Area	1999	2000	2001	2002	2003	2004
A. Projects Implemented						
Actual	163	137	161	121	168	116
Target		211	228	99	177	191
% to target	79	65	71	75	95	62
B. Housing Production/Housing Assistance						
1. Production Starts						
Actual (no. of units)	51,896	32,809	24,512	26,362	28,850	15,764
Target	48,109	47,788	37,139	31,153	51,061	26,005
% to target	108	67	66	85	57	61
2. Production Completions						
Actual (no. of units)	40,201	42,807	27,350	22,683	16,132	21,136
Target	44,022	53,869	39,368	34,436	48,909	34,238
% to target	91	79	69	66	33	62
C. Land Acquisition						
Actual (in hectares)	77	76396	32	60	30	85
Target	206	213438	164	360	177	110
% to target	19	36	18	17	17	77
D. Awards						
Actual (no. of housing units)	9,445	13,462	15,738	21,000	12,350	--
Target	28,621	51,826	28,104	45,705	29,641	--
% to target	33	26	56	46	42	--

Sources: NHA Year-End Reports, various years

Table 8.2 NHA's Collection Performance, 1999-2004

COLLECTION PERFORMANCE	1999	2000	2001	2002	2003	2004
Total Amount Due (in million pesos)	1,048.72	698.014	814.286	1,054.80	1,256.935	1,059.414
Actual Collections (in million pesos)	506.897	218.298	287.68	409.19	375.88	735.99
Collection Efficiency (in percent)	48	31	35	39	30	69

Sources: NHA Year-End Reports, various years

While NHA is not the sole agency responsible for the country's housing program, its performance is partially indicative of the status of the housing sector in the country. With NHA housing production slowing down, and the population increasing rapidly, housing needs have been growing every year. The Medium Term Philippine Development Plan (MTPDP) 2005-2010 estimates that the demand for housing would increase reaching 3.8 million housing units, up by 500,000 units compared to the MTPDP 1999-2004. More than half of total housing needs are in Southern Tagalog, NCR and Central Luzon.

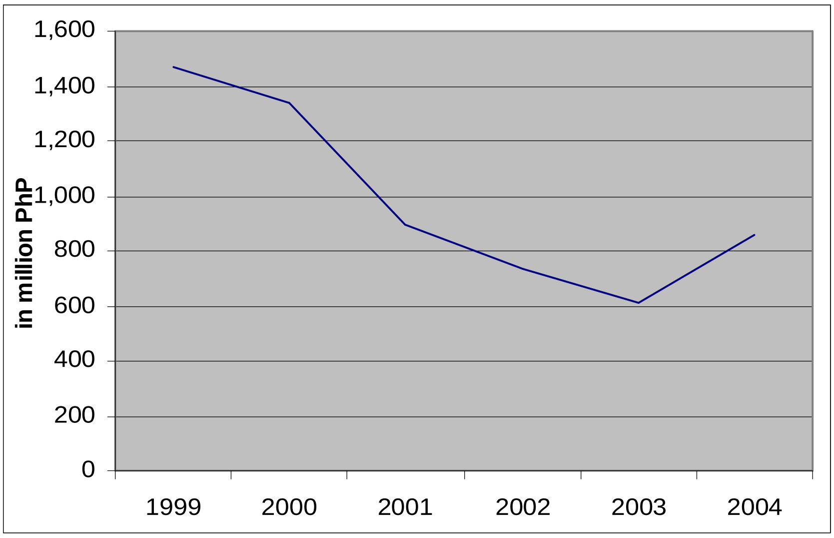
Financial Highlights. With revenues exceeding expenditures, NHA's financial position has been generally positive in the last six years, the largest of which was the P12.5 million net income (before subsidy) in 1999 (Annex 8.1). NHA's revenue performance, however, could still be improved as collections from receivables have been low, with collection efficiency averaging less than 50 percent from 1999 to 2004.

More than half of NHA's revenues come from interest income, followed distantly by income from rentals and profits realized from collection of installment receivables. The bulk of NHA's expenses go to personal services, i.e. payment of salaries and wages, allowances, insurance premiums, bonuses and other benefits of its employees.

The NG subsidy to NHA has declined through the years, with just a slight uptick in 2004. The subsidy has gone down to P860 million in 2004 from almost P1.5 billion back in 1999 (Figure 8.1).

Figure 8.1 Government Subsidy Received by NHA, 1999-2004

(In million pesos)



Sources: NHA Year-end Reports, various years
Note: 2003 and 2004 figures are from the Budget Expenditures and Sources of Financing 2005

NHA's assets were estimated at P21.5 billion in 2004, more than 60 percent of which were held as current assets. Cash position has been on a steady decline since 2001. What has been disturbing was the rise in receivables by more than P1 billion compared to its 1999 level. There was a slight decline though from the 2003 receivables.

NHA's liabilities were pegged at P7.1 billion in 2004, more than 10 percent of which were long-term debts (Annex 8.2). Current liabilities, mostly trust liabilities, stood at 67.2 percent of total liabilities. Equity was estimated at P14.4 billion in 2004, which declined marginally compared to the previous year.

NHA's current ratio has declined from a healthy 2.32 in 1999 to 0.82 in 2004, an indication of NHA's weakening ability to meet its maturing obligations (Table 8.3). Also a cause of concern is NHA's increasing debt-to-asset and debt-to equity ratios which have gone up from 0.24 to 0.33 and 0.31 to 0.49, respectively.

Table 8.3 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	2.321	1.603	1.653	1.709	1.318	0.827	**1.572**
Debt-to-Asset Ratio	0.238	0.267	0.290	0.311	0.319	0.329	**0.292**
Debt-to-Equity Ratio	0.312	0.364	0.408	0.452	0.468	0.491	**0.416**

Source of basic data: Commission on Audit

Annex 8.1

NHA - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
REVENUES						
Interest Income	385,195	303,990	374,990	375,003	346,727	254,139
Income from Rentals	181,593	199,914	194,116	200,955	189,383	244,290
Profits Realized from Collection of Installment Receivables	103,253	73,200	86,436	100,085	113,883	135,251
Regulation Fees and Service Income	28,8123	27,951	35,906	23,306	30,677	30,963
Profit from Cash Sales	15,8745	27,271	28,603	16,950	23,024	21,778
Administrative Fee (Design and Supervision)	--	--	--	8,785	12,274	21,909
Income from Joint Venture	553	315	1,269	625,967	218	1,818
Dividend Income	3,874	45	13	64	56	--
Profit from Mortgage Sales	--	--	--	--	--	168
Miscellaneous Income	7,856	19,463	25,361	8,670	7,703	10,316
	727,012	652,149	746,692	734,444	723,944	720,632
EXPENSES						
Personal Services	466,640	418,669	442,202	454,075	452,737	448,333
Maintenance & Other Operating Expenses	247,921	226,496	299,109	278,763	266,823	267,387
	714,561	645,164	741,311	732,839	719,560	715,720
NET INCOME BEFORE SUBSIDY	12,451	6,985	5,381	1,605	4,385	4,912
Add: Other Income						
Subsidy	1,468,149	1,340,558	869,360	737,432	550,860	760,792
NET INCOME AFTER SUBSIDY	1,480,600	1,347,543	874,740	739,037	555,245	765,704
Retained Earnings	5,031,447	6,588,055	7,237,094	7,751,340	8,164,152	8,408,295
Prior Year Adjustments	82,234	(695,012)	(357,804)	(325,423)	(339,668)	(809,135)
Appropriated Dividends per RA 7656	(6,225)	(3,492)	(2,690)	(803)	(9,423)	(7,564)
	5,107,455	5,889,551	6,876,600	7,425,115	7,815,061	7,591,597
RETAINED EARNINGS	6,588,055	7,217,631	7,751,341	8,164,152	8,370,305	8,357,301

Source: Commission on Audit

Annex 8.2

NHA- Balance Sheet, 1999-2004

(In thousand pesos)

ASSETS	1999	2000	2001	2002	2003	2004
CURRENT ASSETS						
Cash and Cash Equivalents	2,332,187	888,062	1,099,645	1,053,127	610,525	502,010
Short term Investment	--	--	--	126,470	67,698	64,951
Receivables, Net	1,673,088	2,212,586	2,580,340	3,052,153	3,190,879	2,717,166
Advances to Officers and Employees	1,624	1,210	3,006	3,024	17,559	24,257
Inventories	14,471	16,709	17,443	18,530	9,721,361	10,193,159
Prepayments	1,696	1,932	1,933	2,831	--	--
Advances-Others	122,304	223,571	240,782	131,136	--	--
Prepayments and Advances	--	--	--	--	158,209	159,517
Total Current Assets	4,145,370	3,344,070	3,943,149	4,387,271	13,766,230	13,661,059
NON-CURRENT ASSETS						
Investments						
Rented Properties, Net	114,924	88,465	82,671	67,710	--	--
Construction in Progress	2,773,019	2,464,562	1,751,607	1,698,293	--	--
Completed Development for Sale	3,142,739	5,054,430	6,663,193	5,714,400	--	--
Completed Development for Transfer	250,312	219,180	227,973	217,873	--	--
Receivable from Interest-bearing Loans and Advances	215,721	203,296	186,195	176,071	467,662	531,603
Land Assembly for Future Projects	1,384,170	1,388,862	1,096,763	1,162,853	1,303,679	1,463,832
Investments in Joint Venture Projects	118,986	72,062	65,626	191,080	212,884	210,825
Acquired Assets-Land, Buildings and Structures	24,348	38,464	42,269	40,218	39,178	40,279
Receivables from Installment Sales	1,461,538	1,953,492	2,368,216	2,701,152	2,982,040	3,215,913
	9,485,757	11,482,813	12,484,514	11,969,649	15,100,407	15,652,893
Property and Equipment-Net	67,359	61,632	53,231	39,025	425,230	419,437
Other Assets						
Receivables - Non-Current, Net	64,322	67,070	57,099	55,428	--	--
Deposit with Contractor and Supplier	212,539	150,650	79,652	72,496	--	--
Assets Held-in-Trust	104,732	87,435	87,435	87,435	--	--
Miscellaneous Assets and Other Deposits	1,559,667	1,975,590	1,744,181	1,848,035	--	--
Contingent Assets	109,895	98,390	76,006	55,596	--	--
Other Non-Current Assets	--	--	--	--	2,070,316	1,929,417
	2,051,155	2,379,134	2,044,373	2,118,989	2,070,316	1,929,417
Total Non-Current Assets	11,604,271	13,923,579	14,582,118	14,127,663	7,500,989	7,811,306
TOTAL ASSETS	15,749,642	17,267,649	18,525,267	18,514,934	21,267,220	21,472,365
LIABILITIES AND NET WORTH	1999	2000	2001	2002	2003	2004
LIABILITIES						
CURRENT LIABILITIES						
Payables	490,079	535,388	487,057	610,311	856,651	691,940
Trust Liabilities	1,013,945	1,230,220	1,555,917	1,582,973	1,699,927	2,836,065
Depository Liabilities	246,437	284,645	328,056	359,075	417,844	480,913
Current Portion of Long-Term Debt	35,862	36,370	14,004	14,302	110,244	210,613

	1999	2000	2001	2002	2003	2004
Total Current Liabilities	1,786,322	2,086,624	2,385,033	2,566,661	3,084,666	4,219,531
NON-CURRENT LIABILITIES						
Long-term Liabilities						
Public Debt	416,150	402,138	410,760	396,450	687,992	857,371
Other Liabilities						
Deferred Gross Profit on Installment Sales	698,358	899,834	1,112,744	1,111,870	1,561,670	1,663,003
Trust Liabilities-Miscellaneous	543,180	897,059	1,111,870	1,131,319	1,127,368	--
Reserve for Additional Development Costs	302,141	320,011	352,218	289,636	318,162	328,508
	1,543,679	2,116,904	2,576,832	2,532,825	3,007,200	1,991,511
Total Non-Current Liabilities	1,959,829	2,519,042	2,987,592	2,929,275	2,567,823	2,848,882
TOTAL LIABILITIES	3,746,152	4,605,666	5,372,625	5,495,936	6,779,857	7,068,413
NET WORTH						
CAPITAL STOCKS						
Authorized Capital -						
PD 1924 - P5,000,000,000						
Paid-in-Capital	2,868,407	2,893,407	2,893,407	2,893,407	2,893,407	2,893,407
Capital - Miscellaneous	2,289,233	2,279,839	2,268,799	1,484,457	3,012,285	3,011,496
Retained Earnings	6,588,055	7,237,094	7,751,340	8,164,152	8,370,305	8,357,301
Subsidy Account	37,990	37,990	37,990	37,990	37,990	--
Appraisal Surplus	1,488	1,488	1,488	1,495	7,744	--
Contingent Surplus	99,899	88,851	66,378	45,968	42,292	984
Donated Capital	118,419	123,315	133,240	123,340	123,340	140,765
	12,003,490	12,661,984	13,152,642	12,750,808	14,487,362	14,403,952
TOTAL LIABILITIES AND NET WORTH	15,749,642	17,267,649	18,525,267	18,246,744	21,267,220	21,472,365

Source: Commission on Audit

9. NATIONAL IRRIGATION ADMINISTRATION

Background. The National Irrigation Administration (NIA) was created in 1963 and was tasked with the construction, improvement, operation and maintenance of irrigation systems all over the country. NIA had an initial capital stock of P 300 million which was later increased to P 2 billion through EO 552 in 1974.

The following are the powers and functions of NIA:

- Investigate and study all available and possible water resources in the Philippines, primarily for irrigation purposes; to plan, design, construct and/or improve all types of irrigation projects and appurtenant structures; to operate, maintain and administer all national irrigation systems;
- Construct multiple-purpose water resources projects designed primarily for irrigation;
- Acquire, by any mode of acquisition, real and personal properties, and all appurtenant rights, easements, concessions and privileges;
- Transact such business, as are directly or indirectly necessary, incidental or conducive to the attainment of the above powers and objectives.

The following are the additional functions of NIA as stated in RA 8435 otherwise known as the Agriculture and Fisheries Modernization Act (AFMA):

- Preservation and rehabilitation of watersheds to support the irrigation systems in coordination with the Department of Environment and Natural Resources (DENR);
- Research and Development (R&D) in developing effective, appropriate and efficient irrigation and water management technologies;
- For national irrigation systems :
    - planning, design, development, rehabilitation and improvement ;
    - operation and maintenance of major irrigation structures including headworks and main canals; and
    - gradual turnover of operation and maintenance of secondary canals and on-farm facilities to Irrigators Associations;
- Provision of technical assistance to local government units to complement the devolution of the planning, design, and management of communal irrigation systems;
- Formulation and development of a plan for the promotion of a private sector-led development of minor irrigation systems; and
- Encouraging the construction of irrigation facilities thru other viable schemes like Build-Operate-Transfer, Build-Transfer and other schemes that will fast track the development of irrigation systems.

Over the years, NIA has undergone a number of changes with regard to administrative supervision. It was originally placed under the Office of the President (OP), then to Department of Public Works and Highways (DPWH) in 1972, then to both DPWH and Department of Agriculture (DA) in 1987, then transferred back to OP in September 1992 and more recently back to DA (in October 1992).

Borrowing Authority. NIA was authorized to contract domestic and foreign loans. A sinking fund was supposed to be created to pay for the loans incurred, the amount of which should be sufficient to redeem at maturity the issued bonds. The ceiling on foreign loans was set at US$500 million.

The Philippine government guarantees, absolutely and unconditionally, the payment of NIA loans as primary obligor and not merely as surety. Aside from government guarantees, the NIA is exempt from the payment of all forms of taxes, duties, fees, imposts as well as import restrictions.

Setting Irrigation Charges and Rates. The NIA collects fees and charges from the beneficiaries of the water from all its irrigation systems. The following are some guidelines for setting the fees and charges:

- Recovery of the cost of operation, maintenance, and insurance;
- Recovery of the cost of construction within a reasonable period of time to the extent consistent with government policy;
- Recovery of funds or portions thereof expended for the construction and/or rehabilitation of communal irrigation systems which shall accrue to a special fund for irrigation development;

Board of Directors. The NIA Board is composed of 6 members: the DA Secretary as Chairman; the Administrator of NIA as Vice-Chairman, the Director-General of NEDA, the Secretary of Public Works and Highways, the President of the National Power Corporation (NPC), and one private sector representative.

Ex-officio members are co-terminus with their position. The private sector representative must be a farmer and is appointed by the President of the Philippines. The Board meets twice a month.

The powers, duties, and responsibilities of the NIA Board include: 1) formulating policies for the operation and management of the NIA and 2) recommending to the President of the Philippines the appointment of Assistant Administrators of the NIA.

Management. The day-to-day operation of NIA is managed by six executive officers headed by the Administrator who also acts as the Chief Executive Officer. There is one Deputy Administrator as well as four Assistant Administrators handling the following sectors: Project Development and Implementation, Systems Operation and Equipment Management, Finance, and Management and Administrative Services.

NIA submits an annual report to the President, the DA, National Statistical Coordination Board (NSCB), NEDA, DBM, the Congress, and other agencies as per request. Information is also made available on its website, www.nia.da.gov.ph

Operational Highlights. NIA's primary responsibility over the country's irrigation development includes construction, improvement, operation and maintenance of irrigation systems all over the country

Irrigation Coverage. There are 1.4 million hectares of irrigated land in the Philippines today. More than 85 percent or 1.23 million hectares of the total irrigated land in the country are covered by either the National Irrigation Systems (NIS) or Communal Irrigation Systems (CIS) of the NIA. The remaining 0.17 million hectares are serviced by private irrigation systems.

Central Luzon had the largest share of irrigated area in 2004 with 267,878 hectares or 19.1 percent of the national total followed by the Cagayan Valley (14.3 percent) and Ilocos Regions (12.7 percent). The Autonomous Region of Muslim Mindanao (ARMM) has the smallest share of irrigated area in 2004 with only 23,260 hectares irrigated, accounting for 1.7 percent of the national total followed by Central Visayas (with 2 percent), Western Mindanao (2.6 percent) and CARAGA (2.9 percent).

A total of 1.42 million farmer-beneficiaries have access to irrigation services in the country. Of these, 53 percent of farmers benefit from the NIS network, 35 percent from CIS, and 12 percent from private irrigation systems.

Building and Maintaining Irrigation Systems. National irrigation systems (NISs) and communal irrigation systems (CISs) are mostly constructed by the NIA. NISs are managed, constructed, operated and maintained by NIA, portions of which have been turned over to the organized Irrigators' Associations (IAs). CISs are farmer-managed systems and constructed by NIA with farmers' participation and turned over to the organized IAs for operation and maintenance. NIA also provides some technical assistance to private irrigation projects.

The table below summarizes the costs involved in the construction or rehabilitation of various irrigation schemes as well as the corresponding operation and maintenance costs. Other than a few major reservoir systems, the majority of irrigation projects in the Philippines are run-of-river diversion systems.

Table 9.1 Irrigation Development Schemes and Cost Per Hectare, 2000 prices

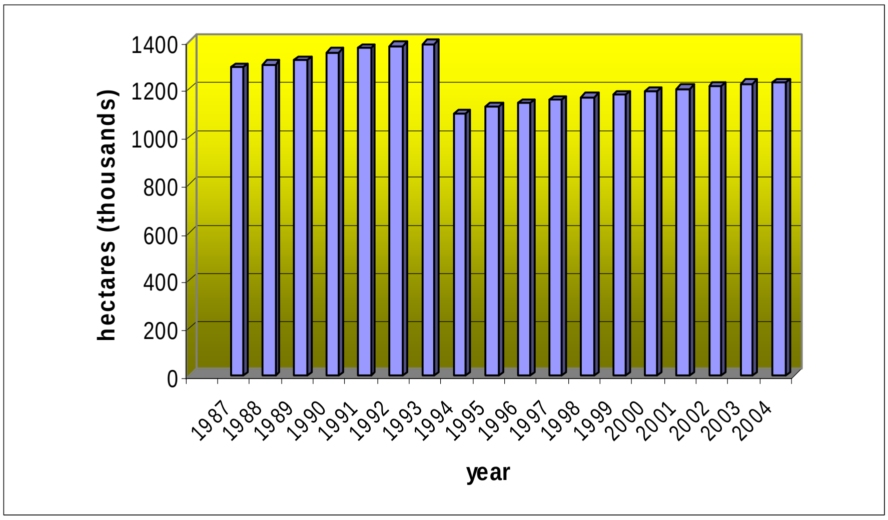
(In pesos)

Type of Project	Useful Life	Description	Development Cost per Hectare	O&M Cost per Hectare
NIP (New); Diversion	25- 50 yrs	5,000- 20,000 ha	100,000- 150,000	2,000- 2,500
NIS (Rehab); Diversion		5,000- 20,000 ha	60,000	2,000- 2,500
Reservoir	25- 50 yrs	500- 3,000 ha	250,000- 350,000	2,500- 3,000
Deepwell Pump (Rehab)		50 ha	50,000- 60,000	10,000 – 12,000
Deepwell Pump (New)	30 yrs	50 ha	90,000-100,000	10,000- 12,000
STW (New)	15 yrs	3- 5 ha	30,000- 40,000	5,000- 6000
STW (New)		3- 5 ha	50,000- 60,000	5,000
CIP (New); Diversion	25-30 yrs	100- 200 ha	80,000- 100,000	---
CIS (Rehab); Diversion		100- 200 ha	40,000- 60,000	---

Source: NIA

Growth of Irrigation Service Areas. The total irrigation service area covered by NIA drastically dropped in 1994 (Fig 9.1). From a high of 1.38 million hectares in 1993, irrigation service area dropped to 1.09 million hectares in 1994 largely due to: (1) large number of agricultural tracts converted to other uses; (2) number of systems ceasing operations from damage due to natural calamities, disrepair and neglect, and (3) NIA reforms that included correcting the reporting system for irrigation service area. The construction of new irrigation systems and the rehabilitation of existing ones increased service area to 1.23 million hectares in 2004.

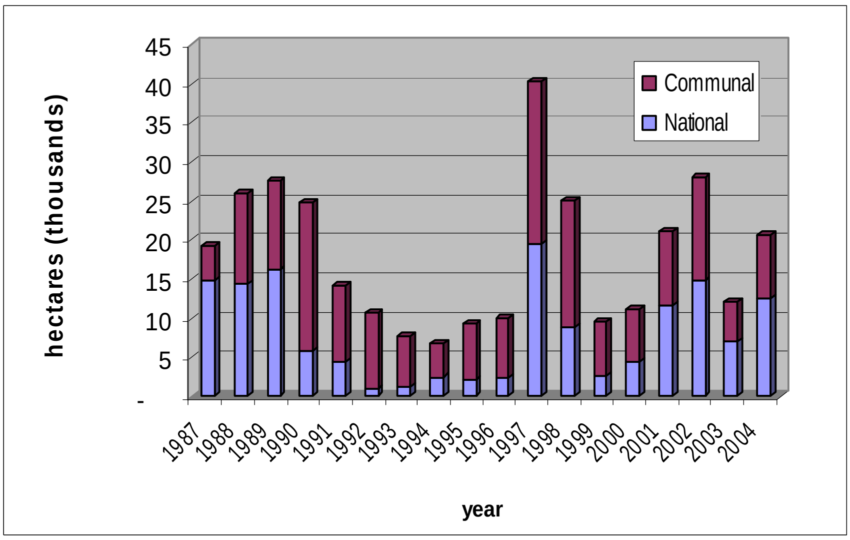
Figure 9.1 Total Hectares Covered by National and Communal Irrigation Systems, 1987-2004



Source: NIA

Communal irrigation has become a more common option over the last few years given the financial constraints of the national government (Figure 9.2). The construction of new NISs and CISs declined from 2002 to 2004 due to the huge investment costs with policy makers choosing instead to focus their limited resources on other forms of infrastructure and social services.

Figure 9.2 Generated Area of National and Communal Irrigation Systems, 1987-2004



Source: NIA

Backlog. There remains a significant gap between actual and potential irrigable lands in the Philippines today. Irrigation service coverage in the country is still less than desirable and it has not grown much over the past decade. To date, less than half of the estimated 3.13 million potentially irrigable hectares in the country are covered by any irrigation service (Table 9.2). This shows little improvement over the past few years.

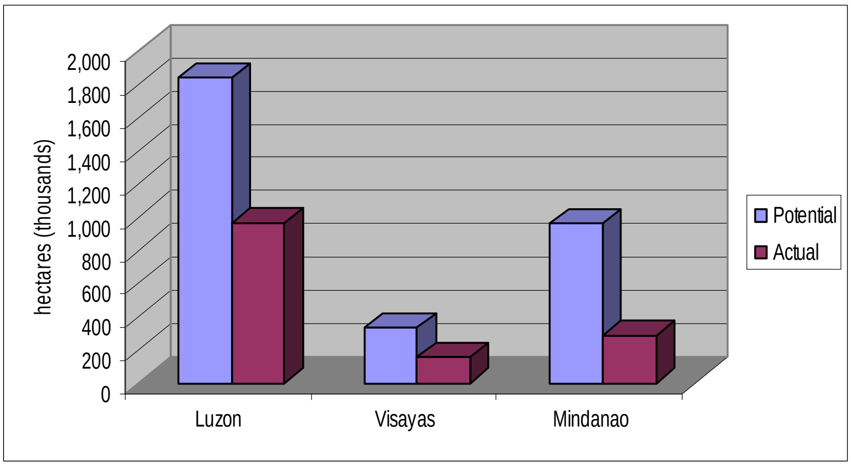
Table 9.2 Actual vs. Potential Irrigation Development, selected years

Year	Potential Irrigable Area (ha)	Total Irrigation Service Area (ha)	Irrigation Development (%)
1980	3,126,319	1,223,608	39.14
1985	3,126,319	1,413,128	45.20
1990	3,126,330	1,504,260	48.12
1995	3,126,340	1,307,010	41.81[3]
2000	3,126,340	1,361,454	43.55
2003	3,126,340	1,396,081	44.66
2004	3,126,340	1,401,743	44.84

Source: NIA

Mindanao has the largest backlog in irrigation development, far behind the other island groups (Figure 9.3). Irrigation development in Luzon has the highest irrigation coverage of more than 50 percent. In terms of area, though, Luzon has the largest remaining potential area to be developed followed by Mindanao and Visayas.

Figure 9.3 Actual vs. Potential Irrigation Coverage by Island Group, 2004



Source: NIA

Financial Highlights. NIA has consistently registered net income losses from 1999 to 2004 (Annex 9.1). Since the early 1990s, the agency has been operating at a loss due to several reasons. These include the low collection rate of Irrigation Service Fees (ISF), and bad debts arising from its dealings with the NPC with regards to the Casecnan Multipurpose Irrigation and Power Project.

ISF Collection Efficiency Problems. More than half of NIA's revenues comes from collection of irrigation service fees (ISF) followed distantly from equipment rentals and management fee (Table 9.3). The ISF is collected at the end of a cropping cycle and

[3] From 1994 onwards, NIA has been using a more accurate method of accounting for irrigation service area resulting in a lower reported figure.

varies depending on the season (Table 9.4). Farmers planting rice for two seasons are likely to pay 22 to 33 cavans of palay per hectare irrigated. Farmers are given the option to pay in kind (e.g. cavans of palay) or the equivalent cash value based on the prevailing government support price for palay. Approximately half of NIA customers pay in cash. For other crops, the uniform ISF rate is equivalent to 60 percent of the rate for rice regardless of the type of irrigation system.

NIA historically has problems enforcing collection of irrigation service fees from its farmer-beneficiaries. The main reason for this is the nature of most irrigation systems which do not allow NIA to cut off service for delinquent beneficiaries without negatively affecting downstream clients who pay. Further, the current land-area based method for computing ISF charges is deemed to be a less efficient method since it is more susceptible to abuse from upstream users. The NIA has begun pilot-testing on a volumetric ISF charging system the results of which should be available soon.

The socialized collection scheme introduced in 1998 further added to the weakening of NIA's financial status. During the period that the scheme was in place (1998-2000), NIA's collection efficiency fell below 60 percent (Table 9.3). The collection efficiency improved after the scheme was discontinued, reaching more than 70 percent in 2004.

Table 9.3 Irrigation Service Fee Collection Efficiency, 1997- 2004

(In million pesos)

Year	Receivable Beginning Balance	Billing (CA)	Total Collection	Collection Efficiency (%)
1997	4,095.25	813.06	509.50	**62.66**
1998	4,426.29	708.38	332.14	**46.89**
1999	4,681.29	696.92	330.10	**47.37**
2000	5,316.46	729.24	427.92	**58.68**
2001	5,815.47	748.78	487.62	**65.12**
2002	6,307.12	1,038.28	674.96	**65.01**
2003	5,548.30	1,035.43	719.78	**69.52**
2004	6,073.53	1,079.29	780.41	**72.31**

Source: NIA

Note: The difference between NIA and COA data on total ISF collection is due to 10 percent unrecorded discount given by NIA to early ISF payers, losses incurred in disposing of palay (which is one form of ISF), and delayed payment of irrigation beneficiaries.

Table 9.4 Rate Structure for Irrigation Service Fees, 2005

(In cavans of palay per hectare)

Scheme	Wet Season	Dry Season	3rd Season
Diversion	2	3	3
Reservoir/ Storage	2.5	3.5	3.5
Pump	5-10	6-12	n/a
Total	9.5-14.5	12.5-18.5	6.5

Source: NIA

Equipment Rental and Depreciation. The NIA owns several units of construction equipment purchased during construction and rehabilitation of completed irrigation projects. As an additional revenue generating measure, NIA has been renting out said equipment to other government agencies, private contractors and other entities for use in their projects. The rental rates for this equipment are lower than those charged by other companies. NIA has an average income from this source of nearly P180 million from 1999 to 2004.

Bad Debts. In 2003, NIA experienced a considerable increase in losses due to bad debts, jumping to P166 million from a mere P51 million in 2002. The sudden increase in 2003 can be attributed mainly to receivables from National Power Corporation (NPC) arising from power generated from the Casecnan Multipurpose Irrigation and Power Project. The Casecnan project became fully operational in 2002, providing water both for irrigation purposes as well as for power generation. Under the terms of the agreement, NPC committed to purchase electric power from Casecnan which it pays to NIA. This obligation by NPC, which eventually was entered as bad debt, was removed in the 2004 income statement of NIA as per recommendation of COA.

Other Income. The other major source of revenue for the NIA is income derived from the charging of a 5 percent management fee for all irrigation projects it undertakes and oversees. NIA earned an average of P227 million from this for the period covered.

The present NIA Administrator argued that net losses of NIA were more of a loss in accounting terms since there is no cost-recovery mechanism for NIA-constructed irrigation facilities. He further argued that the Irrigation Service Fees (ISF) cover only the maintenance and operating expenses and not the construction of irrigation facilities (NIA, 2006).

Although it has been operating at a loss over the last few years, NIA has managed with minimal subsidy from the government. The subsidy was largely used to pay for retirement benefits for its employees. The fluctuating amounts of subsidies that NIA received over the last few years usually reflect the number of retiring employees that they need to pay off. NIA did not ask for any subsidy in 1999 and 2003.

NIA's total assets were pegged at P45.4 billion in 2004, almost a third of which were held as current assets (Annex 9.2). However, receivables comprised 99 percent of its current assets which casts doubt on NIA's financial position. What is troublesome is that the increase in its assets from 1999 to 2004 was largely due to receivables. Cash position was in deficit, due to unrecorded deposits and remittances. Property, plant, and equipment comprised more than 60 percent of NIA's assets.

NIA's total liabilities were estimated at P24.6 billion in 2004, a quarter of which were considered as long-term liabilities (Annex 9.2). Current liabilities were pegged at more than 70 percent, mainly deferred credits to income and accounts payable. Deferred credits to income consist of income to be realized upon collection of previously billed irrigation fees and unearned income on installment sales, equipment rentals and CIS amortizations. Accounts payable registered a sharp increase beginning 2003 due to advances made by the DOF for the account of NIA to the California Energy Casecnan Water and Energy Company, Inc. as payment for guaranteed and excess energy delivery fee. Equity was pegged at P20.9 billion in 2004, which declined by P2.8 billion compared to equity in 1999.

The current ratio improved in 2002 and 2003 but slid down a little in 2004. (Table 9.5). The debt-to-asset and debt-to-equity ratios indicate increasing reliance on borrowings.

Table 9.5 Selected Financial Ratios (1999-2004)

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	1.086	0.816	0.750	0.758	0.865	0.832	**0.851**
Debt-to-Asset Ratio	0.353	0.367	0.396	0.444	0.534	0.541	**0.439**
Debt-to-Equity Ratio	0.547	0.579	0.655	0.797	1.147	1.177	**0.817**

Source of basic data: Commission on Audit

Annex 9.1

NIA - Income Statement, 1999-2004

(In thousand pesos)

PARTICULARS	1999	2000	2001	2002	2003	2004
INCOME						
Operating and Service Income	**592,907**	**591,343**	**676,703**	**863,934**	**866,434**	**894,945**
Irrigation Service Fees	333,012	393,189	455,108	655,638	694,650	740,948
Equipment Rental	226,126	176,019	180,810	191,140	158,429	146,051
Operating and Service Income	0	0	24,607	0	0	0
Pump Amortization	3,453	3,512	3,189	4,414	4,681	1,428
Interest Income	30,316	18,623	12,989	12,742	8,674	6,519
Miscellaneous Income	**631,768**	**508,136**	**528,598**	**580,552**	**691,602**	**478,415**
5% Management Fee	286,925	259,897	212,135	244,272	192,855	164,256
Capital Revenue – CIP Amortization	125,102	84,355	87,140	155,287	139,425	103,212
Equity Distribution						
Capital Revenue - Subsidies	49,772	0	0	0	0	0
CIP Amortization - Principal	26,551	35,595	35,229	34,215	30,920	38,809
Equity Contribution	0	1	2	3	4	5
Sale of goods and materials	9,549	5,040	2,051	10,612	9,836	0
Space/recreational facilities	8,635	9,261	7,197	9,077	10,521	0
Bid documents	4,695	4,430	2,220	8,296	6,546	0
Scrap of fixed assets	2,309	3,214	4,318	3,842	9,660	11,181
Gain on sale of fixed assets	753	519	18,316	1,716	316	0
Hauling/milling/drying fish	1,644	2,153	923	1,548	637	0
Disallowances	1,180	1,149	195	877	221	0
RIS amortization	406	382	238	700	292	0
CIP amortization - penalty	553	651	525	644	707	0
Laboratory analysis - soil and water	67	88	73	141	91	0
CIP amortization - interest income	195	66	843	100	63	0
Proceeds from payment for lost items	61	55	0	56	4	0
Printing/xerox/radio	107	386	8,276	41	51	0
Gain on sale of palay	10	203	26	37	11	0
Interest income on investment bonds	16	10	4	34	39	0
Fines and penalties	123	953	826	23	277	0
Income from NIA Cooperative	73	6	5	2	1	0
NHMFC	181	1	92	0	0	0
Others	112,862	99,722	147,967	109,033	289,129	160,958
Total Income	**1,224,675**	**1,099,479**	**1,205,301**	**1,444,487**	**1,558,036**	**1,373,360**
EXPENSES	**1,717,302**	**1,800,784**	**1,618,345**	**1,955,475**	**1,981,087**	**1,555,086**
Personal Services	**1,056,609**	**1,067,700**	**1,094,285**	**1,137,757**	**1,210,469**	**1,112,333**
Salaries and Wages	610,640	674,169	701,031	713,953	703,120	725,615
Bonuses and Incentives	83,723	90,018	114,091	116,663	180,111	11,041
Social Security Insurance Premiums	87,793	94,875	97,454	99,744	99,970	102,603
Terminal Leave	43,324	41,620	35,680	40,985	42,780	34,023
Additional Compensation Allowance	37,883	33,677	29,931	32,600	32,457	32,988
Personnel Economic Relief Allowance	35,224	34,509	29,535	33,048	32,520	32,965

	1999	2000	2001	2002	2003	2004
Uniform Allowance	0	0	12,961	21,031	20,338	21,413
Monetization of Vacation Leave	0	0	0	15,993	5,330	15,467
Commutable Fringe Benefits	3,712	12,418	11,894	13,000	3,327	2,314
Medical Allowances	13,411	13,458	11,677	11,674	11,625	10,822
Productivity Incentive Bonus	12,111	11,244	10,641	11,067	11,010	88,228
Signing Bonus	23,863	1,091	5,340	6,252	8,031	4,159
Representation and Transportation	9,597	3,741	4,100	3,931	14,397	16,007
Allowance						
Meal Allowance	4,501	4,163	3,563	3,803	5,707	3,847
Overtime Pay	5,358	4,408	3,635	3,708	3,698	3,382
Children's Allowance	4,127	3,827	3,142	3,367	2,967	2,640
Loyalty Cash Award	3,323	3,041	2,076	2,710	4,957	4,114
Staple Food Allowance	55,476	13,092	0	2,046	0	0
Amelioration Allowance	985	9	0	1,094	270	28
Hazard Pay	1,383	612	166	651	15	10
Per diem Compensation	135	0	398	31	43	25
Other Benefits	20,029	27,723	10,444	407	27,795	1
Non-commutable allowance	0	0	6,519	0	0	0
Special Allowance	4	0	8	0	0	0
Consultant's Fees	8	5	0	0	0	0
Grocery Allowance	0	0	0	0	0	645
Anniversary Bonus	0	0	0	0	0	(3)
Maintenance and Other Operating Expenses	**660,693**	**733,085**	**524,059**	**817,718**	**770,617**	**442,752**
Depreciation	473,813	488,683	313,748	503,125	298,835	129,504
Bad Debts	22,239	37,268	42,275	51,594	166,684	16,877
Water, Illumination & Power Services	24,734	52,618	31,737	49,802	58,258	70,481
Supplies and Materials	31,747	36,169	24,693	44,088	43,525	48,717
10% Discount on Irrigation Fees	12,884	15,623	11,757	28,442	32,219	0
Contractual Services	7,349	10,027	12,535	24,790	26,397	25,022
Irrigator's Share	4,053	5,240	2,599	18,451	21,863	23,903
Rewards and Other Claims	34,393	29,106	22,158	18,449	13,873	4,647
Gasoline, Oil and Lubricant	2,152	5,848	8,631	13,673	21,298	30,964
Collection/Viability Bonus	13,136	9,486	4,482	13,041	22,456	10,678
Collection Expenses	2,241	4,148	3,896	9,238	10,436	19,132
Communication Services	3,239	4,906	3,856	6,240	9,314	9,179
Insurance & Registration of	4,135	5,100	3,047	6,083	7,204	6,719
Buildings/Vehicles						
Auditing Services	4,428	2,622	4,505	5,631	4,962	4,904
Traveling Expenses	3,624	4,304	2,805	5,130	7,017	8,723
Fidelity Bond & Insurance Premiums	2,479	3,260	2,754	3,563	7,433	3,382
Repairs & Maintenance of Government	5,510	7,477	1,656	2,921	4,902	10,524
Vehicles/Equipment						
Repairs & Maintenance of Government	399	351	293	1,851	1,386	2,352
Facilities						
Loss on Sale of Palay	1,300	4,559	2,453	1,084	787	0
Taxes, Duties and Fees	119	27	77	479	144	244
Training & Seminar Expenses	469	369	226	382	836	1,430
Discretionary Expenses	359	72	375	318	338	337

	1999	2000	2001	2002	2003	2004
Sports Expenses	379	323	193	258	422	376
Rent Expenses	265	52	67	235	500	90
Transportation Expenses	131	197	25	121	264	462
Miscellaneous Expenses	5,117	5,248	23,216	8,729	9,266	14,104
Total Expenses	**1,717,302**	**1,800,784**	**1,618,345**	**1,955,475**	**1,981,087**	**1,555,086**
NET LOSS BEFORE SUBSIDIES	**(492,627)**	**(701,305)**	**(413,044)**	**(510,988)**	**(423,051)**	**(181,725)**
SUBSIDIES	**0**	**53,356**	**120,095**	**15,422**	**0**	**50,000**
NET LOSS AFTER SUBSIDIES	**(492,627)**	**(647,950)**	**(292,949)**	**(495,567)**	**(423,051)**	**(131,725)**
RETAINED EARNINGS, BEGINNING OF YEAR						
As Previously Stated	(360,202)	(1,062,473)	(1,729,224)	(1,842,299)	(3,682,701)	(3,848,785)
Prior Period Adjustment	(209,644)	(18,801)	179,874	(1,344,835)	256,966	59,396
	(569,846)	(1,081,274)	(1,549,350)	(3,187,134)	(3,425,734)	(3,789,390)
RETAINED EARNINGS, END OF YEAR	**(1,062,473)**	**(1,729,224)**	**(1,842,299)**	**(3,682,701)**	**(3,848,785)**	**(3,921,115)**

Source: Commission on Audit

Annex 9.2

NIA - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash	636,485	-116,872	-67,026	-179,726	-126,316	-121,058
Receivables	5,744,995	5,184,581	5,840,852	7,444,280	14,720,678	14,663,037
Inventories	207,332	220,011	210,536	200,792	180,217	162,048
Prepayments	95,384	78,641	83,842	84,579	84,920	85,396
Total Current Assets	**6,684,196**	**5,366,361**	**6,068,204**	**7,549,925**	**14,859,499**	**14,789,423**
Non-Current Assets						
Long-term Investments – Net	13,342	13,342	13,342	11,342	11,342	11,324
Property, Plant and Equipment – Net	30,316,186	29,920,312	29,538,027	28,925,610	28,924,435	28,870,576
Other Assets	-381,155	1,197,516	2,021,755	1,212,981	1,035,292	1,765,707
Total Non-Current Assets	**29,948,373**	**31,131,170**	**31,573,124**	**30,149,933**	**29,971,069**	**30,647,607**
Total Assets	**36,632,569**	**36,497,531**	**37,641,328**	**37,699,858**	**44,830,568**	**45,437,030**
LIABILITIES AND RESIDUAL EQUITY						
Current Liabilities						
Accounts Payable	89,621	141,943	185,709	1,196,413	6,812,833	6,740,615
Depository Liabilities	40,761	36,766	33,900	36,227	36,861	35,656
Trust Liabilities	-208,384	-339,200	80,140	45,454	898,301	896,233
Deferred Credits to Income	6,232,961	6,738,089	7,787,586	8,678,935	9,421,745	10,095,595
Total Current Liabilities	**6,154,959**	**6,577,598**	**8,087,335**	**9,957,029**	**17,169,740**	**17,768,099**
Non-Current Liabilities						
Long-term Liabilities	6,631,341	6,631,341	6,631,341	6,631,341	6,631,341	6,631,341
Miscellaneous Liabilities	158,701	172,764	177,059	130,391	147,562	163,423
Contingent Liabilities	2,747	2,614	2,615	2,615	2,585	2,585
Total Non-Current Liabilities	**6,792,789**	**6,806,719**	**6,811,015**	**6,764,347**	**6,781,488**	**6,797,349**
Total Liabilities	**12,947,748**	**13,384,317**	**14,898,350**	**16,721,376**	**23,951,228**	**24,565,448**
Residual Equity						
Capital Stock						
Authorized - P10 Billion						
Paid-In-Capital	5,559,192	5,559,192	5,559,192	5,559,192	5,559,192	5,559,192
Miscellaneous Capital	5,956,887	5,956,887	5,956,887	5,956,887	5,956,887	5,956,887
Deficit	-1,062,473	-1,729,224	-1,842,299	-3,682,701	-3,848,785	-3,921,115
Donated Capital	2,252	2,252	2,252	2,252	2,252	2,252
Invested Capital-Held In Trust	13,217,760	13,312,384	13,057,473	13,132,514	13,105,382	13,261,771
Contingent Capital	11,202	11,723	9,474	10,340	104,412	12,595
Total Residual Equity	**23,684,820**	**23,113,214**	**22,742,979**	**20,978,484**	**20,879,340**	**20,871,582**
Total Liabilities and Residual Equity	**36,632,568**	**36,497,531**	**37,641,329**	**37,699,860**	**44,830,568**	**45,437,030**

Source: Commission on Audit

10. NATIONAL POWER CORPORATION

Background. The National Power Corporation (NPC) was originally created as a non-stock public corporation in 1936 to undertake the development of power generation using largely hydraulic power and to promote total electrification of the Philippines. Total electrification of the country was effected through the setting up of transmission line grids in Luzon, Mindanao, and other major islands and setting up of cooperatives for electric power distribution. In 1960, it became a wholly-government-owned stock corporation with an authorized capital stock of P100 million. Subsequent legislation increased capitalization to P300 million in 1971, to P2 billion in 1974, to P8 billion in 1976, and P50 billion in 1978.

A major reform of the electric power industry was introduced with the passage of Republic Act (RA) 9136 otherwise known as the Electric Power Industry Reform Act (EPIRA) of 2001. The EPIRA provides a framework for the restructuring of the industry to introduce higher efficiency, greater innovation, and end-user choice. Prior to EPIRA, NPC owned and operated several power generation plants and power transmission networks all over the country. Among the primary reforms made under EPIRA was the privatization of the power industry. The twin functions of power generation and transmission, originally under the NPC, were assigned to two separate entities: the NPC for power generation and the National Transmission Corporation (TransCo) for power transmission. Two other bodies were also created under the said law, the Power Sector Asset and Liabilities Management Corporation (PSALM Corp.), which was tasked to manage the sale of NPC's generating assets and liabilities and to award a concession for transmission operations, and the Philippine Electricity Market Corporation (PEMC), which was tasked to run the Wholesale Electricity Spot Market upon the implementation of an open and competitive power market.

Under EPIRA, the NPC's main tasks have been limited to the following: (1) operation and maintenance of major NPC power plants until they are privatized, (2) administration of contracts between NPC and independent power producers (IPPs) pending their transfer to IPP administrators, (3) operation and control of small power utilities pursuing missionary electrification.

The NPC was initially under the direct supervision of the Office of the President. It was later attached to the Department of Energy.

Borrowing authority. When the NPC was created in 1936, the ceiling on domestic loans was set at P20 million and was subject to the approval of the President of the Philippines upon the recommendation of the DOF Secretary. Subsequent laws increased the ceilings on domestic loans to P500 million in 1971, to P3 billion in 1974 and to P12 billion in 1976.

When the NPC's Charter was revised in 1971, the NPC was authorized to contract foreign loans, the ceiling of which was fixed at US$200 million. Subsequent legislations increased the ceiling on foreign loans to US$1 billion in 1974 and to US$4 billion in 1976. The cap on domestic and foreign loans was eventually removed in 1978.

The Philippine government guarantees, absolutely and unconditionally, the payment of NPC loans as primary obligor and not merely as surety. Aside from government guarantees, the NPC and its subsidiaries are exempt from the payment of all forms of taxes, duties, fees, imposts as well as costs and service fees.

Setting electricity rates. Under EPIRA, the Energy Regulatory Commission (ERC) replaced the Energy Regulatory Board (ERB) as the regulating body of the electric power industry. The ERC is mandated, among other things, to (1) establish and enforce a methodology for setting rates of a distribution utility for the captive market such that the rate allows recovery of just and reasonable costs and reasonable return on rate base (RORB); (2) set a lifeline rate for the marginalized end-users; and (3) determine the level of cross subsidies in the existing retail rate until it is phased out. The ERC has developed a performance-based rate (PBR) setting methodology to determine electricity rates. The PBR methodology, unlike the RORB methodology, encourages improved efficiency and asset optimization of utility companies. The ERC has the original and exclusive jurisdiction over all cases contesting rates, fees, and fines including ERC-imposed penalties.

When the NPC was created in 1936, NPC had the authority to fix electricity rates without being subject to review by the then Public Service Commission (PSC). Eventually, its rates were determined using RORB methodology subject to the review of the PSC. Considerations of adequacy, reliability, and sustained power service at the least possible cost to the public, and of limited return on investment were considered in fixing electricity rates. NPC put a ceiling on its RORB at 10 percent per annum on a rate base composed of the sum of its net assets in operation plus 2 months' operating capital. Interest on loans, bonds, and other debts were not considered as expenses in determining its RORB. The authority to fix electricity rates was transferred to the ERB in 1992 and later to ERC in 2001.

Presented in the following table are pertinent laws and other issuances related to NPC.

Table 10.1 Pertinent Laws and Other Issuances Related to NPC

Law (Date)	Salient Provisions
Commonwealth Act No. 120 (3 November 1936)	The National Power Corporation (NPC) was created to undertake the development of electric power generation in the country.
Republic Act No. 2641 (18 June 1960)	NPC was created as a stock corporation with an authorized capital stock of P100 million.
Republic Act No. 6395 (10 September 1971)	The corporate life of NPC was extended for another 50 years. The authorized capital stock was increased to P300 million. The NPC was authorized to contract up to P500 million of domestic loans and up to US$200 million of foreign loans.
Presidential Decree No. 40 (7 November 1972)	The NPC was mandated to set up transmission line grids and construction of associated generation facilities in Luzon, Mindanao, and major islands of the country.

Law (Date)	Salient Provisions
Presidential Decree No. 380 (22 January 1974)	The authorized capital stock was increased to P2 billion. The borrowing authority was increased to P3 billion of domestic loans and to US$1 billion of foreign loans.
Presidential Decree No. 938 (27 May 1976)	The authorized capital stock was increased to P8 billion. The borrowing authority was increased to P12 billion of domestic loans and to US$4 billion of foreign loans.
Presidential Decree No. 1206 (6 October 1977)	The NPC became an attached agency of the Department of Energy (DOE).
Presidential Decree No. 1360 (25 April 1978)	The authorized capital stock was increased to P50 billion. The cap on domestic and foreign loans was removed.
Republic Act No. 9136 (8 June 2001)	The twin functions of power generation and transmission, originally under the NPC, were assigned to two separate entities: the NPC for power generation and the National Transmission Corporation (TransCo) for power transmission. The Power Sector Asset and Liabilities Management Corporation (PSALM Corp.) was created to manage the sale of NPC's generating assets and liabilities and to award a concession for transmission operations. The NPC's main tasks have been limited to the following: (1) operation and maintenance of major NPC power plants until they are privatized, (2) administration of contracts between NPC and independent power producers (IPPs) pending their transfer to IPP administrators, (3) operation and control of small power utilities pursuing missionary electrification.

Board of Directors. The present National Power Board has nine members composed of eight Cabinet Secretaries and the President of NPC. The Secretary of the Department of Finance (DOF) serves as the Chairman and the Secretary of the Department of Energy (DOE) acts as the Vice-Chairman. Other members of the board are the Secretaries from the following departments: Department of Budget and Management (DBM), Department of Agriculture (DA), Department of Environment and Natural Resources (DENR), Department of Interior and Local Government (DILG), Department of Trade and Industry (DTI) and the Director-General of the National Economic and Development Authority (NEDA).

The Board is mandated to (1) adopt an annual and supplemental budget receipts and expenditures of the corporation; (2) determine the organizational structure including employee remuneration; (3) fix the compensation of the President of NPC and to appoint and fix the compensation of other corporate officers; and (4) write off bad debts. The NPC Board also has the power to borrow funds, whether private or public, foreign or domestic, subject to the approval of the President of the Philippines upon the recommendation of the Secretary of DOF.

Management. The President of the NPC serves as the Chief Executive Officer. His duties include preparing an annual report on the activities of the NPC and submitting a copy to the President of the Philippines and other agencies. When the NPC Charter was revised in 1971, a provision was included that NPC's annual report be also submitted to the two chambers of Congress. Moreover, the NPC was required to submit quarterly report of its operations and financial statements to the appropriate Committee Chairmen of both chambers of Congress. This provision was removed from succeeding amendments to the NPC Charter. The present Joint Congressional Power Commission has the authority to compel electric power industry participants including NPC to submit reports and pertinent data relating to their performance.

Other senior executives are senior vice-presidents (SVP), vice-presidents, senior department managers, and corporate secretary. At present there are three SVPs (SVPs for Generation, for Corporate Services, for Small Power Utilities Group (SPUG) and Technical and Maintenance Services (TMS); 10 VPs (VPs for Mindanao Generation, for Geothermal Generation, for Hydro Generation, for Thermal Generation, for SPUG, for Sales and Services, for HR, Administration, and Finance, for TMS, for Logistics, and Office of the General Counsel); and 4 senior department managers (SDM) (SDMs for Finance, for HR, for IPP Contracts Management, and Power Economics).

The salaries and benefits of employees in the NPC are fixed by its Board and are exempt from the Salary Standardization Law (SSL).

NPC's financial statements are annually audited by the Commission on Audit (COA). The most recent annual report is posted in its website, www.napocor.gov.ph.

Operational Highlights. At present, NPC operates and maintains major power plants until they are privatized, administers contracts with independent power producers (IPPs) until their transfer to IPP administrators; and operates and controls small power utilities pursuing missionary electrification.

*System Capacity***.** The Philippines' total system capacity was 15,364 megawatts (MW) in 2004 and has been increasing at an average of more than 6 percent annually (Table 10.2). More than a quarter of the capacity comes from coal and around a fifth each comes from oil and hydroelectric. Natural gas has been an increasing source of electric power in recent years.

NPC-owned plants accounted for 29 percent of total system capacity. The system capacity from NPC-owned plants has declined by 28 percent to 4,440 MW in 2004 compared to 1999, largely due to the retirement of aging oil-based power plants. NPC plants are dependent on hydroelectric, geothermal, and coal.

Table 10.2 System Capacity, 1999-2004

(MWs)

	1999		2000		2001		2002		2003		2004	
	NPC Owned	Total	NPC Owned	Total	NPC Owned	Total	NPC Owned	Total	NPC Owned	Total	NPC Owned	Total
Philippines	**6,189**	**11,698**	**5,156**	**10,548**	**4,845**	**11,922**	**4,475**	**11,753**	**4,624**	**12,044**	**4,440**	**15,364**
Oil Based	1,734	4,419	773	3,276	762	3,517	369	3,055	398	2,723	260	3,576
Hydro	2,060	2,265	2,043	2,314	1,743	2,242	1,711	2,484	1,886	3,225	1,785	3,092
Geothermal	1,195	1,946	1,140	1,891	1,140	1,874	1,195	1,946	1,140	1,891	1,195	1,931
Coal	1,200	3,060	1,200	3,060	1,200	3,089	1,200	3,060	1,200	3,005	1,200	3,931
Natural Gas	0	0	0	0	0	1,200	0	1,200	0	1,200	0	2,834
NRES	0	8	0	8	0	0	0	8	0	0	0	0

Source: NPC

Note: NRES is New Renewable Energy Sources

Power Generation. Power generation has barely increased from 1999 to 2004 mainly due to the decline from NPC-owned plants (Table 10.3). Total power generation is estimated at 40,241 GWh in 2004 with the Visayas, Mindanao, and small island grids posting significant increases. The decline in NPC power generation in Luzon grid reflects Manila Electric Company's (Meralco's) declining dependence on NPC and increasing reliance on IPPs.

Table 10.3 Power Generation by Grid, 1999-2004

(in GWh)

		PHILIPPINES	LUZON	VISAYAS	MINDANAO	SMALL ISLAND
1999	NPC-Owned	21,068	14,381	2,025	4,262	400
	Non-NPC	18,609	16,351	1,248	949	61
	Total	39,677	30,732	3,273	5,211	461
2000	NPC-Owned	20,538	13,866	2,066	4,189	417
	Non-NPC	20,042	17,098	1,602	1,271	71
	Total	40,580	30,964	3,668	5,460	488
2001	NPC-Owned	20,253	13,557	2,076	4,246	374
	Non-NPC	23,217	19,634	2,014	1,458	111
	Total	43,470	33,191	4,090	5,704	485
2002	NPC-Owned	16,479	9,940	2,034	4,083	422
	Non-NPC	21,125	17,174	1,973	1,871	107
	Total	37,604	27,114	4,007	5,954	529
2003	NPC-Owned	15,680	8,992	2,242	3,987	459
	Non-NPC	22,046	17,599	1,959	2,488	-
	Total	37,726	26,591	4,201	6,475	459
2004	NPC-Owned	17,392	10,248	2,396	4,259	489
	Non-NPC	22,849	18,010	2,118	2,721	0
	Total	40,241	28,258	4,514	6,980	489

Source: NPC

Generation Mix. Hydrothermal, coal, and geothermal energy continued to be NPC's main source of power in 2004 (Table 10.4). The dependency of NPC plants on coal and hydrothermal has increased in 2004 compared to 5 years ago. The dependency on hydrothermal energy remains unchanged.

Table 10.4 Power Generation Mix, 1999-2004 (%)

	1999		2000		2001		2002		2003		2004	
	NPC-Owned	Total*	NPC-Owned	Total*	NPC-Owned	Total*	NPC-Owned	Total*	NPC-Owned	Total*	NPC-Owned	Total*
Oil-Based	15.4	25.4	8.2	15.5	9.6	19.9	3.0	10.2	4.5	12.6	5.3	13.6
Hydro	32.8	19.1	33.3	18.1	31.1	16.1	33.4	17.3	36.1	19.1	34.3	19.2
Geothermal	28.9	26.8	31.0	27.9	25.4	32.9	28.9	26.5	29.3	25.2	28.9	24.8
Coal	22.9	28.7	27.5	38.4	33.8	31.1	34.8	37.8	30.2	31.2	31.5	32.1
Natural Gas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.9	0.0	10.1
Gas Turbine	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.1	0.0	0.0	0.0	0.2

*Note: * includes all plants operated by Independent Power Producers*
Source: NPC

Energy Sales. NPC's energy sales nationwide grew by 6 percent in 2004, its best in three years, after sustaining a massive 14 percent drop from 2001 to 2002 (Table 10.5). This growth was driven principally by increased demand from utilities and industrial customers. Only demand from government customers, classified by NPC under miscellaneous load, declined in 2004. All grids exhibited growth in sales in 2004 with Mindanao posting the highest growth rate for the second year in a row.

Table 10.5 Energy Sales by Grid and Customer Type, 1999-2004

(In GWh)

	1999	2000	2001	2002	2003	2004
PHILIPPINES	**36,987**	**37,320**	**39,948**	**34,369**	**34,397**	**36,596**
Utilities	33,589	33,956	36,298	30,927	31,179	33,222
Industries	3,036	2,951	3,250	2,965	2,915	3,181
Misc Load	362	413	400	477	302	192
LUZON	**28,657**	**28,310**	**30,371**	**24,618**	**24,239**	**25,522**
Utilities	26,931	26,474	28,278	22,689	22,535	23,843
Industries	1,447	1,539	1,822	1,597	1,481	1,557
Misc Load	279	297	271	332	223	123
VISAYAS	**3,004**	**3,347**	**3,754**	**3,649**	**3,812**	**4,129**
Utilities	2,457	2,835	3,103	3,050	3,164	3,411
Industries	467	400	526	461	575	654
Misc Load	80	112	125	138	73	62
MINDANAO	**5,008**	**5,211**	**5,377**	**5,613**	**5,920**	**6,485**
Utilities	3,883	4,195	4,471	4,699	5,054	5,508
Industries	1,122	1,012	902	907	859	970
Misc Load	3	4	4	7	7	7
SMALL ISLANDS	**318**	**452**	**446**	**489**	**425**	**459**
Utilities	318	452	446	489	425	459

Source: NPC

Forced Outage Rate. Historically, the forced outage rate for NPC-owned plants has been worse than those of NPC-IPPs (Table 10.6). NPC-owned plants though have improved their forced outage rates in recent years while those of NPC-IPPs have been rather erratic. NPC-owned plants in Luzon and Mindanao showed admirable improvement in this aspect in 2004. Forced outages are defined as hardware failures at some point in the production, transmission, or distribution system resulting in interruption of service.

Table 10.6 Forced Outage Rate, NPC Plants and NPC-IPPs, by Grid (%)

	1999		2000		2001		2002		2003		2004	
	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP
PHILIPPINES	6.42	3.86	8.71	2.26	6.62	4.12	5.45	1.94	4.2	0.95	2.81	2.04
Luzon	8.14	2.73	9.62	2.28	7.54	4.13	6.80	1.89	5.64	0.88	4.20	1.99
Visayas	0.22	2.01	0.17	1.61	0.11	3.56	0.31	7.29	0.30	1.64	0.39	2.10
Mindanao	1.91		9.79		6.35		3.94	0.33	1.09	0.67	0.07	1.78

Source: NPC

Availability Factor. The availability factor for NPC-owned plants deteriorated significantly in 2004 compared to 1999 while those for NPC-IPP showed some improvements (Table 10.7). Availability factor for NPC-owned plants fell sharply to 63 percent in 2004 from 72 percent in 1999, with Luzon plants posting substantial decline. For NPC-IPP plants, the availability factor improved to 91 percent in 2004 from 87 percent in 1999, with Luzon and the Visayas plants posting some upturns. The availability factor is a general measure of predictability and readiness to produce power.

Table 10.7 Availability Factor, NPC Plants and NPC-IPPs, by Grid (%)

	1999		2000		2001		2002		2003		2004	
	NPC Owned	NPC-IPP	NPC Owned	NPC-IPP	NPC Owned	NPC-IPP	NPC Owned	NPC-IPP	NPC Owned	NPC-IPP	NPC Owned	NPC-IPP
PHILIPPINES	71.54	87.76	72.05	86.99	73.48	85.13	68.47	89.14	64.79	92.09	62.55	91.18
Luzon	67.78	77.36	68.50	87.00	70.33	85.12	61.37	89.17	55.98	89.72	53.48	91.62
Visayas	77.08	72.38	77.93	86.63	77.83	85.33	76.53	84.56	76.24	95.08	73.98	91.48
Mindanao	85.55		80.35		82.11		84.65	90.69	81.65	90.00	82.63	87.45

Source: NPC

Plant Capacity Factor. Plant capacity factors for both NPC-owned and NPC-IPPs improved in 2004 compared to 5 years ago (Table 10.8). Capacity factors across all grids except for NPC-IPP Luzon plant increased. The Visayas grid consistently showed the highest utilization levels since 2000. NPC-owned and NPC-IPP plants in the Visayas had an average capacity factor of 55 percent and 70 percent, respectively. These averages are way above the national averages of 43 percent for NPC-owned plants and 36 percent for NPC-IPP plants. Plant capacity factor is a general measure to indicate the average percentage of a system's full capacity utilized over a period of time.

Table 10.8 Plant Capacity Factor, NPC Plants and NPC-IPPs, by Grid (%)

	1999		2000		2001		2002		2003		2004	
Plant Capacity Factor (%)	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP	NPC-Owned	NPC-IPP
PHILIPPINES	39.96	29.55	41.92	37.87	48.07	40.90	42.10	34.20	39.31	35.14	42.85	36.05
Luzon	37.95	34.10	39.37	35.04	47.53	37.74	39.47	27.69	34.87	29.25	39.46	29.91
Visayas	44.49	14.68	51.54	57.34	57.14	61.71	52.92	61.79	55.61	68.65	55.16	69.90
Mindanao	46.03	20.46	45.18	46.09	46.09	31.78	44.7	40.61	44.63	53.48	46.56	59.64

Source: NPC

Financial highlights.* NPC has consistently registered a net income loss from 1999 to 2004, the largest of which was the P117.0 billion loss in 2003 (Annex 10.1). It has failed to register a positive net income since 1997. The loss was contained to P29.9 billion in 2004 through improved operating revenues. Several rate adjustments were attributed to NPC's turnaround. In September 2004, the ERC allowed NPC to raise its rate by an average of P0.98/kwh across all grids increasing their revenues by approximately P9.5 billion. NPC also gained more than P25 billion from the deferred accounting and incremental currency exchange rate adjustment mechanisms. Energy sales have improved by more than 5 percent in 2004, adding around P5 billion in revenues. The collection of universal charges brought in an additional P1.4 billion.

NPC's operating income was pegged at P22.1 billion in 2004, more than a two-fold increase in 1999 (Annex 10.1). However, operating income has continued to slide from 1999 to 2002, posted a loss in 2003, and improved significantly in 2004, mainly due to improvements on the revenue side.

NPC's operating revenues come from utility and transmission services operating income (Annex 10.1). Utility operating income has been mildly increasing from 1999 to 2002 but dropped significantly in 2003 as NPC approved power rates fell (Table 10.9). The shortfall in utility operating income in 2003 was partly compensated by the increase in transmission and ancillary services incomes. Total operating revenue registered a marked improvement in 2004 as approved NPC power rates increased.

NPC continues to be in a dire financial position largely due to a massive debt stock. The national government decision to absorb P200 billion worth of NPC's debt, as mandated by EPIRA, partly alleviated NPC's financial difficulties. Contributing to NPC's net income loss is the faster growth of operating expenses compared to operating revenues. The poor revenue growth is attributed largely to NPC's inability to charge rates that could at least recover its cost (Table 10.9). Since 2002, the rates that NPC has been allowed to charge its consumers have been below the actual cost it takes to produce power causing significant underrecovery for NPC.

* FS is a consolidation of NPC, TransCo, and PSALM Corp. Financial Statements (FSs). Separate individual FSs are not yet available.

Table 10.9 Approved NPC Rates vs. Actual Cost, 1999-2004

(PhP/kWh)

		1999	2000	2001	2002	2003	2004
Luzon	Approved Rates	2.5867	2.9182	3.4066	2.9677	2.0931	2.877
	Actual Cost	2.1569	2.3884	2.5974	3.3735	3.6375	4.007
	Difference	0.4298	0.5298	0.8092	-0.4058	-1.5444	-1.13
Visayas	Approved Rates	2.3821	2.8187	3.3865	3.0112	2.2957	2.9379
	Actual Cost	3.6582	2.8067	2.8631	3.1151	3.3583	3.6464
	Difference	-1.2761	0.012	0.5234	-0.1039	-1.0626	-0.7085
Mindanao	Approved Rates	1.5252	1.7637	1.9091	1.8675	1.0495	1.7459
	Actual Cost	1.54	1.419	1.5891	1.8766	2.0076	2.1478
	Difference	-0.0148	0.3447	0.32	-0.0091	-0.9581	-0.4019

Source: NPC

The bulk of total operating expense, on the other hand, comes from generation and amortization of capacity fees representing amortization of electric plants under capital lease (Annex 10.1). Non-operating expenses continue to contribute to NPC's deteriorating position. Interest expense and loss from foreign exchange fluctuation were the largest non-operating expenses.

NPC's total assets were pegged at P1,055 billion in 2004, a little over 15 percent of which were held as current assets (Annex 10.2). Current assets are mainly power customers receivable which increased remarkably from 1999 to 2004. Cash position also improved significantly in 2004 compared to previous years. Utility plants and electric plants under capital lease account for three-quarters of NPC assets.

NPC's total liabilities were pegged at P1,193 billion in 2004, around a third of which are long-term debts. Current liabilities are estimated at less than 10 percent, mainly accounts payable and accrued expenses and lease payable. The government's absorption of NPC's long-term liabilities amounting to P200 billion in 2004 resulted in the substantial reduction in deficiency in proprietary capital by the same amount.

The current ratio averaged 0.56 from 1999 to 2004 but it improved to 1.15 in 2004 due to improved cash positions (Table 10.10). The burgeoning power customers receivables cast doubt on NPC's liquidity position. Debt-to-asset ratio and debt-to-equity averaged 1.01 and 4.80, respectively, indicating NPC's reliance on borrowings.

Table 10.10 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	0.376	0.418	0.361	0.510	0.549	1.146	0.560
Debt-to-Asset Ratio	0.855	0.888	0.907	0.947	1.330	1.130	1.010
Debt-to-Equity Ratio	5.876	7.906	9.758	17.954	(4.026)	(8.690)	4.796

Source of basic data: Commission on Audit

Annex 10.1

NPC - Income Statement[4], 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Operating Revenues						
Utility Operating Income	65,229,050	66,632,376	69,065,009	74,731,461	67,309,809	88,411,421
Fuel Cost Adjustment	24,400,940	31,688,163	47,302,179	26,637,051	0	19,377,603
Other Demand and Energy Adjustment	68,488	113,235	(2,613,378)	1,879,704	8,261,338	7,707,898
Forex Adjustment	1,614,171	1,691,151	3,782,435	3,365,719	1,535,388	7,935,906
Ancillary Service Charge	0	0	0	4,874,240	18,980,377	19,063,896
Transmission Services Operating Income	279,957	2,038,817	391,952	6,971,238	24,599,591	25,576,316
Universal Charge	0	0	0	0	0	1,413,234
Total Operating Revenues	91,592,607	102,163,742	117,928,198	118,459,414	120,686,504	169,486,275
Prompt Payment Discount	(730,099)	(788,318)	851,914	912,285	746,442	(1,075,982)
Voltage Discount	(569,806)	(594,472)	638,008	474,290	0	0
Forex Adjustment/ Power Factor Income	(607,035)	(661,536)	740,622	639,381	761,560	(1,134,445)
NET OPERATING REVENUE	89,685,666	100,119,415	115,697,654	116,433,458	119,178,501	167,275,848
Operating Expenses						
Generation	51,861,373	59,314,800	71,070,791	71,739,038	79,274,691	97,394,320
Depreciation and Depletion	14,193,444	13,304,704	14,184,474	14,165,759	14,962,891	14,857,512
Amortization of Capacity Fees	8,946,618	15,327,381	17,148,464	19,839,182	23,032,206	24,219,938
Transmission & Distribution	1,609,049	1,887,484	1,769,046	2,029,382	1,971,542	2,502,208
Administration & General	1,987,579	1,755,975	1,976,310	2,612,232	1,869,490	1,957,892
Other Operating Expenses	1,981,224	2,531,399	2,123,250	2,738,043	1,677,448	1,935,900
Bad Debts	617,572	560,016	588,396	2,787,263	1,738,788	2,259,259
Total Operating Expenses	81,196,859	94,681,759	108,860,731	115,910,898	124,527,057	145,127,029
OPERATING INCOME	8,488,807	5,437,656	6,836,923	522,560	(5,348,555)	22,148,820
Other Income						
Subsidy / Tax Credit Certificate	69,440	0	0	0	0	0
Interest Income	465,031	1,251,995	710,521	1,373,922	1,539,571	1,268,600
Revenues from Lease of Electric Plant	165,045	157,223	126	0	0	0
Discount and Amortization- Debt Buy Back	119,036	0	0	0	0	0
Forex Recovery	8,205,426	14,723,294	19,917,458	11,320,169	4,134,616	7,672,047
Gain on Diesel/ Fuel Transfer	0	(14,380)	122,426	33,299	96,413	105,778
Gain on Retirement of Asset	148	1,283	4,291	24	399	0
Miscellaneous Income	402,844	354,493	293,655	1,812,045	552,116	454,432
Total Other Income	9,426,970	16,473,907	21,048,479	14,539,459	6,323,114	9,500,857
Interest and Other Charges						
Interest Expense	12,954,659	15,064,480	15,108,028	17,876,425	24,851,886	30,248,008
Subsidy- Tax Credit Certificate	69,440	0	0	0	0	0
Loss on Forex Fluctuation	324,534	1,061,801	626,456	6,737,832	77,840,184	26,963,838
Depreciation- Other Plants/ Property	854,332	1,110,832	1,484,690	1,662,437	1,713,182	1,888,612
Finance & Other Bank Charges	1,717,929	2,207,845	2,813,480	1,983,906	2,187,396	2,132,390
Privatization & Subsidiarization Expense	448,866	782,555	870,561	610,864	11,025,697	28,444
Amortization- Deferred Forex Differential	7,345,361	14,605,368	17,193,386	18,529,508	0	0
Loss on Diesel/ Fuel Transfer	(31,335)	0	0	0	0	0
Miscellaneous Expenses	185,451	42,450	166,191	1,396,094	371,038	289,499
Total Other Interest and Other Charges	23,869,236	34,875,331	38,262,792	48,797,064	117,989,383	61,550,792
NET INCOME/(LOSS)	(5,953,459)	(12,963,768)	(10,377,391)	(33,735,046)	(117,014,825)	(29,901,115)

Source: Commission on Audit

[4] The NPC financial statements presented here are a consolidation of NPC, TransCo, and PSALM Corp. Financial Statements (FSs). Separate individual FSs are not yet available.

Annex 10.2

NPC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
UTILITY PLANT	477,323,172	459,274,705	474,118,605	469,911,366	493,019,967	500,816,307
Accumulated Depreciation and Depletion	(221,875,070)	(215,469,607)	(231,359,915)	(237,265,280)	(260,693,878)	(275,069,422)
	255,448,101	243,805,097	242,758,691	232,646,087	232,326,088	225,746,884
CONSTRUCTION WORK IN PROGRESS	22,159,383	29,721,356	27,310,992	36,290,090	35,942,150	37,037,819
	277,607,484	273,526,453	270,069,683	268,936,177	268,268,239	262,784,703
ELECTRIC PLANT UNDER CAPITAL LEASE	350,860,269	360,033,659	367,173,172	454,721,207	552,531,386	528,311,448
INVESTMENTS AND OTHER ASSETS						
Investments in Government and Other Corporations	136,837	148,482	162,767	133,589	4,509	8,746
Non-Utility Property – net	2,609,173	6,697,764	5,960,964	5,548,056	6,238,292	5,775,335
Accounts and Other Receivables – net	5,447,431	5,254,143	5,449,627	5,694,139	5,613,010	5,412,572
Construction Work in Progress	0	0	0	0	0	0
- Materials and Supplies	2,662,774	2,337,791	1,843,962	1,179,313	1,448,789	1,387,134
Other Assets	35,796,320	39,550,040	48,195,770	65,587,442	57,450,120	58,861,887
	46,652,535	53,988,220	61,613,090	78,142,539	70,754,720	71,445,674
CURRENT ASSETS						
Cash and Cash Equivalents	3,487,638	2,752,117	1,648,275	1,983,697	2,534,419	22,086,829
Power Customers Receivables	13,247,044	20,828,033	19,653,717	37,596,464	45,203,781	118,438,006
Other Receivables	2,957,383	2,868,451	5,317,948	8,344,876	11,369,707	12,935,022
Materials and Supplies for Operation	12,167,668	13,201,407	13,052,966	10,668,948	11,793,446	17,409,903
Advances	1,122,627	578,112	269,727	559,150	887,222	1,717,658
Prepayments	789,217	830,018	691,108	878,809	874,892	878,059
Court and Other Deposits	167,040	103,171	165,371	309,205	711,594	748,322
Cash Advances-Officers and Employees	7,406	3,399	7,235	7,310	4,903	5,194
Total Current Assets	33,946,021	41,164,708	40,806,347	60,348,459	73,379,965	174,218,992
DEFERRED CHARGES	151,609,042	259,646,294	264,912,585	288,960,149	23,161,865	16,893,217
CONTINGENT ASSETS	1,421,294	1,414,671	1,410,403	1,903,179	1,902,982	1,897,908
TOTAL ASSETS	862,096,647	989,774,004	1,005,985,280	1,153,011,709	989,999,157	1,055,551,943
PROPRIETARY CAPITAL AND LIABILITIES						
PROPRIETARY CAPITAL						
Capital Stock P100 par value						
Authorized P50,000,000,000 divided into 500,000,000						
Issued – 270,288,708 in 1999	27,048,871	27,048,871	27,048,871	27,048,871	27,048,871	27,048,871
Donated Capital	4,027,818	3,985,874	3,985,874	4,021,997	4,021,997	4,021,997
Deficit	(2,828,671)	(17,120,169)	(34,730,276)	(67,940,028)	(455,972,585)	(265,990,093)
Appraisal Capital	95,703,366	95,801,691	95,799,031	95,799,031	95,804,553	95,765,308)
Contingent Surplus	1,421,294	1,414,671	1,410,403	1,903,179	1,902,982	1,897,908
	125,372,678	111,130,938	93,513,903	60,833,050	(327,194,182)	(137,256,009)
LONG-TERM DEBTS, Net of Current Portion	238,824,977	292,000,808	290,135,461	376,315,516	461,119,684	348,579,715
LEASE OBLIGATION	406,200,592	485,805,844	505,036,916	595,108,491	715,986,125	680,690,749

	1999	2000	2001	2002	2003	2004
CURRENT LIABILITIES						
Accounts Payable and Accrued Expenses	27,028,142	35,719,940	33,385,182	49,507,659	52,561,055	74,178,696
Retention of Contract Payments	1,215,100	755,480	989,484	978,088	707,847	764,639
Deposits and Trust Funds	2,831,855	3,371,462	4,470,664	5,449,313	6,382,907	178,937
Dividends Payable	30,216	30,216	30,216	30,216	30,216	30,216
Lease Payable	22,122,561	25,827,603	30,392,832	35,249,502	41,229,069	44,039,554
Notes Payable	1,550,000	0	11,874,614	0	0	0
Interest Payable	4,785,784	5,650,902	6,469,450	7,539,707	10,434,455	12,829,870
Current Portion of Long-Term Liabilities	30,681,545	27,078,596	25,557,949	19,665,965	22,294,730	20,028,803
Total Current Liabilities	90,245,203	98,434,201	113,170,392	118,420,450	133,640,278	152,050,715
DEFERRED CREDITS	1,453,197	2,402,215	4,128,608	2,334,201	6,447,253	11,486,773
TOTAL PROPRIETARY CAPITAL AND LIABILITIES	862,096,647	989,774,004	1,005,985,280	1,153,011,709	989,999,157	1,055,551,943

Source: Commission on Audit

11. PHILIPPINE AMUSEMENT AND GAMING CORPORATION

Background. The Philippine Amusement and Gaming Corporation (PAGCor), a 100 percent government-owned and -controlled corporation, was established to regulate all games of chance in the country. It was created in 1977 to oversee the operation of gaming casinos, to generate funds for the government's developmental projects, to promote tourism in the country, and to help curb illegal gambling. PAGCor had an initial authorized capital stock of P5 million which was later increased to P200 million. PAGCor is authorized to borrow money from local or foreign sources.

Half of PAGCor's earnings are remitted to the Bureau of the Treasury (BOT) to be used in programs and projects as directed and authorized by the Office of the President of the Philippines. This is aside from the mandated beneficiaries which receive funding from PAGCor. Its remaining funds form part of the Social Fund to finance infrastructure and/or socio-civic projects.

Board of Directors. The Board of Directors is composed of five (5) members, all of whom are presidential appointees. The Chairman of the Board should come from the government sector. The Board meets weekly.

Under its original charter (PD No. 1067-A), majority of the members of the Board of Directors of PAGCor were ex officio directors, specifically, the Chairman of National Development Company as Chairman; the Secretary of Public Works; the Secretary of the Department of Social Welfare; and two other members to be appointed by the President of the Philippines.

Realizing that the Board of PAGCor should be flexible in order that the appointment of directors may be made in accordance with their respective capability and areas of concern, an amendment was made on July 18, 1980 to its Charter (EO No. 604) and reconstituted its Board with five members, all presidential appointees. The Chairman should come from the government sector and the other members of the Board shall be such persons as the President of the Republic, in his discretion, may appoint from time to time.

Three years later, on July 11, 1983, PD No. 1869 consolidated and amended previous laws pertaining to the franchise and powers of PAGCor. This time, the Board was reconstituted to be composed of five members, three (3) of whom shall come from the government sector and shall be appointed by the President of the Philippines and the other two (2) shall come from the private sector who own at least 1 share of stock in the corporation and shall be elected by the stockholders of the corporation in the annual general meeting or in a special meeting called for such purpose. Each Director shall serve for a term of one (1) year and until his successor shall have been duly qualified and appointed.

Management. PAGCor is managed by its Chief Executive Officer who is the concurrent Chairman of the Board. He is assisted by PAGCor's President and concurrent Chief Operating Officer, a Vice-President for Administration, and various department heads.

Personnel management policies set by the Board of Directors govern the hiring of personnel. All employees of the casinos and related services are classified as "confidential" appointees and their employment is exempt from the provisions of the Labor Code or any of its implementing rules and regulations. As such, employee unions or any form of employee associations are not allowed to be formed to ensure continuous and uninterrupted service to its customers.

Operational Highlights. PAGCor is engaged in the business of gaming and is the only entity franchised by the government to operate casinos in the country. Its major product lines consist of table games, slot machines, and chip washing. It also offers internet gaming, internet sports betting, and bingo and slot machine demo units. Internationally recognized games like Baccarat, Black Jack, Roulette, Craps, Big & Small, Pai Gow Poker, Stud Poker, Pontoon, and Super 6 are available in its Casino Filipino branches. Aside from table games and slot machines, PAGCor has also expanded its operations to include the conduct and regulation of bingo games as it expands the image of Casino Filipino from a gaming venue into a vehicle for wholesome entertainment for the whole family.

PAGCor was able to improve its total income (winnings and other income) in 2004 through two major income growth strategies: opening a grand casino at the new Hyatt Manila and the introduction of slot machine VIP clubs. These strategies were also supplemented by the introduction of new table games and the installation of new slot machines in its casino branches as well as the installation of electronic class-II bingo machines in its bingo halls. These strategies coupled with the increase in the number of tourists visiting the country and the resurgent economic climate in 2004 enabled PAGCor to exceed its total income target for the year. More than half of the company's income comes from revenues in table games while the rest comes from the operation of slot machines. This is brought about by PAGCor's policy of constant upgrading and use of state-of-the-art technology to make it at par with the top gaming destinations of the world as it puts into action its vision of becoming "A Global Corporation with a Global Mindset and a Filipino Heart."

Aside from slot machine arcades and Casino Filipino VIP Clubs, PAGCor operated 14 Casino Filipino branches in major cities in 2004, five of which are located in Metro Manila. Two of its casino branches are found in Cebu, another two casino branches in Pampanga, and one casino branch each in the cities of Laoag, Olongapo, Tagaytay, Davao, and Bacolod.

PAGCor's operations have been a reliable source of funds for the government's infrastructure and socio-civic projects. More than 45 percent of the company's total income in 2004 went to its beneficiaries. These are as follows:

1. Government's Share. After deducting the 5 percent franchise tax, 50 percent of the total winnings from gambling operations are remitted to the national government. Under PD 1869, the fund set aside as government's share shall be allocated to fund infrastructure and socio-civic projects within the Metropolitan Area such as flood control, sewerage and sewage, nutritional control, population control, Tulungan ng Bayan Centers, beautification and Kilusang Kabuhayan at Kaunlaran (KKK) projects. A total of P44.4 billion representing seventy-nine percent of PAGCor's total net income after tax of P56.08 billion in the last six years (1999-2004) or an average of P7.4 billion per year was remitted by PAGCor for this purpose.

2. Philippine Sports Commission (PSC) Share. Another legally-mandated beneficiary is the PSC which is allocated 5 percent of the balance of PAGCor's income from winnings after deducting the National Government's share.

3. Board of Claims. This body created by RA 7309 under the Department of Justice grants compensation to people proven to have been unjustly accused and detained, and to victims of violent crimes such as rape. It gets an annual funding of 1 percent of the net income for remittance to the social fund of PAGCor.

4. The Early Childhood Care and Development (ECCD) Program. An amount of P400 million per year for five years was set to be appropriated by PAGCor for the National Early Childhood Care and Development (ECCD) Program under RA 8980. The program aims to provide for the holistic needs of young children to promote their optimum growth and development. The amount is supposed to be remitted in four quarterly installments to a special account of the National ECCD Coordinating Council. From 2001 up to 2003, a total of P328.33 million was released to the said fund. Another P39.9 million is recorded in the books of PAGCor as accounts payable in 2004.

5. Gasoline Station and Training Loan Fund. RA 8479 provides for the establishment of a gasoline station and training loan fund with an initial fund of P300 million to be made available by PAGCor. This is in line with the government's policy of improving management and skills training in an effort to downstream the oil industry and to attain a competitive product market in the retail level. Of the said amount, P80 million was released in 2002, P10 million in 2003 and another P60 million was due in 2004 but was not released.

6. National Endowment Fund for Children's Television. Recognizing the impact of media broadcasting particularly television on the values formation and development of the youth, the National Council for Children's Television (NCCT) was created under RA 8370. An endowment fund to be administered by the Council was established to promote high standards of indigenous program development for Filipino children. The fund shall receive an allocated P30 million from PAGCor. As of 2003, only P9 million has been released to the fund. Another P9 million was in the pipeline in 2004 but was charged as accounts payable.

7. Barangay Micro Business Enterprises (BMBE). A BMBE Development Fund was set up in 2002 under RA 9178 to facilitate technology transfer, production and management training, and marketing assistance to small entrepreneurs. This is in line with the government's efforts to encourage the development of small businesses to generate employment and alleviate poverty by absorbing the country's informal economy into the mainstream and eventually contribute to economic growth. A total of P300 million is set to be released from PAGCor's funds. A provision of P2.5 million pesos per month, or P30 million per year was set aside in the books but only P47.5 million was contributed as of 2004, with P17.5 million payable to the said fund. The BMBE Development Fund is administered by the SMED Council, a DTI-attached interagency body established in 1991 and composed of the Department of Trade and Industry (DTI) Secretary as Chairman and the heads of the following agencies as members: National Economic and Development Authority (NEDA), Department of Agriculture (DA), Department of Labor and Employment (DOLE), Department of Environment and Natural Resources (DENR), Department of Science and Technology (DOST), Department of Tourism (DOT), Small Business Guarantee and Finance Corporation (SBGFC), the Monetary Board (MB), Small and Medium Enterprise Promotion Body (SMEPB), representatives from the private sector representing Luzon, Visayas and Mindanao; and a representative from the private banking sector serving alternately among the Chamber of Thrift Banks; the Rural Bankers Association of the Philippines; and the Bankers Association of the Philippines. The DTI's Bureau of Small and Medium Enterprise Development (BSMED) is the designated Council Secretariat.

Financial Highlights. PAGCor has consistently registered a net income from 1999 to 2004, of which the highest was the P1.15 billion net income in 2001 that resulted from the corporate reforms implemented in that year (Annex 11.1). The lowest was the P0.475 billion net income in 2003 which resulted from the sharp downturn in tourism-related businesses brought about by the devastating effects of SARS, terrorism and the Iraq war. Profits slowly picked up in 2004 as the number of tourists visiting the country peaked at 2.3 million by yearend.

Gross winnings generated from gaming operations in 2004 reached P19.4 billion as compared to only P16.6 billion in 2003. Revenues of PAGCor are mainly generated from four sources: 1) winnings, 2) rental income, 3) interest income and 4) miscellaneous income from internet gaming, internet sports betting, private casino operations in the special economic zones, management fees as well as the corporation's share from bingo and slot machine demo units. The bulk of PAGCor's earnings come from winnings or the income from the legalized gambling operations. In 2004, almost 90 percent of the total income was sourced from casino winnings on table games, slot machines and other games of chance. Winnings, when recorded as income, are already net of the prizes given to casino winners. A 5 percent franchise tax is deducted and collected from casino operators. From 1999-2003, the average growth rate of total expenditures stood at 15.75 percent, but in 2004, it remarkably increased by only 2.66 percent from previous year. This is in line with the agency's drive to comply with the government's efforts to implement austerity measures.

PAGCor's operating expenditures are categorized into expenses for personal services (PS), maintenance and other operating expenses (MOOE) and capital expenditures. Four of the largest expense items were on employee benefits, salaries and wages, marketing expenses, and rentals and leases which together accounted for an average of 60 percent of total expenditures from 1999 to 2004. Less than ten percent goes to expenditures on capital equipment.

Total assets of PAGCor in 2004 amounted to P4.25 billion. This was 2.5 percent lower than the previous year's total assets (Annex 11.2). Non-current assets decreased substantially particularly its deferred charges account. The average annual growth rate in total assets from 1999 to 2004 was pegged at 12 percent. Two-thirds of the company's assets are current assets, mostly cash and cash equivalents, indicating a highly liquid cash position for the company. The other current asset accounts are prepayments and accounts receivable. The major non-current asset accounts are advances to Provident Fund, miscellaneous deposits, and deferred charges.

PAGCor's total liabilities reached P3.28 billion in 2004, lower than the previous year's P3.51 billion but higher than the P2.61 billion average registered for the company from 1999 to 2004. In fact, total liabilities had been growing at an average rate of 13 percent per annum indicating an increasing reliance on debt by the company. Half of its debts are in the form of unremitted mandatory contributions, employee benefits, withholding and franchise taxes, and guarantee deposits. These expenditures are booked following the matching principle in recording revenues and expenses but may not necessarily be due as of balance sheet date. Stockholders' equity which amounted to P0.97 billion in 2004 represented more than a fifth of total equities. This implies that PAGCor's good financial management reputation enables the corporation to maximize "trading on its equity."

PAGCor's current ratio has been improving from 1999 to 2004 due to a better cash position and collection performance (Table 11.1). PAGCor is deemed liquid enough and able to meet its currently maturing obligations as they fall due using its current resources.

The debt-to-asset and debt-to-equity ratios indicate PAGCor's availment of credit. From 1999 to 2004, an average of seventy-six percent of PAGCor's resources was sourced from creditors which implies a highly leveraged company (Table 11.1).

Table 11.1 Selected Financial Ratios, 1999-2004

Financial Ratio	1999	2000	2001	2002	2003	2004	Average
Current Ratio	1.422	1.186	1.444	1.187	1.408	1.411	1.343
Debt-to-Asset Ratio	0.739	0.742	0.739	0.777	0.805	0.771	0.762
Debt-to-Equity Ratio	2.827	2.870	2.831	3.476	4.131	3.372	3.251

Source of basic data: Commission on Audit

Annex 11.1

PAGCOR - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Income						
Total winnings	11,006,104	12,986,532	15,584,047	18,054,445	16,570,951	19,361,927
Less: 5% franchise tax	550,305	649,327	779,202	902,722	828,548	968,096
Winnings after franchise tax	10,455,799	12,337,206	14,804,845	17,151,722	15,742,403	18,393,831
Expenditures						
I. Personal services						
Employees benefits	1,743,029	2,056,230	2,615,794	2,991,110	3,448,575	0
Salaries and wages	424,127	475,577	658,008	845,744	1,022,501	1,068,344
Allowances	36,090	37,557	41,426	51,364	57,086	60,913
Incentive pay	998	1,879	1,619	4,788	4,390	0
Other personnel services	0	0	0	0	0	2,064,192
Other compensation	0	0	0	0	0	1,525,040
Wages - contractual employees	0	0	0	0	51,896	54,680
	2,204,244	2,571,242	3,316,847	3,893,006	4,584,448	4,773,169
II. Maintenance and other operating expenses						
Rentals and leases	491,676	593,296	703,307	866,581	1,488,889	1,174,501
Marketing expenses	1,069,010	1,111,981	1,146,992	1,178,531	948,563	1,085,104
Host cities' income share	304,000	352,400	362,100	425,300	433,200	433,600
Intelligence and discretionary funds	200,496	257,736	256,820	256,920	269,234	301,237
Light, water and power	107,191	154,387	219,236	250,645	267,334	317,414
Public relations	0	0	0	313,808	238,749	194,312
Supplies	94,925	130,648	127,603	180,519	202,958	172,312
Clerical, messengerial and janitorial	89,576	102,788	115,187	146,771	81,900	86,365
Advertising expenses	243,745	246,179	164,014	116,305	126,631	125,906
Repairs and maintenance	60,613	71,439	79,298	75,066	75,938	66,454
Representation and entertainment	75,986	106,773	68,304	69,492	66,945	45,735
Transportation and travel	15,450	23,287	24,613	31,019	35,074	32,858
Legal and professional fees	13,539	15,473	19,133	23,309	33,853	25,117
Telephone, telegram and postage	17,447	32,392	23,716	24,291	30,706	32,655
Interest and bank charges	13,518	25,460	16,715	3,133	28,126	54,047
Insurance	25,038	28,963	34,640	44,740	27,642	48,991
Per diem and other meeting expenses	13,104	15,271	20,935	24,241	26,009	14,705
Training and other personnel improvement	9,665	22,814	14,537	23,867	20,973	14,444
Taxes and licenses	13,522	12,063	11,823	10,877	12,032	27,594
Books, publications and subscriptions	1,344	1,554	1,910	3,838	3,819	4,252
External audit and bank services	7,095	7,770	10,787	10,969	3,697	28,624
Freight and handling	2,252	5,257	4,000	3,001	3,685	4,582
Foreign exchange loss	(9,603)	(47,596)	23,242	13,107	2,999	6,960
Donations and contributions	2,898	3,662	2,490	2,286	2,136	1,478
Membership, dues and fees	941	1,202	2,198	1,321	1,566	1,701
Bank charges	0	0	0	0	0	1,782
Discretionary expense	0	0	0	0	0	809
Donation to Hall of Justice	0	50,000	0	50,000	0	0
Miscellaneous expenses	24,084	17,051	10,164	53,022	20,725	73,222
	2,887,511	3,342,251	3,463,764	4,202,958	4,453,383	4,376,762

	1999	2000	2001	2002	2003	2004
III. Capital expenditures						
Casino/Office/Bingo furn. fixtures & eqpt.	168,571	248,413	319,697	418,304	524,878	804,021
Casino/Office leasehold improvement	130,766	114,721	219,151	117,012	122,708	40,596
Transportation equipment	24,803	25,569	30,929	76,457	37,828	4,178
Chips and tokens	6,370	11,733	37,177	15,584	15,607	6,492
Building and other improvements	7,773	4,228	5,130	5,481	4,358	628
Other capital expenditures	7,816	18,805	35,113	29,412	15,203	12,414
	346,099	423,469	647,197	662,250	720,583	868,329
Total Expenditures	5,437,854	6,336,962	7,427,808	8,758,214	9,758,414	10,018,259
Income from Operations	5,017,945	6,000,244	7,377,036	8,393,509	5,983,989	8,375,572
Add: Other Income						
Rental income	303,642	227,730	294,069	436,475	458,204	337,636
Interest income	67,745	59,359	58,845	47,594	42,010	94,442
Miscellaneous income	861,519	1,191,746	1,394,198	1,581,739	2,302,715	2,079,118
	1,232,906	1,478,836	1,747,112	2,065,807	2,802,929	2,511,196
	6,250,851	7,479,080	9,124,148	10,459,316	8,786,918	10,886,768
Less:						
50% government share	5,227,899	6,168,603	7,402,422	8,575,861	7,871,202	9,196,915
5% PSC share	261,395	308,430	370,121	428,793	393,560	459,846
Early Childhood Care & Dev't Fund	0	0	0	133,333	15,000	0
Sports benefits and incentives act	0	0	0	100,000	0	0
Gasoline Station Training and Loan Fund	0	0	0	80,000	10,000	0
Board of Claims' income share	6,718	9,090	13,313	11,251	4,883	11,708
National Endowment Fund for Children's Television	0	0	0	5,000	4,000	0
Dept. of Science and Tech. Income Share	83,000	84,000	7,000	0	0	0
Amount Set Aside for ECCD/DOE	0	0	180,000	0	0	0
Barangay Micro Business Enterprises	0	0	0	0	0	47,500
Amount set aside for acquisition of SM Demo Units	0	0	0	0	0	122,777
Amount set aside for additional treasury capital	0	0	0	20,000	12,770	0
	5,579,013	6,570,123	7,972,856	9,354,238	8,311,414	9,838,746
Net Income for Remittance to Social Fund	671,838	908,957	1,151,292	1,105,077	475,504	1,048,022

Source: Commission on Audit

PAGCOR - Balance Sheet, 1999-2004

(In thousand pesos)

ASSETS	1999	2000	2001	2002	2003	2004
Current Assets						
Cash and cash equivalents	1,499,684	1,186,718	1,673,680	1,806,555	2,209,158	2,625,159
Accounts receivable	196,003	136,520	220,343	171,675	238,859	163,210
Prepaid expenses	93,570	114,074	204,681	290,896	100,240	100,224
	1,789,257	1,437,312	2,098,705	2,269,125	2,548,258	2,888,592
Non-Current Assets						
Land	49,892	49,722	49,465	45,143	71,565	66,051
Advances to Provident Fund	92,162	126,913	181,418	279,039	276,916	275,216
Accounts receivable	0	0	0	93,053	100,770	96,398
Investments in stocks	14,315	14,792	39,572	41,808	42,080	42,128
Miscellaneous deposits	150,475	173,917	212,376	254,534	213,401	442,209
Marginal deposits	0	0	0	0	0	0
Intercity link SM promotional items	909	1,191	1,191	0	564	638
Deferred charges	343,024	663,096	549,005	766,263	1,109,006	443,078
	650,777	1,029,631	1,033,027	1,479,839	1,814,302	1,365,718
TOTAL ASSETS	2,440,034	2,466,943	3,131,731	3,748,964	4,362,560	4,254,311
LIABILITIES						
Current Liabilities						
Accounts payable	255,205	112,821	231,401	286,481	316,930	576,236
Provision for bonuses & other employees' benefits	44,710	18,087	86,300	92,941	122,108	133,345
Withholding tax payable	14,678	31,157	34,950	55,105	54,690	57,682
SSS, Medicare and ECEC payable	2,556	4,893	4,003	4,764	4,714	5,390
Pag-ibig fund payable	774	0	999	1,098	1,122	1,145
Franchise tax payable	219,736	230,494	264,679	299,919	293,186	337,206
Notes payable (current)	158,525	184,059	0	37,800	1,000	0
Due to Philippine government	523,682	586,118	714,349	820,004	659,777	780,375
Due to Philippine Sports Commission	0	0	31,717	35,516	29,962	34,836
Due to Board of Claims	0	0	832	616	26	41
Due to ECCD Fund	0	0	0	109,033	114,033	39,912
Due to Gasoline Station Training and Loan Fund	0	0	0	50,000	60,000	60,000
Due to National Sports Development Fund	0	0	0	18,446	6,026	6,026
Due to National Endowment Fund for Children's Television	0	0	0	5,000	9,000	9,000
Due to Clark Development Corporation	0	0	6,384	5,042	4,211	5,837
Unredeemed chips, tokens and chip checks payable	38,383	44,571	77,956	90,630	133,387	0
	1,258,250	**1,212,200**	**1,453,569**	**1,912,396**	**1,810,171**	**2,047,031**
Non-Current Liabilities						
Notes payable	200,641	329,687	603,390	766,702	1,461,388	926,835
Guarantee deposits	175,603	132,168	130,600	155,694	164,058	307,379
Deferred credits	168,021	155,367	126,654	76,654	76,654	0
	544,265	617,223	860,643	999,050	1,702,099	1,234,214
	1,802,515	**1,829,423**	**2,314,212**	**2,911,445**	**3,512,270**	**3,281,245**
STOCKHOLDERS' EQUITY	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Paid-up capital	71,431	71,431	71,431	71,431	71,431	71,431
Retained earnings	566,088	566,088	746,088	766,088	778,858	901,635
	637,519	637,519	817,519	837,519	850,289	973,066
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	2,440,034	2,466,943	3,131,731	3,748,964	4,362,560	4,254,311

Source: Commission on Audit

12. PHILIPPINE CHARITY SWEEPSTAKES OFFICE

Background. The Philippine Charity Sweepstakes Office (PCSO) was created in 1934 replacing the then-National Charity Sweepstakes. It was authorized to secure from the National Treasury a loan amounting to P250 million, the minimum amount required for organizing the office and printing the tickets for the draw. The loan was paid back in less than two months from the Sweepstakes sales.

In 1954, PCSO was designated as the principal government agency in charge of charity sweepstakes, races, and lotteries to raise funds for health programs, medical assistance and services, and charities of national character. It is engaged in health and welfare-related investments and activities to provide a permanent and continuing source of funds for various social programs.

To implement the social funding objective that seeks to finance and support health programs, medical assistance and/or charities, the fund allocation for its Charity Fund was increased from 25 percent to 30 percent of net receipts. The remaining money is allocated for the Prize Fund (55 percent) and the Operating Fund (15 percent). Since each fund has its own purpose and usage, fund transfers are prohibited under PCSO's charter. However, unclaimed prizes and any unexpended balance in the Operating Fund all go to the Charity Fund at the end of the year.

Borrowing authority. PCSO is authorized to contract loans, credits and indebtedness, whether domestic or foreign, on such terms and conditions as it may deem appropriate for the accomplishment of its purposes, subject to applicable laws, rules and regulations.

Board of Directors. The PCSO Board is composed of five (5) presidential appointees. All directors serve at the pleasure of the President of the Philippines. The compensation and term of office are fixed by the President. No specific qualifications for board membership are given.

The PCSO Board is empowered to do the following: (a) adopt or amend rules and regulations to implement its mandate, (b) determine and approve the most effective organizational framework for PCSO and its staffing pattern; fix the salaries and determine the reasonable allowances, bonuses and other incentives of its officers and employees as may be recommended by the General Manager; and prescribe the manner of hiring and compensating on a contractual basis such sales and other personnel as may be required for its operations, (c) contract loans, credits and indebtedness, whether domestic or foreign, and (d) promulgate rules and regulations for the operation of PCSO and to do such act or acts as may be necessary for the attainment of its purposes and objectives.

On the average, the Board meets four times a month.

Management. A General Manager (GM) who is the Vice-Chairman of the Board manages the operations of the office. The GM is assisted by five (5) assistant general managers for 1) Administration, 2) Finance, 3) On-line Lottery Sector, 4) Corporate Planning and 5) Marketing.

Annual reports are mandated to be submitted to the Office of the President (OP), Department of Budget and Management (DBM) and Congress.

Operational Highlights. Unlike most GOCCs, PCSO does not receive any budgetary appropriation from the National Government for funding its operations. It has complete financial autonomy owing to sufficient internally-generated funds from lotto and sweepstakes operations. PCSO generates its revenues from the sale of sweepstakes tickets and on-line lottery/lotto operations. The net receipts (gross sales less agents' 5 percent sales commission) from the sale of Lotto/Sweepstakes tickets minus the 10 percent for the cost of rental and repair of equipment and monthly recurring charges and the 2 percent for the printing cost, are allocated to the Prize, Charity, and Operating Funds, at 55 percent, 30 percent, and 15 percent, respectively. Each allocation has its own specific purpose and usage, so that diversion or interfund transfers are illegal and violative of PCSO's Charter. The Prize Fund, a trust liability account, is set aside for the payment of prizes, including those for owners and jockeys of running horses and sellers of winning tickets (Table 12.1). Unclaimed prizes or balances in the prize fund reverts and forms part of the charity fund after one (1) year. The Charity Fund, also a trust liability account, is used exclusively to finance and support health programs, medical assistance and/or charities of national character (PCSO's mandate). Recently, however, Congress has overburdened the Charity Fund by various legislative enactments which require PCSO to extend financial assistance and contributions to certain national programs which are not within the PCSO Charter. The Operating Fund is a minimal 15 percent of net receipts which is used to support the day-to-day operating, maintenance and capital expenditures of PCSO. If ever there is a balance on the operating fund, it reverts to and forms part of the charity fund.

Table 12.1 Charges Against PCSO's Prize Fund, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004
Jackpot	1,495.17	1,417.27	1,583.08	nd	2,031.83	2,286.73
Lower Prizes	1,385.41	1,297.45	1,387.695	nd	2,076.78	2,607.18
5% tax in lieu of income tax	180.57	168.59	187.26	nd	240.65	277.86
Winning tickets(Sweepstakes)	145.14	127.15	139.48	nd	98.74	26.68
Sellers' Prize	14.09	9.00	9.25	nd	31.81	20.06
Horseowner's Prize	6.30	3.51	3.96	nd	0.58	-
Jockey's Prize	2.42	0.35	.40	nd	0.05	-
Total Charges	**3,229.10**	**3,023.32**	**3,311.11**	**nd**	**4,480.06**	**5,218.52**

nd – no data
Source: PCSO

The prize fund and charity fund are left with zero-balance at the end of each year. This means that each year, both funds have to start with a clean slate. Thus, only the operating fund, which represents 15 percent of net receipts, contributes to the net income of PCSO.

On the average, 95 percent of PCSO's gross receipts during the last five years came from lotto ticket sales (Table 12.2). Another five percent are sourced from sweepstakes sales. With a huge portion of its income coming from lotto sales, the PCSO is starting to limit the growth of lotto outlets to avoid saturation in certain areas. In 2004, there were 1,922 active outlets and 2,309 installed terminals nationwide. Of these, NCR accounts for 35 percent of the total number of outlets and 39 percent of the total number of terminals. PCSO's Online Lottery Sector's strategy of relocating low-sales yielding outlets/terminals in Metro Manila to more sales-feasible areas enabled the company to reach out and make its ticket-selling facilities available to a wider area as reflected by its already large (95 percent) and still growing contribution to total revenues.

Table 12.2 Gross Receipts of PCSO, 1999-2004

(In million pesos)

	1999	2000	2001	2002	2003	2004
Gross Receipts	6,614.98	6,279.37	6,987.00	8,291.82	8,958.98	10,318.28
Sweepstakes	302.88	359.67	410.85	349.74	284.59	133.16
Lotto	6,312.09	5,919.70	6,576.15	7,942.09	8,674.38	10,185.13
Less:						
Printing Cost	132.30	125.59	139.74	165.84	179.18	206.37
Cost of Match and Win Tickets	0.00	23.22	37.72	46.76	28.74	7.90
Net Receipts	6,482.68	6,130.56	6,809.54	8,079.22	8,751.06	10,104.02

Source: PCSO

In 2004, a total of P1.56 billion in the form of endowment fund, assistance for the purchase of medicines and equipment, and other forms of assistance was released to various agencies, institutions and organizations requesting for support from PCSO. NCR, ARMM and Region 8 cornered 52 percent, 13 percent and 7 percent of this total amount, respectively. Moreover, PCSO approved a total of 37,153 individual requests for assistance in the payment of hospitalization bills. PCSO's Charity Clinic conducted 123 medical and dental missions outside Metro Manila and 92 missions within Metro Manila that served a total of 114,831 out-patients. In addition, through PCSO's Ambulance Donation Program, 2,618 ambulance units were provided to hospitals, municipal health centers and related institutions in rural and far-flung areas to help save lives during emergencies. Through the PCSO Klinika ni Gloria Mobile Clinic Project, 38 mobile clinic units providing blood tests and X-ray services, among others, have already been distributed to various LGUs, government and non-government units nationwide. Also, the PCSO-Philhealth Greater Medical Access (GMA) Program has assisted the enrollment of 540,939 urban poor families (constituting ten percent of the total indigent households nationwide) in the Philhealth Medicare program. Finally, the PCSO contributed medicines and financial assistance worth P1.1 M to the Kapit-Bisig Laban sa Kahirapan (KALAHI) Program which served a total of 50,000 beneficiaries in 40 KALAHI communities.

PCSO-mandated contributions under several Republic Acts (RAs) and Executive Orders (EOs) are given priority and are immediately deducted from the 30 percent allocation to the charity fund (Table 12.3). Total mandatory contributions have increased both in nominal and real terms until 2003 but declined in 2004 (Table 12.4).

Table 12.3 Pertinent Laws Requiring Mandatory Contributions from PCSO

Pertinent Laws	Program	Mandatory Contribution
RA 6847	Sports Programs	30% of charity fund proceeds from 6 sweepstakes/lotto draws
RA 7660	For Documentary Stamps	10% of gross sales of lotto
RA 7719	National Voluntary Blood Services Program	Php 25 million
RA 7722	Educational Programs	1% of gross sales of lotto
RA 7835	Shelter & Urban Development Programs	10% of the allocated charity fund
RA 8042	Shared Government Information System on Migration	Php 10 million
RA 8042	Congressional Migrant Workers Scholarship Fund	Php 150 million
RA 8175	Crop Insurance Program	10% of net income
RA 8313	Upgrading of the Quirino Memorial Medical Center	Php 100 million
RA 8370	National Endowment Fund for Children's Television	Php 30 million
RA 8371	National Commission on Indigenous Peoples for the Ancestral Domain Fund	Php 50 million
RA 8492	Museum Endowment Fund	Php 250 million from annual net earning from lotto
RA 9165	Dangerous Drugs Board	10% share on forfeited prizes
EO 201	Severe Acute Respiratory Syndrome (SARS) awareness and health promotion campaign	Php 1 billion standby fund
EO 218	Philippine Drug Enforcement Agency (PDEA) Operations	10% of unclaimed prizes on sweepstakes and lotto
EO 280	Avian Influenza or Bird Flu Viruses	Php 250 million standby fund
EO 357, 357-A	Programs for Local Government Units	5% of lotto sales of outlets within the local government's jurisdiction
EO 447	Greater Medical Access & Avian Influenza Program (GMA's Top 5 Priority Health Programs)	Php 1.475 billion

Table 12.4 PCSO Selected Mandatory Contributions*, 1999-2004

(In pesos)

Mandatory Contributions	1999	2000	2001	2002	2003	2004
National Government (RA 7660)	631,209,392	591,969,810	657,614,734	794,208,649	867,438,154	1,018,512,802
Commission on Higher Education (RA 7722)	63,120,942	64,382,801	65,761,477	79,420,866	86,743,815	101,851,280
Sports Program (RA 6847)	32,620,000	19,788,368	23,713,433	27,368,834	22,274,772	23,281,095
5% Share of LGUs (EO 357)	95,560,756	38,663,852	74,320,536	125,971,656	139,941,541	147,443,212
PDEA Operations (EO218)	-	-	-	-	748,000,000	132,400,000
Total	**822,511,090**	**714,804,831**	**821,410,180**	**1,026,970,005**	**1,864,398,282**	**1,423,488,389**

**excludes one-time grants and expired fund allocations*

Source: PCSO

For non-mandatory programs, PCSO officials evaluate and approve the amount of assistance to be given to beneficiaries. The higher the amount, the higher the authority required to approve the petition for assistance.

Financial Highlights. PCSO is allowed to use only 15 percent of its net receipts for operating expenses. The income statement shows that PCSO has earned net income for the last 3 years (2002-2004) after posting two successive yearly losses in 2000 and 2001 (Annex 12.1). Net income amounted to P21.5 million in 2004, declining by two-thirds compared to the previous year (Table 12.4). The low net income is due to the growing operating expenses of PCSO since 1999 with huge expenses for advertising, communications and holding of lottery draws in 2000 and 2001. During the last five years, operating expenses exceeded the operating revenues. Other sources of revenues such as interest earned, commissions, various fees, gains on foreign exchange and other non-operating revenues resulted to a net income in the years 2002-2004.

Total assets of PCSO were registered at P3.8 billion in 2004, 2.6 percent higher than in1999 (Annex 12.2). Current assets accounted for 64.7 percent of total assets. Cash on hand and in banks accounted for an average of more than 40 percent of total current assets.

PCSO's total liabilities were pegged at P3.396 billion in 2004, 74.26 percent which are trust liabilities while current liabilities accounted for 25.71 percent. Vouchers payable accounted for most of current liabilities in 2004.

Total net worth was in deficit for the last 4 years. PCSO's retained earnings have continued to post a ballooning deficit over the last six years, mainly caused by operating net loss and surplus adjustments made at the end of each year. Both accounts contribute to the growing retained earnings deficit of PCSO as these are carried over to the following year. Surplus adjustments are expenses incurred but were not properly charged to the operating expenses of PCSO. In 2004, the largest adjustments were expenses for personal services, advertisements, and communication services.

PCSO's current ratio averaged 2.9 from 1999 to 2004, exceeding the 2:1 rule-of-thumb of good short-term financial strength (Table 12.5). Its high level of liquidity is a typical characteristic of companies engaged in games of chance. In fact, PCSO's cash account alone in 2004 comprised more than one-half of its current assets as lotto and sweepstakes tickets are sold to the public on cash basis. PCSO has also invested some of its cash in marketable securities to make them more productive but at the same time liquid. In fact, starting in 2002, PCSO has invested an increasing amount of its cash in bonds.

Table 12.5 Selected Financial Ratios, 1999-2004

Financial Ratio	1999	2000	2001	2002	2003	2004	Average
Current Ratio	2.160	2.969	3.002	3.696	2.801	2.845	2.912
Debt-to-Asset Ratio	0.688	0.874	1.021	1.031	0.911	0.855	0.902
Debt-to-Equity Ratio	2.206	6.929	(49.726)	(33.443)	(35.049)	(14.536)	(20.603)

Source of basic data: Commission on Audit

Annex 12.1

PCSO - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Operating Revenues (15% of net receipts)	**972,402**	**919,584**	**1,021,431**	**1,211,883**	**1,312,659**	**1,515,602**
Less: Operating Expenses						
Personal Services Expenses						
Salaries and wages	141,962	157,913	167,349	169,181	176,860	177,114
Other fringe benefits	61,284	79,464	73,168	73,918	80,352	106,827
Bonus and incentives	50,437	46,691	62,814	89,959	93,832	92,804
Medical allowance	23,353	23,308	23,311	23,330	24,204	24,974
Life and retirement insurance	16,011	18,634	19,148	19,835	19,617	20,839
PERA, COLA and ACA	15,611	15,528	19,888	15,277	15,856	16,344
Representation and transportation allowance	9,056	10,724	11,320	11,867	12,132	13,444
Overtime pay / meal allowance	7,696	9,950	10,577	10,651	12,179	10,234
Uniform allowance	6,943	8,098	6,666	6,611	6,774	7,005
Terminal leave	4,756	5,719	1,742	2,398	1,904	1,854
Consultant and specialist fees	2,291	6,265	1,212	0	0	0
Pag-ibig premium	1,188	1,293	1,403	1,420	1,392	1,599
Per Diem, COLA & Amel. Pay - BOD	780	951	1,290	1,149	639	586
Longevity pay	733	755	755	783	860	923
Medicare premium	440	936	1,267	1,622	1,231	2,668
State insurance	252	334	447	447	1,423	1,482
Sub-total	342,793	386,562	402,356	428,448	449,256	478,696
Maintenance & Other Operating Expenses						
Rent	312,857	305,070	338,972	10,992	12,094	30,614
Advertising and promotion	119,590	323,505	294,119	309,538	354,318	444,816
Communication services	55,128	138,379	132,641	157,506	176,237	216,506
Holding of lottery draws	78,662	80,352	121,394	115,898	117,882	147,212
Retirement Gratuity under ERIP	0	60,559	0	0	0	0
Grants, subsidies and contributions	7,054	30,443	12,283	19,403	17,560	15,017
Taxes, duties and fees	19,781	26,845	27,379	31,718	32,448	36,717
Water, light and power	13,078	16,260	19,556	20,728	22,954	24,220
Excess of actual over 2% printing cost						
per Republic Act No. 1169	(8,665)	45,249	19,100	42,329	84,081	106,063
Bad Debts	0	0	0	0	12,000	0
Depreciation	7,334	15,343	14,963	16,043	7,726	5,962
Amortization of Pangarap kong Jackpot	0	0	0	42,120	0	0
Amortization - Renovation of Q.I. Building	0	0	0	0	18,747	0
Supplies and materials	5,361	13,339	11,836	9,669	14,249	15,263
Auditing services	13,691	11,956	18,919	15,858	20,861	17,710
Maintenance of Lotto Equipment	9,200	10,256	11,449	0	0	0
Confidential & Intelligence Expenses	1,894	10,000	7,515	9,565	9,935	7,100
Commissions	6,334	8,913	9,711	9,098	2,837	3,874
Social security benefits	10,614	8,480	4,048	1,884	5,120	5,878
Extraordinary miscellaneous expenses	12,718	7,606	11,994	11,619	10,077	10,356

	1999	2000	2001	2002	2003	2004
Fidelity Bond & Insurance premiums	4,291	6,549	5,445	6,785	6,207	5,897
Traveling expenses	2,577	5,775	4,470	4,996	5,320	3,987
Semi-expendable property	2,517	2,843	936	1,637	2,517	3,461
Maintenance of motor vehicles	2,112	2,986	3,155	4,292	5,282	5,805
Repairs and maintenance of office equipment	2,054	1,328	3,798	1,737	1,686	3,316
Transportation expenses	1,267	1,606	1,849	2,722	2,213	2,114
Gasoline, oil & lubricant	804	1,128	1,208	1,382	1,435	1,645
Training & personnel devt. program	809	1,636	1,193	1,383	3,827	2,759
Rep. and maintenance of government facilities	678	926	373	280	963	1,095
Sports development program	602	989	882	614	1,037	1,214
Incentive awards	144	191	150	344	7	0
Miscellaneous	22,222	29,865	43,663	60,325	62,070	50,086
Sub-total	704,710	1,168,376	1,123,003	910,464	1,011,690	1,168,686
Total Operating Expenses	1,047,503	1,554,939	1,525,359	1,338,912	1,460,946	1,647,382
Net Loss from Operations	(75,102)	(635,355)	(503,928)	(127,029)	(148,287)	(131,779)
Add: Other Income						
Interest on Bank Deposits	110,376	143,515	142,768	145,786	158,545	119,221
Interest on Defaulted Account	0	0	0	0	3,742	3,184
5% Commission on Lotto (H.O. outlets)	12,670	8,618	9,064	10,473	9,107	7,721
Installation Fee	3,612	3,333	1,616	2,020	3,184	3,291
Franchise Tax (MJC-PRC)	322	2,362	8,176	1,789	5,949	8,598
Billing on Lost Tickets	203	239	532	822	935	929
Processing Fee	401	405	244	2,283	373	347
Wiring Fee	136	216	98	56	131	80
Reconnection Fee	0	41	22	31	41	77
Transfer Fee	0	30	139	106	122	74
Rent Income	537	367	485	459	431	661
Gain on Foreign Exchange	5,298	41,986	7,869	7,498	11,315	3,746
Miscellaneous Income	2,272	5,042	6,634	5,880	17,840	5,389
	135,827	206,153	177,646	177,202	211,717	153,317
Net Income	**60,726**	**(429,202)**	**(326,282)**	**50,174**	**63,430**	**21,538**
Retained Earnings, January 1	**(22,610)**	**(53,250)**	**(728,313)**	**(1,270,149)**	**(1,299,828)**	**(1,273,722)**
Surplus Adjustments	**(91,366)**	**(245,861)**	**(215,554)**	**(79,853)**	**(37,324)**	**(174,091)**
Adjusted Beginning Balance	**(113,976)**	**(299,111)**	**(943,867)**	**(1,350,002)**	**(1,337,152)**	**(1,447,813)**
Retained Earnings (Deficit), December 31	**(53,250)**	**(728,313)**	**(1,270,149)**	**(1,299,828)**	**(1,273,722)**	**(1,426,275)**

Source: Commission on Audit

Annex 12.2

PCSO - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
A S S E T S						
CURRENT ASSETS						
Cash on Hand and in Banks	1,665,723	1,654,065	1,904,131	1,935,681	1,921,289	1,299,853
Marketable Securities	103,199	162,135	571,201	688,284	282,910	8,706
Investment in Bonds	0	0	0	463,063	761,650	760,236
Receivables						
Trade/Business, Net	248,609	307,303	246,289	305,572	320,720	282,176
Accrued Interest Income	7,798	25,450	15,171	23,578	32,033	14,036
Miscellaneous	13,647	19,508	36,855	29,753	46,997	45,586
Inventories	45,978	78,208	57,275	96,558	104,347	73,007
Total Current Assets	2,084,954	2,246,669	2,830,922	3,542,489	3,469,947	2,483,601
PROPERTY & EQUIPMENT						
Land	837,414	837,414	837,414	837,414	837,414	837,414
Buildings & Structures	24,713	24,951	24,951	0	0	48,357
Buildings & Structures Held in Trust	218,316	234,379	227,637	218,532	217,520	212,461
Furniture & Equipment, Net	147,332	140,779	121,263	110,918	118,496	132,652
Total Property & Equipment, net	1,227,775	1,237,523	1,211,265	1,166,864	1,173,430	1,230,884
ACQUIRED ASSETS						
Land	63,193	64,629	64,629	64,629	65,138	65,138
Miscellaneous	50	50	50	50	50	50
Total Acquired Assets	63,243	64,679	64,679	64,679	65,188	65,188
OTHER ASSETS						
Leasehold Improvements	381	497	565	592	414	427
Prepayments	132,223	88,592	53,829	39,255	16,240	4,853
Guaranty Deposits	5,835	6,112	6,182	8,665	6,450	6,473
Stocks and Securities	356	391	405	405	405	405
Contingent Assets	226,108	12,965	14,371	14,801	41,522	41,522
Information System	0	0	0	0	0	5,099
Miscellaneous	41	400	686	726	72	64
Total Other Assets	364,944	108,956	76,040	64,445	65,104	58,843
TOTAL ASSETS	3,740,915	3,657,827	4,182,907	4,838,477	4,773,669	3,838,516
LIABILITIES AND NETWORTH						
CURRENT LIABILITIES						
Vouchers Payable	940,705	698,726	908,669	930,521	1,213,566	838,946
Unearned Income	21,335	45,615	28,829	18,908	19,292	19,680
Interbranches Payable	0	0	0	4,549	0	10,678
Miscellaneous Payables	3,341	12,487	5,491	4,550	5,871	3,797
Total Current Liabilities	965,380	756,829	942,989	958,528	1,238,729	

	1999	2000	2001	2002	2003	2004
TRUST LIABILITIES						
Charity Fund	861,608	886,782	1,472,440	2,075,943	1,384,306	1,372,378
Prize Fund	635,914	769,380	1,255,519	1,396,966	1,106,900	449,516
National Government Agency - BIR	106,063	110,552	116,174	87,344	156,642	169,009
National Shelter Program	0	412,354	212,369	166,318	166,318	144,063
Commission on Higher Education	0	110,973	116,735	176,155	192,899	294,750
Government-Owned and/or -Controlled Corporations	4,297	3,352	7,056	3,979	4,716	5,200
Miscellaneous - Interfund Borrowings – Grants	0	20,000	20,000	20,000	20,000	20,000
Miscellaneous - Interfund Borrowings – ERIP	0	124,101	124,101	99,101	74,101	49,101
Miscellaneous	174	604	266	2,420	2,300	18,254
Total Trust Liabilities	1,608,057	2,438,098	3,324,659	4,028,226	3,108,182	2,522,271
OTHER LIABILITIES & DEFERRED CREDITS	618	1,575	1,103	862	803	1,103
TOTAL LIABILITIES	2,574,055	3,196,502	4,268,752	4,987,616	4,347,714	3,396,476
Reserved Fund - Prize Fund	0	0	0	0	550,000	675,696
NETWORTH						
Retained Earnings (Deficit)	(53,250)	(728,313)	(1,270,149)	(1,299,828)	(1,273,722)	(1,426,275)
Contingent Surplus	59,499	12,965	14,371	14,801	14,801	14,801
Appraisal Increment	912,193	912,193	912,193	887,480	887,480	887,480
Invested Surplus	248,192	264,255	257,513	248,408	247,396	290,337
Donated Capital	226	226	226	0	0	0
TOTAL NETWORTH	1,166,860	461,326	(85,845)	(149,139)	(124,045)	(233,656)
TOTAL LIABILITIES and NETWORTH	3,740,915	3,657,827	4,182,907	4,838,477	4,773,669	3,838,516

Source: Commission on Audit

13. PHILIPPINE ECONOMIC ZONE AUTHORITY

Background. The Philippine Economic Zone Authority (PEZA) was created with the passage of RA 7916 otherwise known as the Special Economic Zone Act of 1995. PEZA is a government-owned and -controlled corporation attached to the DTI.

PEZA replaced the Export Processing Zone Authority (EPZA) created in 1972 that was initially mandated to manage and operate government-owned zones and administer incentives to special economic zones (ecozones). EPZA then had an initial capitalization of P200 million. The first Export Processing Zone (EPZ) in the country was set up in Bataan in 1972. Other EPZs, such as in Baguio City, Cavite, and Mactan were later established. An amendment into the EPZA Charter allowed EPZA to designate a specific plant site of an industrial firm or a group of industrial firms as a special export processing zone (SEPZ) which was entitled to the same incentives granted to the four government-owned EPZs. The limited success of the SEPZs prompted the government to institute policy changes which culminated in the creation of the PEZA (Aldaba, 2005).

The creation of PEZA was triggered by, among others, the proliferation of proposals to create ecozones in various parts of the country. It is an attempt to put in order guidelines and integrated approach in the establishment, operation, provision of incentives and regulation of ecozones. RA 7916 institutionalized the establishment of ecozones as a key strategy in the pursuit of a sound and balanced industrial, economic and social development of the country. It also expanded the scope of ecozones to include not only EPZs, but also industrial estates, tourism/recreation complexes, free trade zones, and investment, commercial banking and financial centers.

The PEZA is tasked with the establishment of ecozones all over the country to respond to the demands for ready-to-occupy locations for foreign investments. It caters mainly to export producers or IT service exporters. It is also mandated to regulate and undertake the establishment, operation and maintenance of utilities, infrastructure, and other services in ecozones such as heat, light and power, water supply, telecommunications transport, toll roads and bridges, and port services. Rates, fares, charges and fees for these utilities, infrastructure, and other services are determined by PEZA. PEZA is allowed to float domestic and overseas bonds.

The PEZA likewise grants fiscal and non-fiscal incentives to developers of ecozones, export producers, and IT service exporters. These incentives include income tax holiday and duty-free importation of raw material and capital equipment (Table 13.1).

Table 13.1 List of Fiscal and Non-Fiscal Incentives

Investment Incentives for Ecozone Developers/ Operators	Incentives for Ecozone and IT Locators
Income Tax Holiday	Income Tax Holiday (ITH) or Exemption from Corporate Income Tax for four years, extendible to a maximum of eight years; after the ITH period, the option to pay a special 5% Tax on Gross Income, in lieu of all national and local taxes
Incentives under the Build-Operate-Transfer Law, which include government support for accessing Official Development Assistance and other sources of financing	Exemption from duties and taxes on imported capital equipment, spare parts, supplies, raw materials. Also, breeding stocks and / or genetic materials or the equivalent tax credit on these items, when sourced locally
Provision of vital off-site infrastructure facilities	Domestic sales allowance equivalent to 30% of total sales
Option to pay a special 5% Gross Income Tax, in lieu of all national and local taxes	Exemption from wharfage dues and export taxes, import duties and fees
Permanent resident status for foreign investors and immediate family members	Permanent resident status for foreign investors and immediate family members
Employment of foreign nationals	Employment of foreign nationals
Assistance in the promotion of economic zones to local and foreign locator enterprises	Simplified import and export procedures
	Other incentives under Executive Order 226 (Omnibus Investment Code of 1987), as may be determined by the PEZA Board

Source: PEZA

At present, there are already 169 proclaimed/operating ecozones in the country under the auspices of the PEZA. Of these, four are public economic zones while the remaining 165 are either owned by private entities or by different LGUs. Of this number, 88 are in manufacturing SEZs, 76 in IT Zones and 5 are in Tourism Zones (Annex 13.1).

Board of Directors. The PEZA Board of Directors is composed of 13 members. It includes the Secretary of DTI and Undersecretaries of Department of Finance (DOF), Department of Labor and Employment (DOLE), Department of Interior and Local Government (DILG), Department of Agriculture (DA), Department of Public Works and Highways (DPWH), Department of Science and Technology (DOST), Department of Energy (DOE), Department of Environment and Natural Resources (DENR), and the National Economic and Development Authority (NEDA) Director-General. The PEZA Director-General and one representative each from the labor and business/investor sectors also sit in the Board. The DTI Secretary serves as the Chairman and the PEZA Director General as ex officio Vice-Chairman. The PEZA Director General and the representative of the business sector are appointed by the President of the Philippines.

The Board is mandated to: (a) set the general policies on the establishment and operation of the ecozones, industrial estates, export processing zones, free trade zones, and the like; (b) review proposals and endorse to the President of the Philippines the establishment of ecozones, industrial estates, export processing zones, free trade zones and the like; and thereafter, facilitate and assist in the organization of said entities; (c) regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure and fix just, reasonable and competitive rates, charges and fees; and (d) provide annual reports to the President and the Congress.

When PEZA was created in 1995, the Board had only nine (9) members composed of the PEZA Director General serving as ex officio chairman with eight (8) members as follows: the Secretaries (or their representatives) of the DTI, DOF, DOLE, and DILG, the NEDA Director-General, and the Governor of the Bangko Sentral ng Pilipinas, one (1) representative from the labor sector and one (1) representative from the investors/business sector in the ecozone. Subsequent amendment to the law in 1999 changed the composition of the Board to include mostly undersecretaries and increased the Board members to 13 to include the undersecretaries of the DENR, DA, DOST and DOE.

Management. The PEZA Director-General is the Chief Executive Officer. He/She should be at least 40 years of age, of proven probity and integrity, and with a degree in economics, business, public administration, law, management or its equivalent with at least 10 years relevant work experience.

The Director General is prohibited from holding any other office or position within or outside PEZA during his tenure, to directly or indirectly practice any profession, participate in any business, or be financially interested in any contract with or in any franchise, special privilege granted by PEZA of the national government or any other government instrumentality or agency.

Other senior executives are three deputy directors-general (Deputy Directors-General for Operations, for Finance and Administration, and for Policy and Planning), four Zone Administrators for public ecozones, and 38 Zone Managers for private ecozones.

Operational Highlights. In the past ten years, the contribution of PEZA SEZs to the economy has been growing. In terms of employment, the jobs provided by SEZs have jumped from around 230,000 in 1994 to more than a million in 2004 (Table 13.2). Export earnings have likewise increased from less than $3 billion to $31 billion during the same period. Exports from PEZA SEZs account for more than 75 percent of total Philippine exports.

Table 13.2 Employment Generated and Value of Exports Produced by Public and Private Ecozones under PEZA, 1994-2004

	Employment Generated	% to Total Labor	Exports (million US$)	% to Total Exports
1994	229,650	0.91	2,739	20.3
1995	304,557	1.19	4,284	24.6
1996	380,625	1.39	6,500	31.6
1997	562,085	2.02	10,626	42.1
1998	609,044	2.15	13,270	45.0
1999	617,690	2.13	15,807	45.1
2000	696,035	2.51	20,025	52.6
2001	708,657	2.36	19,498	60.6
2002	820,960	2.71	22,775	64.7
2003	907,127	2.87	27,313	75.4
2004	1,016,880	3.20	30,924	77.9

Source: PEZA

The PEZA-approved investments, however, have been on the downward trend from 2000 to 2003 and recovered significantly in 2004 (Table 13.3). Approved investments rose from P26.7 billion in 2003 to P46.1 billion in 2004 due to continued expansion in global demand for electronics, and information and communications technology (ICT) products and services. In terms of employment generation, 2002 was a banner year. The sharp increase in job generation in 2002 was due to the fact that majority of the new projects implemented in that year were generally more labor-intensive compared to expansion projects implemented in 2003.

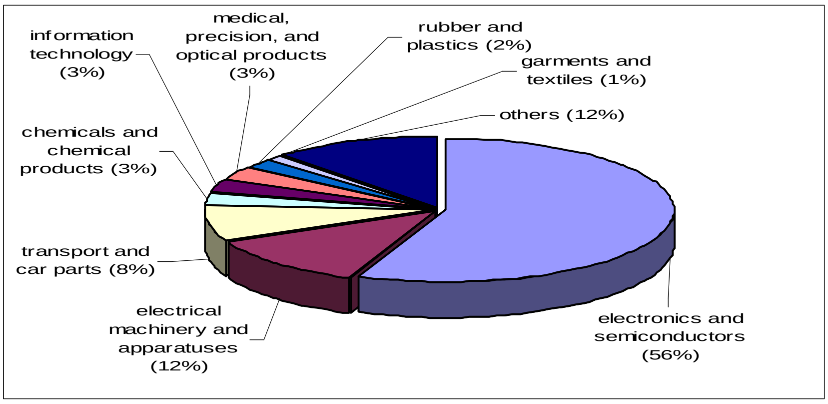
Table 13.3 PEZA Selected Indicators, 2000-2004

	PEZA			Growth Rates (%)		
	Employment Generated	Approved Investments (in million PhP)	Manufactured Exports (in million US$)	Employment Generated	Approved Investments	Manufactured Exports
2000	78,345	71,538	20,025	806.14	107.30	26.68
2001	12,622	34,673	19,498	(83.89)	(51.53)	(2.63)
2002	112,303	26,893	22,775	789.71	(22.44)	16.81
2003	86,167	26,691	27,313	(23.27)	(7.33)	19.93
2004	109,753	46,138	30,924	27.37	85.12	13.22

Sources: PEZA, BSP, and NEDA

More than half of the locators found in PEZA ecozones are engaged in manufacturing, with 1 out of 3 locators engaged in the manufacture and assembly of electronics, semiconductors, and other electrical machinery and apparatuses (Figure 13.1).

Figure 13.1 Manufactured Exports by Type Produced by Ecozones under PEZA, 2004



Source of basic data: PEZA

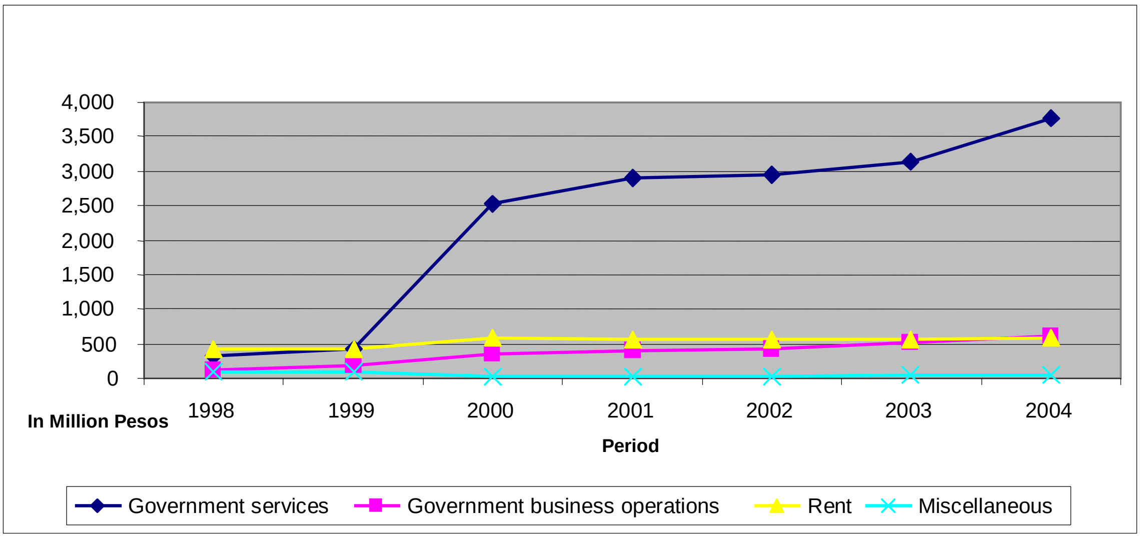
Financial Highlights. PEZA registered net income from 1999 to 2004, with the highest of P587.61 million in 2001 (Annex 13.2). More than 70 percent of PEZA's earnings come from government services such as the provision of basic utilities like water, and power. Income derived from the rent of land, buildings, and equipment used to account for the larger share, but the share of government services has practically doubled since 2000 due to a change in accounting procedures (Table 13.4). In 2004, earnings from government services accounted for 75.4 percent of PEZA's total earnings. Total operating and service income has been growing steadily during the last five years (Figure 13.2). In 2004, total income grew by P723.05 million pesos, representing a growth of 17 percent compared to income generated in 2003. Income from rent of various properties also grew by P4 million or 0.7 percent in 2004 and P6.8 million or 1.2 percent in 2003, a reversal of the slight decline in rent income observed in 2001 and 2002.

Table 13.4 PEZA Operating and Service Income by Sources, 1998-2004 (%)

	1998	1999	2000	2001	2002	2003	2004
Government services	33.5	37.2	72.8	74.5	74.0	73.6	75.4
Rent	42.9	37.2	16.5	14.7	14.2	13.4	12.1
Government business operations	13.0	17.1	9.9	10.0	10.8	12.1	11.6
Miscellaneous	10.5	8.4	0.8	0.9	0.9	0.9	0.9

Source: Commission on Audit

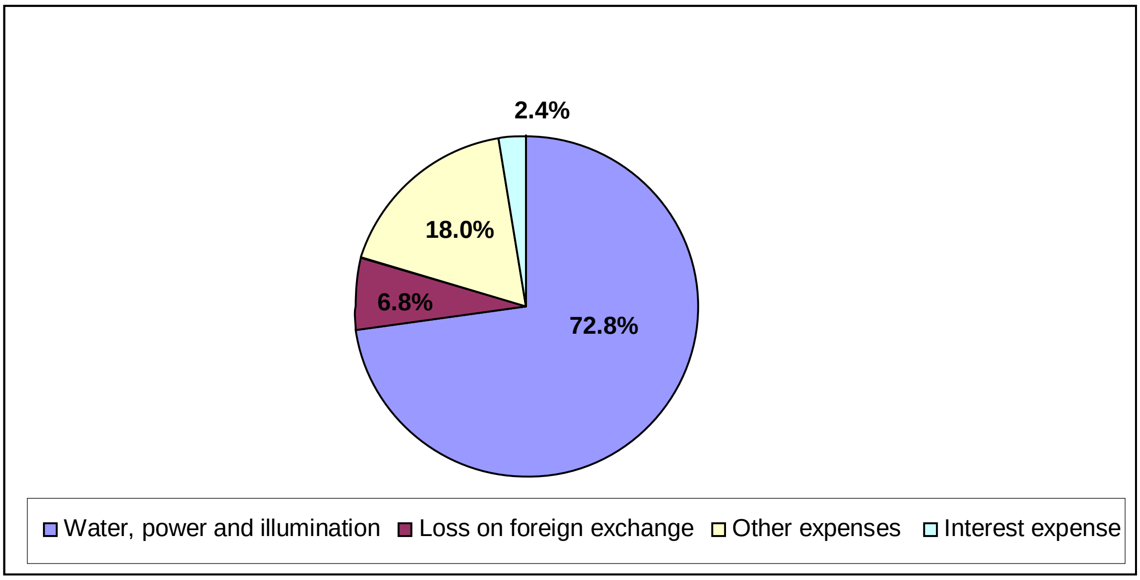
Figure 13.2 PEZA Operating and Service Income, 1998-2004



Source of basic data: Commission on Audit

The share of maintenance and other operating expenses (MOOE) has slowly been increasing, from 85 percent of total operating expenses in 1999 to 95 percent in 2004. During that year, PEZA spent P3.3 billion on various utilities, growing by 18 percent or P578.7 million compared to 2003 levels. Expenses for utilities represented 73 percent of total maintenance expenditures in 2004 (Table 13.3). Forex losses amounted to P305.1 million while PEZA also spent P110.4 million on interest payments in 2004. The level of bad debts increased significantly by 958.7 percent, from only P1.6 million in 2003 to P17.1million in 2004.

Figure 13.3 PEZA Maintenance and Other Operating Expenses (MOOE), 2004 (%)



Source of basic data: Commission on Audit

PEZA also spent P237.8 million on personal services in 2004, an increase of 3.3 percent from 2003 levels (Table 13.5). This figure accounts for the remaining 5 percent of total operating expenses. Sixty-three percent of personal services expenses went to the payment of salaries and wages of its employees which amounted to P150.4 million in 2004.

PEZA has 1,042 authorized plantilla positions. As of 8 February 2005, it had a total complement of 630 officials and employees. Ninety five percent of the workforce (598) are under permanent status, while the remaining 5 percent (32) are contractual workers. All PEZA employees are covered by the Salary Standardization Act.

Table 13.5 PEZA Operating Expenses, 1998-2004
(In pesos)

Year	Levels		Growth Rates (%)	
	Personal Services	MOOE	Personal Services	MOOE
1998	132,413,714	804,739,753	-	-
1999	147,776,500	1,084,791,064	11.6	34.8
2000	228,770,706	3,165,212,547	54.8	191.8
2001	225,226,019	3,161,486,441	-1.5	-0.1
2002	219,370,572	3,298,361,926	-2.6	4.3
2003	230,235,386	3,561,347,193	5.0	8.0
2004	237,845,548	4,514,877,574	3.3	26.7

Source: Commission on Audit

PEZA's total assets were pegged at P5.33 billion in 2004, a third of which were held as current assets (Annex 13.3). Current assets increased moderately in 2004 from the previous year but still remained below the 2001 level. Properties and equipment account for two-thirds of its assets.

Total liabilities were pegged at P3.37 billion in 2004, more than half of which were current liabilities (Annex 13.3). Less than half of total liabilities are long-term liabilities. Equity was pegged at P2.0 billion in 2004, 40 percent higher compared to the previous year.

PEZA has improved its financial position throughout the period (Table 13.6). Its current ratio has been increasing since 2000. Debt-to-asset and debt-to-equity ratios in 2004 have declined compared to their 1999 levels.

Table 13.6 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	0.595	0.567	0.621	0.688	0.691	0.877	0.673
Debt-to-Asset Ratio	0.850	0.847	0.724	0.678	0.752	0.632	0.747
Debt-to-Equity Ratio	5.668	5.547	2.622	2.107	3.026	1.721	3.448

Source of basic data: Commission on Audit

Annex 13.1

List of Public and Private Ecozones

Public Ecozones	Private Ecozones	IT Parks and Buildings	Tourism Zone
Baguio City Economic Zone	Agus Industrial Estate	6750 Ayala Avenue Building	Eastbay Arts, Recreational And Tourism Zone
Bataan Economic Zone	Amkor Technology Special Economic Zone	Arcenas Estate IT Building	Fort Ilocandia Tourism Economic Zone
Cavite Economic Zone	Angeles Industrial Park	Asia Town Information Technology Park	Boracay Eco-Village Resort Tourism Economic Zone
Mactan Economic Zone	Calamba Premiere International Park	Bigfoot Information Technology Park	Island Cove Tourism Economic Zone
	Carmelray Industrial Park	Convergys IT Building	
	Carmelray Industrial Park II	DBP IT Plaza	
	Cebu Light Industrial Park	Diliman IT Building	
	CIIF Agro-Industrial Park	East Cyber Gate	
	Cocochem Agro-Industrial Park	Eastwood City CyberPark	
	Daiichi Industrial Park	EDSA Central IT Center	
	EMI Special Economic Zone	E-Square Information Technology Park	
	Filinvest Technology Park - Calamba	Eugenio Lopez Jr. Communication Center	
	First Cavite Industrial Estate	Exportbank Plaza Building	
	First Oriental Business and Industrial Park	Federated IT Park	
	First Philippine Industrial Park	G. T. Tower International	
	First Philippine Industrial Park Expansion	Gateway Office Tower	
	First Philippine Industrial Park Expansion	HTMT Cyber Park	
	Food Terminal Incorporated Special Economic Zone	HVG Arcade IT Park	
	Gateway Business Park	Innove IT Plaza	
	Gateway Business Park I	Insular Life Building	
	Greenfield Automotive Park	JY Square IT Center	
	Greenfield Automotive Park II	Leyte ICT Park	
	Hermosa Ecozone	Mango Square	
	Jasaan Misamis Oriental Ecozone	Marvin Plaza Building	
	Laguna International Industrial Park	MSE Center	
	Laguna Technopark I	Multinational Bancorporation Centre	
	Laguna Technopark II	Northgate Cyber Zone	
	Laguna Technopark III	Octagon IT Building	
	Laguna Technopark IV	Orient Square IT Building	
	Leyte Industrial Development Estate	Pacific Information Technology Center	
	Light Industry & Science Park I	PBCom Tower	
	Light Industry & Science Park II	Peoplesupport Center IT Building	
	Light Industry & Science Park III	Philamlife IT Building	
	Lima Technology Center (Lipa)	Pueblo de Oro IT Park	
	Lima Technology Center (Malvar)	RCBC Plaza	
	Luisita Industrial Park	Riverbank Center ICT Bldg I	
	Macroasia Ecozone	Robinsons Big R Supercenter Cainta Junction	
	Mactan Ecozone II	Robinsons CyberPark	
	MRI Ecozone	Robinsons Metro Bacolod	
	New Cebu Township	Robinsons Place Novaliches	
	People's Technology Complex	Robinsons-Equitable Tower	
	Philtown Technology Park	SM CyberZone 1	
	Plastic Processing Center SEZ	SM iCity	
	Rapu-Rapu Ecozone	Sta. Rosa Commercial IT Park	
	Rio Tuba Export Processing Zone	Summit One Office Tower	
	Robinsons CyberPark	The Block IT Park	
	Sarangani Economic Development Zone	The Enterprise Center	
	SRC Calumpang Economic Development Zone	UnionBank Plaza	

Public Ecozones	Private Ecozones	IT Parks and Buildings	Tourism Zone
	Subic Shipyard Special Economic Zone	UP Science And Technology Park (South)	
	Tabangao Special Economic Zone	V-Tech Tower	
	TECO Special Economic Zone	Allegis Information Technology Park	
	Toyota Sta. Rosa (Laguna) Special Economic Zone II	Aurora Tower	
	Toyota Sta. Rosa (Laguna) Special Economic Zone	BPI Buendia Center	
	Victoria Wave Special Economic Zone	Camarines Sur Information Technology Park	
	West Cebu Industrial Park	Cebu I.T. Tower	
	YTMI Realty Special Economic Zone	DPC Place Building	
	Abra Agro-Industrial Center	EDSA Central IT Center 2	
	Amihan Woodlands Township	Gateway Call Center Office	
	Asahi Special Economic Zone	Global Trade Center	
	Ayala de Zamboanga Industrial Park	HDMF-WTCI IT Tower	
	Carmelray International Business Park	Insular Life Corporate Center	
	Cavite Eco-Industrial Estate	JG Summit Center	
	Cavite Productivity Economic Zone	JGC Philippines Building	
	Cebu South Road Properties	JY Square IT Center II	
	Central Technopark	JY Square IT Center III	
	Clark Special Economic Zone	KRC IT Building	
	Eastern Visayas Regional Growth Center	Lexmark Plaza	
	Fil-Estate Industrial Park	PSMT IT Building	
	Filoil Special Economic Zone	Riverbank Center ICT Bldg II	
	First Batangas Industrial Park	Robinsons Place Lipa	
	Global Industrial/Maritime Complex	Taft IT Park	
	Jose Panganiban SEZ	Tarlac Provincial Information Technology Park I	
	Kelly Special Economic Zone	Tarlac Provincial Information Technology Park II	
	Legaspi City Special Economic Zone	Tarlac Provincial Information Technology Park III	
	Manila Harbour Center	UP Science And Technology Park (North)	
	Nasipit Agusan del Norte Industrial Estate	Wynsum Corporate Plaza IT Building	
	Pangasinan Industrial Park II		
	Philippine Int'l Air Terminals Co. SEZ		
	Philnico Industrial Estate		
	PNOC Petrochemical Industrial Estate		
	Polambato-Bogo Economic Zone		
	RLC Special Economic Zone		
	Samal Casino Resort		
	San Carlos Ecozone		
	Shannalyne Technological and Environmental Park		
	South Coast Ecozone		
	Subic Hermosa Cyber City		
	Tubay Agri-Processing Center		

Source: PEZA

Annex 13.2

PEZA - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Operating and Service Income						
Government services	421,629	2,534,328	2,894,017	2,939,650	3,140,579	3,762,056
Government business operations	194,060	344,387	388,266	430,327	514,104	602,714
Rent	422,109	576,037	570,935	565,358	572,164	576,147
Miscellaneous	95,452	27,359	33,734	34,888	38,063	47,044
Total Operating and Service Income	**1,133,251**	**3,482,110**	**3,886,953**	**3,970,223**	**4,264,910**	**4,987,961**
Other Income	112,319	129,266	319,906	159,099	151,474	274,051
Operating Expenses						
Personal services	147,777	228,771	225,226	219,371	230,235	237,846
Maintenance and other operating expenses	1,084,791	3,165,213	3,161,486	3,298,362	3,561,347	4,514,878
Water, power, and illumination	26,125	2,067,997	2,507,826	2,480,000	2,708,079	3,286,789
Interest expenses	245,595	463,207	204,356	149,717	114,497	110,396
Loss on foreign exchange	535,549	228,535	22,764	278,141	349,770	305,137
Depreciation	77,872	108,317	112,545	150,769	137,949	517,193
Other Services	113,256	108,307	208,207	151,663	152,075	176,996
Consultancy and other fees	-	54,103	-	-	-	-
Travelling expenses – Domestic	2,543	39,173	3,181	2,518	2,682	2,711
Rent	21,736	21,868	20,616	21,489	25,996	30,558
Taxes, duties, and fees	20,653	21,513	26,476	12,490	10,250	8,769
Supplies and materials	8,682	15,151	15,231	13,725	12,443	16,029
Repair and maintenance - Govt. facilities	2,497	10,075	6,468	5,805	8,362	7,064
Communication services	6,470	6,111	6,748	5,765	6,011	7,059
Auditing services	4,723	4,892	8,620	6,970	7,872	7,375
Repair and maintenance - Govt. vehicles	4,924	4,712	2,294	2,220	2,095	2,810
Fidelity bond and insurance premium	5,838	3,805	5,768	5,829	4,968	6,458
Extraordinary and miscellaneous expenses	3,965	2,605	611	268	391	3,821
Training and seminar expenses	875	1,899	638	1,701	1,528	1,251
Social security benefits, rewards, and other Claims	1,302	1,306	1,151	976	2,465	2,706
Gas and oil	1,763	835	2,680	2,264	2,416	2,707
Office of the Solicitor-General	405	480	489	501	492	504
Commitment fees and other charges	825	144	4,089	14	3	-
Transportation services	76	115	410	616	470	544
Grants, subsidies, and contributions	37	63	66	-	8,013	6
Travelling expenses - Foreign	1,059	-	252	1,035	904	902
Awards and indemnities	23	-	-	-	-	-
Bad debts	-	-	-	3,885	1,615	17,094
Total Operating Expenses	**1,232,568**	**3,393,983**	**3,386,712**	**3,517,732**	**3,791,583**	**4,752,723**
Income Before Income Tax	13,003	217,393	820,146	611,590	624,801	509,289

	1999	2000	2001	2002	2003	2004
Provision for Income Tax	-	-	232,537	195,709	170,708	17,382
Net Income	13,003	217,393	587,609	415,881	454,093	491,906
Retained Earnings (Deficit) at Beginning of Year	40,640	(1,596,141)	(1,584,628)	(887,466)	(699,690)	(1,239,867)
Dividends	(50,188)	-	(86,096)	(293,805)	(218,912)	(219,998)
Prior-years adjustments	(1,599,596)	(205,879)	195,649	65,699	(775,358)	518,183
Retained Earnings (Deficit) at End of Year	(1,596,141)	(1,584,628)	(887,466)	(699,690)	(1,239,867)	(449,776)

Source: Commission on Audit

Annex 13.3

PEZA - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Total Current Assets	1,454,877	1,548,493	1,670,382	1,579,677	1,365,081	1,647,706
Total Property and Equipment	3,919,874	3,766,191	3,727,662	3,612,339	3,224,856	3,579,758
Other Assets	34,607	37,874	109,028	114,815	110,761	97,894
TOTAL ASSETS	5,409,357	5,352,557	5,507,072	5,306,831	4,700,698	5,325,359
LIABILITIES AND NET WORTH						
Total Current Liabilities	2,446,321	2,797,501	2,690,005	2,295,381	1,976,676	1,829,746
Long-term Liabilities	2,149,356	1,765,180	1,286,080	1,289,020	1,538,771	1,513,780
Other Liabilities and Credits	2,379	3,661	10,447	14,339	17,796	24,700
TOTAL LIABILITIES	4,598,056	4,566,341	3,986,532	3,598,741	3,533,243	3,368,226
TOTAL NET WORTH	811,301	823,203	1,520,539	1,708,090	1,167,455	1,957,132
TOTAL LIABILITIES AND NET WORTH	5,409,357	5, 389,544	5,507,072	5,306,831	4,700,698	5,325,359

Source: Commission on Audit

14. PHILIPPINE NATIONAL OIL COMPANY

Background. The Philippine National Oil Company (PNOC) was created on November 9, 1973 by virtue of Presidential Decree No. 334 to provide and maintain adequate and stable supply of oil in the country. Its charter was amended to include energy exploration and development. It is engaged in the integrated power generation and the supply of steam to the National Power Corporation (NPC). Oil or petroleum exploration includes the actual exploration, production, refining, tankerage, and/or shipping, storage, transport, marketing, and other related activities. The PNOC mandate was later expanded to include promoting the exploration of other energy resources such as geothermal and coal. Other functions of PNOC include (1) establishing and maintaining petroleum base territory, duty-free ports, airports, telecommunications center, and ship-to-shore communications facilities related to its operations; (2) entering into contracts, with or without public bidding, with any person or entity, domestic or foreign, and with governments related to its oil or petroleum operation; and (3) engaging in export and import business of oil or petroleum and its derivatives.

PNOC had an initial capital stock of P150 million subscribed by the National Government and government financial institutions (GFIs). It was increased to P500M in 1978.

Borrowing authority. The PNOC is authorized to issue bonds or securities to finance its operations subject to the approval of the President of the Philippines upon the recommendation of the DOF Secretary.

The PNOC is also authorized to contract foreign loans. Any financial institution owned or controlled by the Philippine government other than the Central Bank, GSIS, and SSS is allowed to guarantee for PNOC's domestic or foreign loans.

The PNOC is also entitled to all incentives and privileges granted by law to private enterprises engaged in petroleum or oil operations. It is exempt from the payment of all taxes, duties, fees, imposts, and all other charges.

Service contracts. PNOC and its subsidiaries entered into service contracts with the DOE for (1) the development of geothermal resources and coal areas and (2) exploration of oil concession areas and natural gas deposits.

PNOC-EDC has existing 20- to 25- year sales contracts with NPC to supply geothermal energy from its five plants namely Tongonan (Leyte), Bacon-Manito I (Albay), Bacon-Manito II (Albay), Palinpinon I (Negros Oriental), and Palinpinon II (Negros Oriental). These contracts are set to expire in 2008 at the earliest and in 2020 at the latest. More than 85 percent of PNOC's revenues come from the sales of geothermal energy.

Aside from geothermal steam sales contracts, some PNOC subsidiaries entered into Build-Operate-Transfer (BOT) contracts and coal operating contracts. For one, the electricity produced by PNOC-EDC, through its BOT contractors, is sold to NPC subject to power purchase agreements.

Board of Directors. The PNOC Board has nine members including the DOE Secretary and the President of PNOC. The members of the Board are appointed by the President and they serve for three years. They should be natural-born citizens of the Philippines and of established integrity.

The Board's power and functions include (1) borrowing money from local and foreign sources; (2) leasing to private entities its petroleum and energy base including its facilities; (3) establishing and maintaining subsidiaries and reorganizing or abolishing them; and (4) determining the organizational structure including employees' remuneration. The PNOC, through its Board, can invest its funds in bonds and securities including those of its subsidiaries.

When the PNOC was created in 1973, the Board had only seven members. When the PNOC Charter was amended in 1976, the Board's membership was increased to nine.

The PNOC became an attached agency of the DOE in 1977 with the DOE Secretary as the ex-officio Board Chairman.

Management. The PNOC President serves as the Chief Executive Officer. His duties include preparing the agenda for the meetings of the Board and supervising the operations and administration of the Company.

Other senior executives are two Senior Vice-Presidents (SVP for Legal, Administration, and Estate Management and SVP for Management Services).

When the PNOC was created in 1973, the PNOC President served as the Chief Executive Officer. When the PNOC Charter was amended in 1976, the Board Chairman also served as the CEO. This effectively made the Department of Energy Secretary, being the ex-officio Chairman, the CEO. This was repealed 16 years later with the passage of RA 7638 otherwise known as the Department of Energy Act of 1992.

The PNOC mother company is subject to Salary Standardization Law while its subsidiaries are exempted.

The PNOC is required to submit an annual report to the President of the Philippines.

Operational Highlights. The PNOC has presently five subsidiaries, two of which are on energy resource development, two on allied energy activities, and one on real estate. The five PNOC subsidiaries are:

1. PNOC Energy Development Corporation (PNOC-EDC)
2. PNOC Exploration Corporation (PNOC-EC)
3. PNOC Petrochemical Development Corporation (PNOC-PDC)
4. PNOC Shipping and Transport Corporation (PNOC-STC)
5. PNOC Development and Management Corporation (PNOC-DMC)

PNOC-EDC. The PNOC-EDC was created in 1976 to undertake the exploration and development of geothermal energy and other viable energy resources. It was responsible for making the country the second largest producer of geothermal steam. PNOC-EDC operates nine geothermal plants with a combined capacity of more than 1,000 MW. It has recently embarked on wind power projects including one in Ilocos Norte.

The PNOC-EDC Board is composed of eight members: the PNOC-EDC President and 7 board members. The PNOC-EDC President acts as Board Chairman. The Board meets once a month. Other senior executives are four Vice-Presidents (VPs for Operations, for Corporate Services, for External Affairs, and for Technical Services).

PNOC-EC. The PNOC-EC was created in 1976 as the oil and gas exploration arm of PNOC. It is also involved in coal development, production, and trading- taking over the previous function of the dissolved PNOC-Coal Corporation (PNOC-CC). The PNOC-EC presently operates a three-megawatt natural gas power plant in Isabela.

Majority (99.78 percent) of PNOC-EC shares of stock are owned by the Philippine government through PNOC. The remaining shares of stock are held by private stockholders. The PNOC-EC is listed in the Philippine Stock Exchange (PSE).

The PNOC-EC Board is composed of nine members: the Board Chairman, the PNOC-EC President, and 7 board members. They are elected for one-year term each during the annual stockholders' meeting. The Board meets once a month.

The PNOC-EC President serves as the Chief Executive Officer. Other senior executives are the following: a Vice President (also the Chief Operating Officer), an Assistant Vice-President for Petroleum Exploration and Production, a Chief Financial Officer, and 5 managers (Managers for Production and Gas Department, for Exploration Department, for Coal Exploration and Production Development, for Coal Marketing Department, *and* for Planning, Business Development and IT Department).

An annual report is submitted to the Philippine Stock Exchange (PSE), Securities and Exchange Commission (SEC) and PNOC-EC's stockholders.

PNOC-PDC. The PNOC-PDC was created in 1993 to develop a petrochemical plant in Limay and Mariveles, Bataan. There are currently three petrochemical plants in the area.

The PNOC-PDC Board is composed of five members: the Board Chairman, the PNOC-PDC President, and 3 board members. The board members serve for a year or until their successors are duly elected and qualified. The Board meets at least once a month.

The PNOC-PDC President serves as the Chief Executive Officer. The management is composed of five executive officers.

The PNOC-PDC was renamed as PNOC-Alternative Fuels Corporation (PNOC-AF) in July 2006 with an expanded mandate of exploration, development, and acceleration of the utilization and commercialization of alternative fuels. It also takes over the development, operation, and the management of the petrochemical estate located in Bataan from PNOC-PDC.

The PNOC-AFC Board is composed of four members which includes the PNOC-AFC President.

The PNOC-AFC President serves as the Chief Executive Officer. The management team is composed of four department managers (Operations, Corporate Planning and Finance, Corporate Services, and Internal Audit) and a legal counsel.

PNOC-STC. The PNOC-STC was created in 1978 to undertake shipping, tankering, lighterage, barging, towing, transport, and shipment of goods, chattels, petroleum, and other products. It currently maintains 4 tankers with a combined capacity of more than 20,000 barrels.

The PNOC-STC Board is composed of seven members: the Board Chairman, the PNOC-STC President, and 5 board members. The Board meets at least once a month.

The PNOC-STC President also serves as the Chief Executive Officer. The management is composed of four executives.

PNOC-DMC. The PNOC-DMC, formerly called the Filoil Development and Management Corporation, is the estate development and management arm of PNOC. It presently manages a 123-hectare property in Rosario, Cavite. The PNOC-DMC, as part of its socialized housing program, awarded 180 housing units and 274 parcel lots to informal dwellers in 2004. It is also involved in the development of a 32-hectare prime property in Rosario, Cavite into residential and commercial subdivisions under a joint venture agreement with a private real estate company.

The PNOC-DMC Board is composed of six members: the Board Chairman, President/CEO, and 4 board members. The Board meets at least once a month.

The PNOC-DMC President also serves as the Chief Executive Officer.

Financial Highlights. The PNOC and its subsidiaries, in a consolidated financial statement, registered an average annual net income of P2.371 billion for the six (6) year period 1999-2004 with the highest net income of P5.220 billion registered in 2004 (Annex 14.1).

In 2004, only PNOC-PDC netted P11.105 million losses while the other four subsidiaries (PNOC-EC – P0.534 billion, PNOC-EDC – P2.904 billion, PNOC-STC – P0.009 billion and PNOC-DMC – P0.013 billion), together with the mother company, earned a combined net income of P5.231 billion. In 2003, despite the losses registered by two of its subsidiaries (P131.96 million for PNOC-PDC and P21.42 million for PNOC-DMC), PNOC's operations still resulted to a consolidated net income of P1.89 billion. Also in 2002, with three subsidiaries (P1.34 billion for PNOC-EC, P290.91 million for PNOC-PDC and P3.76 million for PNOC-DMC) incurring net losses, the PNOC still yielded a net income of P1.25 billion. In the banner year 2001, all subsidiaries were able to perform well and netted a consolidated net income of P1.88

billion. With only the PNOC-DMC in the red in 2000, the consolidated net income amounted to P1.63 billion. In 1999, although three out of the five subsidiaries incurred net losses, PNOC still managed to muster a P2.35 billion consolidated net income, the second highest earned in six years.

PNOC, the mother company, earned an annual average net income of P0.814 billion from 1999 to 2004 while its five (5) subsidiaries contributed only an average of P1.558 billion among themselves.

The biggest bulk of PNOC's revenues came from the sale of steam and electricity sourced out from geothermal energy that comprised an average of 87.08 percent of its entire sales.

The following factors greatly affected the earning performance of PNOC:

- Expenses for "Other Charges" averaged P2.741 billion annually between 1999 and 2004, reaching the highest - P4.647 billion, in 2003. These represent amortization of deferred costs, provision for impairment in value of assets, compounded by interest expense and foreign exchange losses incurred mostly in the accounts of PNOC-EDC's and PNOC-EC's long term loans. Under their books, foreign loans stood at P55.363 billion (net of current portion) as of December 31, 2004 from just P26.381 billion in 1999. A substantial portion of foreign loans was guaranteed by the national government. In consideration for the surety given to creditor banks, the concerned agency pays a guarantee fee of 1 percent per annum on the outstanding balance of guaranteed borrowings.

- Provision for an allowance for doubtful accounts at various appraised values based on aging of accounts receivables grew significantly reflecting the poor collection performance of its receivables. From a low of only 2.73 percent (P67.23 million) of the total operating expenses in 2000, it went up to 9.08 percent (P238.25 million), 11.36 percent (P343.57 million), 16.36 percent (P517.36 million) and 13.13 percent (P361.523 million) for the succeeding years 2001, 2002, 2003 and 2004, respectively.

- The mother agency of PNOC is subject to Salary Standardization Law (SSL) but its subsidiaries are exempted. Under this set-up, each subsidiary has a non-contributory retirement plan which appears to be too generous. As of December 31, 2004, the balance of retirement plan for all PNOC subsidiaries amounted to P1.80 billion from a balance of P1.60 billion in 2003. Although the plans are computed based on an accepted actuarial method that includes normal costs and unfunded past services, plans of some subsidiaries were reported to be overfunded and the contribution to the fund has been recommended to be discontinued. As of October 31, 2001, the retirement plan of PNOC Coal Corporation was discovered to be overfunded by P36.45 million in October, 2001 and the contribution was recommended to be discontinued; and the pension cost of PNOC-DMC under their retirement plan costing P5.39 million from 1996-2002 was found to be more than sufficient to pay for the annual normal cost. It was also recommended that contributions starting November, 2002 be discontinued. Further, of the total average employee cost of P556.39 million per year, only 8.15 percent or an average of P45.37 million per year accounts for the employee costs of PNOC-Mother Company, with the remaining balance going to its subsidiaries.

- Other expenses were incurred on the following: a) expenses on mothballed vessels, b) generous car loan policy, and c) generous compensation package for its board members and officers.

PNOC's total assets were pegged at P105.3 billion in 2004, 20 percent of which were held as current assets (Annex 14.2). Current assets are largely accounts and notes receivables, prepaid expenses, and short-term investments. Cash position has deteriorated from P8.2 billion in 1999 to P2.0 billion in 2004. The sharp increases in short-term investments and accounts and notes receivable compensate for the decline in cash position. Property plant and equipment and electric plant under capital lease account for 60 million of PNOC's assets.

PNOC's total liabilities were pegged at P88.9 billion in 2004, more than 60 percent of which are foreign loans. Current liabilities were estimated at more than 15 percent, mainly current portion of BOT lease obligations and long-term loans and accounts payable. Stockholders' equity was recorded at P16.4 billion in 2004, which declined by half compared to the previous year. The sharp decline in equity was due to a marked fall in retained earnings. The fall in retained earnings was partly offset by revaluation increment on land.

PNOC Mother Company. PNOC Mother Company has consistently registered positive net income from 1999 to 2004, the largest of which was P1,176 million in 1999. Net income, though, has been on the decline except for a sharp increase in 2002. The sharp increase in net income in 2002 was largely due to improved revenues and lower tax provisions. Net income was pegged at P434 million in 2004, which fell by a fifth compared to the previous year.

PNOC Mother Company's net operating income was pegged at P493 million in 2004, which declined by 15 percent compared to the previous year. Operating income has been on the downward trend except for a sharp increase in 2002.

PNOC Mother Company's revenues were registered at P810 million in 2004, which declined by a fifth compared to the previous year. The revenues peaked at P1.8 billion in 2000 and fell below the P1 billion mark in 2004. Revenues came largely from interest and rent income. The revenue classified as 'other income' has been a persistent source of income volatility and was largely responsible for the sharp increase of operating income in 2002. Operating expense was pegged at P222 million in 2004, which increased by 10 percent compared to the previous year. Interest expenses have been on the decline since 2001.

PNOC Mother Company's total assets were pegged at P45.0 billion in 2004, 20 percent of which were held as current assets. Current assets are mainly short-term investments and dues from subsidiary companies. Cash position has deteriorated significantly from P3.9 billion in 1999 to P233 million in 2004. The Company's total assets declined remarkably from P62.8 billion in 2003 to P45.0 billion in 2004 due to a sharp fall in investments net of allowance. Long-term receivables and investments account for almost half of its total assets. Much of the company's investments were put in the 40 percent stake in Petron Corporation. PNOC owns 7 percent preferred shares from NDC as well as a substantial stake in Gulf Oil Philippines, Petrocorp, and Goodyear Philippines.

PNOC Mother Company's total liabilities were booked at P28.2 billion in 2004, more than 75 percent of which are long-term loans. Current liabilities were recorded at more than 10 percent, mainly current portion of long-term debt and accounts payable. Stockholders' equity was pegged at P16.8 billion, which declined by 50 percent compared to the previous year. Similar to the PNOC consolidated balance sheet, the sharp decline in retained earnings was partly offset by revaluation increment on land.

PNOC-EDC. PNOC-EDC has consistently registered net income, the largest of which was the P2,904 million in 2004. The trend in net income has been erratic with net income dipping to P148 million in 2003 due to higher forex losses and greater provision for income tax. The higher forex losses in 2003 were mainly due to corrections following changes in accounting rules. Net income improved remarkably from P148 million in 2003 to P2.9 billion in 2004 due to lower cost of sales and operating expenses.

PNOC-EDC's net operating income amounted to P7.4 billion in 2004, a 33 percent increase compared to the previous year. Operating income has been modestly increasing from 1999 to 2004 due to improvements on the revenue side.

PNOC-EDC's total assets were pegged at P70.5 billion in 2004, 20 percent of which were held as current assets. Current assets are mainly accounts receivable and restricted cash. Accounts receivable pertain largely to the PNOC-EDC's billings to the NPC. Restricted cash refers to the company's short-term placements with the Bangko Sentral ng Pilipinas (BSP) intended for the payment of loans under certain BOT contracts.

PNOC-EDC's cash position has shown an erratic pattern but it peaked to P4.4 billion in 2003. An introduction of a new category under current assets, the term 'cash-restricted', reduced the cash position of the company. Property and equipment and electric plant under lease account for more than two-thirds of PNOC-EDC's assets.

PNOC-EDC's total liabilities were pegged at P69.8 billion in 2004, more than 80 percent of which were long-term liabilities. Much of these long-term liabilities were foreign loans and BOT lease obligations. Stockholders' equity was booked at P655 million, which declined by more than 95 percent compared to the previous year due to fall in retained earnings. The sharp increase in revaluation on land was not enough to offset the marked fall in retained earnings.

PNOC-EC. PNOC-EC has registered net income from 1999 to 2004 except for a net loss of P1.3 billion in 2002. The sharp loss in 2002 was mainly due to the charging of deferred exploration and development costs of various inactive and abandoned exploration projects. Net income has been on the positive territory since then, reaching P534 million in 2004.

Operating income grew remarkably from P7.3 million in 1999 to P2.1 billion in 2004 due to parallel increase in net sales of P46.2 million in 1999 to P4.5billion in 2004.

Net operating income reached P2.1 billion in 2004 compared to P7 million in 1999, largely due to marked improvements on the revenue side.

PNOC-EC's total assets were pegged at P14.1 billion in 2004, a little over 15 percent of which were held as current assets. Current assets are mainly accounts receivable and cash. Accounts receivable pertain mainly to the company's share from income of SC 38 Malampaya project for its gas and condensate stake. Cash position has improved significantly from 1999 to 2004. Property and equipment account for more than two-thirds of the company's assets. Other major assets are non-current trade accounts receivables and exploration and development costs.

PNOC-EC's total liabilities were pegged at P14.9 billion in 2004, more than three-quarters of which were due to an affiliated company. Current liabilities have been on the decline since 2002 and were recorded at less than 5 percent of total liabilities.

PNOC-PDC. PNOC-PDC registered net losses for the last three years (2002-2004), the largest of which was the P291 million loss in 2002. The sharp loss in 2002 was attributed to higher general, administrative, and operating expenses. Net income was on the positive territory in 2000 and 2001 largely due to higher non-operating revenues. Operating revenues failed to catch up with cost and expenses, resulting in net operating income losses from 1999 to 2004.

PNOC-PDC's total assets were booked at P3.1 billion in 2004, almost 60 percent of which were held as current assets. Current assets are mainly land inventory and short-term investments. Cash position has improved since 2002 but failed to reach the P1 billion mark last reached in 2001. The increase in short-term investments partially offsets the decline in cash positions.

PNOC-PDC's total liabilities were pegged at P273 million in 2004, more than 80 percent of which were allotted as reserve for development costs. Current liabilities declined since 2000 and accounted for 5 percent of total liabilities. The stockholders' equity was pegged at P2.9 billion in 2004, which declined marginally compared to the previous year.

PNOC-STC. PNOC-STC has registered net income from 2000 to 2004, peaking at P17 million in 2003. Net income was pegged at P9 million in 2004, which declined by half compared to the previous year. The decline in net income in 2004 was attributed to higher non-operating charges. Operating income was on the positive territory for the last 3 years, reaching as high as P36 million in 2004.

PNOC-STC's total assets amounted to P505 million in 2004, more than a third of which were held as current assets. Cash position has been on the decline since 2000. Property, plant, and equipment account for more than 40 percent of the company assets.

PNOC-STC's total liabilities were pegged at P229 million in 2004, more than a third of which are non-current liabilities. Current liabilities, largely payables to affiliates, have been on the rise since 2001. The stockholders' equity was recorded at P277 million, which declined by more than 5 percent compared to the previous year.

PNOC-DMC. The trend in PNOC-DMC's net income has been erratic. The company earned a net income of P12 million in 2004, up from a P21 million loss in the previous year. The sharp turnaround in 2004 was attributed to higher sales and income and lower cost of sales.

PNOC-DMC's total assets were recorded at P264 million in 2004, a third of which were held as current assets. Cash position improved marginally in 2004 compared to the previous year, but was still way below its peak in 2001. Notes and other receivables have increased more than two-fold in 2004 compared to 2003. Long-term mortgage receivables account for almost 60 percent of the company's assets.

PNOC-DMC's total liabilities were pegged at P176 million in 2004, 95 percent of which were deferred credits. The stockholders' equity was booked at P88 million in 2004, which increased by 15 percent compared to the previous year due to higher retained earnings.

The current ratio of the PNOC Consolidated averaged 1.24 from 1999 to 2004 (Annex 14.15). Its short-term liquidity position has been improving since 2002. PNOC-PDC and PNOC-DMC seem to have the lowest liquidity risk. Note, however, that PNOC-PDC's largest current assets are land inventory. PNOC-EDC's current ratio averaged below one but has been improving since 2002.

The debt-to-asset ratio of PNOC Consolidated averaged 0.76 for the six-year period 1999-2004 with the highest ratio of 0.84 attained in 2004 (Annex 14.15). It indicates the company's assets are financed largely by credit facilities. The subsidiaries with the highest debt-to-asset ratios are PNOC-EDC and PNOC-EC.

The debt-to-equity ratio of PNOC Consolidated averaged 3.39 from 1999 to 2004 and has likewise been increasing since 2002 with PNOC-EDC registering an average high of 21.19, and indicating heavy reliance on borrowings (Annex 14.15).

Annex 14.1

PNOC & Subsidiaries - CONSOLIDATED - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Sales	16,436,048	18,858,727	20,056,643	22,032,587	24,119,303	25,651,486
Cost of sales	11,237,392	12,472,857	13,217,183	13,516,203	14,119,291	13,614,721
Gross profit	**5,198,656**	**6,385,870**	**6,839,460**	**8,516,384**	**10,000,012**	**12,036,765**
Unrealized Gross Profit on Installment						
Sales					66,633	87,066
Realized Gross Profit – Current					**9,933,379**	**11,949,699**
Realized Gross Profit on Previous						
Years' Installment Sales					1,117	8,637
Total Realized Gross Profit					**9,934,496**	**11,958,336**
Operating expenses	2,090,839	2,468,756	2,624,555	3,024,424	3,161,747	2,754,114
Income from operations	**3,107,817**	**3,917,114**	**4,214,905**	**5,491,960**	**6,772,749**	**9,204,222**
Other income (charges) - net	-38,041	-1,291,927	-2,386,171	-4,301,028	-4,647,057	-3,783,100
Income before income tax	**3,069,776**	**2,625,187**	**1,828,734**	**1,190,932**	**2,125,692**	**5,421,122**
Provision for income tax	710,353	996,571	407,089	1,039,824	1,479,915	1,571,473
Net income before equity in net						
earnings of associates	**2,359,423**	**1,628,616**	**1,421,645**	**151,108**	**645,777**	**3,849,649**
Equity in net earnings of associates	0	0	457,821	1,099,777	1,243,137	1,370,267
Net income	**2,359,423**	**1,628,616**	**1,879,466**	**1,250,885**	**1,888,914**	**5,219,916**

Source: Commission on Audit

Annex 14.2

PNOC & Subsidiaries – CONSOLIDATED - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and cash equivalents	8,162,825	4,527,542	7,160,655	4,596,711	5,428,137	1,989,139
Short-term investments	273,408	1,464,391	2,976,612	2,546,123	3,844,867	4,163,624
Accounts and notes receivable	4,829,404	7,055,024	9,849,332	6,577,455	5,419,406	8,004,268
Inventories, net	2,178,959	2,009,758	1,794,726	1,867,769	1,812,276	1,917,448
Prepaid expenses and other current assets	2,972,854	8,426,210	1,299,036	1,669,833	1,946,556	4,741,140
Total Current Assets	**18,417,450**	**23,482,925**	**23,080,361**	**17,257,891**	**18,451,242**	**20,815,619**
Non-current Assets						
Long-term Receivables					89,374	154,403
Investments	6,537,445	14,662,047	18,653,999	10,061,002	12,237,390	13,528,637
Property, plant and equipment	30,590,609	32,189,562	30,576,824	44,297,424	46,398,963	38,887,348
Electric plant under capital lease	37,314,582	43,053,965	42,485,629	42,158,156	41,313,671	21,845,063
Exploratory and development costs	3,294,813	4,621,020	3,193,579	3,487,172	5,380,213	5,170,047
Deferred charges and other assets	2,513,540	6,623,299	4,177,316	6,265,205	3,418,407	4,914,677
Total Non-current Assets	**80,250,989**	**101,149,893**	**99,087,347**	**106,268,959**	**108,838,018**	**84,500,175**
TOTAL ASSETS	**98,668,439**	**124,632,818**	**122,167,708**	**123,526,850**	**127,289,260**	**105,315,794**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued expenses	6,348,451	14,724,338	5,510,143	6,800,695	6,600,673	5,495,161
Dividends payable	613,364	542,592	166,999	792,636	141,954	613,000
Current portion of long term foreign loans	1,453,493	8,961,620	2,889,299	3,151,237	3,275,866	3,477,450
Current portion of BOT lease obligations	4,196,264	5,176,393	5,155,650	5,425,288	6,125,613	6,352,690
Sub-total - Current Liabilities	**12,611,572**	**29,404,943**	**13,722,091**	**16,169,856**	**16,144,106**	**15,938,301**
Non-current Liabilities						
Foreign loans - net of current portion	26,381,000	31,644,017	42,780,743	44,260,609	52,247,687	55,362,809
BOT lease obligations - net of current portion	27,020,976	28,698,787	24,753,401	19,799,560	14,878,253	8,319,072
Due to Department of Energy	622,638	744,406	884,271	990,555	1,118,247	1,196,282
Other long-term loans	0	0	0	1,796,785	991,615	1,184,262
Other credits/deferred credits	6,280,697	7,224,575	9,018,664	7,419,759	7,966,832	6,911,029
Equity of the subsidiaries' minority						
Stockholders	7,760	7,155	7,570	7,451	6,333	6,946
Sub-total - Non-current Liabilities	**60,313,071**	**68,318,940**	**77,444,649**	**74,274,719**	**77,208,967**	**72,980,400**
TOTAL LIABILITIES	**72,924,643**	**97,723,883**	**91,166,740**	**90,444,575**	**93,353,073**	**88,918,701**
Stockholders' Equity						
Capital Stock - no par value						
Authorized - 10,0000 shares						
Issued - 8,029,191 shares	3,114,595	3,114,595	3,114,595	3,114,595	3,114,595	3,114,595
Treasury stock – net	-424	-424	-424	-424	-424	-424
Donated capital	452,537	531,425	553,357	553,357	553,357	553,357
Revaluation increment on land	218,669	218,669	972,991	972,991	972,991	8,744,045
Retained earnings						
Appropriated	18,181,317	18,830,313	19,288,234	14,938,234	14,938,234	14,938,234
Unappropriated	3,777,102	4,214,357	7,072,215	13,503,522	14,357,434	-10,952,714
TOTAL STOCKHOLDERS' EQUITY	**25,743,796**	**26,908,935**	**31,000,968**	**33,082,275**	**33,936,187**	**16,397,093**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**98,668,439**	**124,632,818**	**122,167,708**	**123,526,850**	**127,289,260**	**105,315,794**

Source: Commission on Audit

Annex 14.3

PNOC Mother Company - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
REVENUES						
Interest Income	673,446	773,303	701,570	615,021	454,431	521,727
Dividend income	750,000					
Rent Income	117,319	119,901	122,267	121,237	129,612	132,382
Other Income	100,637	956,393	240,634	730,401	433,571	155,840
Total Revenues	**1,641,402**	**1,849,597**	**1,064,471**	**1,466,659**	**1,017,614**	**809,949**
EXPENSES						
Operating expenses	192,717	206,413	196,534	181,412	201,255	221,702
Interest expenses	85,466	80,830	100,682	94,783	75,202	52,038
Taxes	950	8,742	735	75	30,796	783
Other charges	74,028	197,871	34,179	101,268	129,463	41,985
Total Expenses	**353,161**	**493,856**	**332,130**	**377,538**	**436,716**	**316,508**
Income before taxes	**1,288,241**	**1,355,741**	**732,341**	**1,089,121**	**580,898**	**493,441**
Provision for taxes	112,522	275,425	98,350	66,349	46,991	59,690
Net income before equity in net earnings of wholly-owned and controlled Companies	**1,175,719**	**1,080,316**	**633,991**	**1,022,772**	**533,907**	**433,751**
Equity in net earnings of wholly-owned and controlled companies	1,182,579	548,300	1,245,475	228,113	1,355,007	4,786,165
NET INCOME	**2,358,298**	**1,628,616**	**1,879,466**	**1,250,885**	**1,888,914**	**5,219,916**

Source: Commission on Audit

Annex 14.4

PNOC Mother Company - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and cash equivalents	3,929,272	660,377	1,396,466	1,927,577	627,229	233,045
Short-term investments	263,333	1,454,394	1,637,367	1,470,707	2,943,919	3,546,887
Accounts receivable	1,161,918	1,072,581	1,240,279	1,225,896	1,382,945	1,491,187
Due from subsidiary companies	1,527,077	10,181,256	1,902,792	2,413,755	2,891,455	2,706,393
Prepaid expenses and other current assets	2,827,013	1,127,119	1,111,720	1,162,740	1,026,531	839,091
Total Current Assets	**9,708,613**	**14,495,727**	**7,288,624**	**8,200,675**	**8,872,079**	**8,816,603**
Non-current Assets						
Long-term receivables - net of current portion						
and allowance for doubtful accounts	11,355,029	12,613,536	20,834,193	21,514,750	21,757,228	20,995,951
Investments - net of allowance for decline						
in value	23,819,133	24,492,796	29,089,226	31,311,548	30,939,246	13,728,924
Property, plant and equipment - net of						
accumulated depreciation	391,011	380,820	367,479	391,808	388,113	387,602
Other assets	41,213	860,608	861,179	871,285	873,667	1,106,716
Total Non-current Assets	**35,606,386**	**38,347,760**	**51,152,077**	**54,089,391**	**53,958,254**	**36,219,193**
TOTAL ASSETS	**45,314,999**	**52,843,487**	**58,440,701**	**62,290,066**	**62,830,333**	**45,035,796**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued expenses	1,689,813	7,002,792	627,429	572,885	638,367	752,508
Short-term loans	0	0	0	222,013	238,392	139,934
Dividends payable	613,364	540,158	166,999	792,636	141,954	613,000
Income Tax Payable	0	0	0	0	0	28,499
Due to subsidiary companies	413,169	429,660	429,195	413,236	413,236	413,236
Current portion of long-term debt	1,110,769	1,083,472	1,100,165	1,194,328	1,354,034	1,467,023
Total Current Liabilities	**3,827,115**	**9,056,082**	**2,323,788**	**3,195,098**	**2,785,983**	**3,414,200**
Long-term Liabilities						
Long-term loans - net of current portion	12,390,298	13,600,282	20,878,553	21,545,097	22,619,869	21,992,034
Due to subsidiary companies	38,391	38,391	38,391	0	0	0
Other credits	3,918,715	3,922,228	3,910,043	3,314,366	2,979,251	2,792,031
Total Non-current Liabilities	**16,347,404**	**17,560,901**	**24,826,987**	**24,859,463**	**25,599,120**	**24,784,065**
Stockholders' Equity						
Capital Stock - no par value	3,114,596	3,114,596	3,114,596	3,114,596	3,114,596	3,114,596
Authorized - 10,0000 shares						
Issued - 8,029,191 shares						
Donated capital	0	0	553,358	553,358	553,358	553,358
Revaluation increment on land	0	0	972,991	972,991	972,991	8,744,045
Retained earnings						
Appropriated	11,100,000	11,100,000	11,100,000	6,750,000	6,750,000	6,750,000
Unappropriated	10,925,884	12,011,908	15,548,981	22,844,560	23,054,285	-2,324,468
Total Stockholders' Equity	**25,140,480**	**26,226,504**	**31,289,926**	**34,235,505**	**34,445,230**	**16,837,531**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**45,314,999**	**52,843,487**	**58,440,701**	**62,290,066**	**62,830,333**	**45,035,796**

Source: Commission on Audit

Annex 14.5

PNOC-EDC - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
NET SALES	15,417,498	17,692,103	19,081,006	19,629,846	20,370,245	20,644,488
COST OF SALES	10,267,742	11,370,740	12,335,947	12,069,047	12,229,535	11,142,587
GROSS PROFIT	**5,149,756**	**6,321,363**	**6,745,059**	**7,560,799**	**8,140,710**	**9,501,901**
OPERATING EXPENSES	1,656,786	1,985,838	2,071,994	2,266,251	2,524,254	2,080,964
INCOME FROM OPERATIONS	**3,492,970**	**4,335,525**	**4,673,065**	**5,294,548**	**5,616,456**	**7,420,937**
OTHER CHARGES						
Interest – net	1,100,880	1,404,201	1,423,862	1,319,536	1,429,991	1,393,848
Foreign exchange loss	-21,112	759,234	-73,479	1,636,316	2,686,644	1,938,165
Miscellaneous	448,058	806,245	2,214,585	674,818	117,882	-101,886
	1,527,826	**2,969,680**	**3,564,968**	**3,630,670**	**4,234,517**	**3,230,127**
INCOME BEFORE INCOME TAX	**1,965,144**	**1,365,845**	**1,108,097**	**1,663,878**	**1,381,939**	**4,190,810**
PROVISION FOR INCOME TAX	593,718	716,846	301,663	837,987	1,234,280	1,286,337
NET INCOME	**1,371,426**	**648,999**	**806,434**	**825,891**	**147,659**	**2,904,473**

Source: Commission on Audit

Annex 14.6

PNOC-EDC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and cash equivalents	3,388,369	2,286,207	4,365,563	2,318,557	4,376,513	846,320
Cash – restricted	0	0	0	0	0	3,284,181
Short-term investment	10,074	9,997	0	0	0	0
Accounts receivable	4,265,629	6,507,566	9,117,978	4,955,686	3,513,654	6,410,146
Parts and supplies inventories	1,117,448	906,909	846,827	852,682	856,409	914,653
Due from affiliated companies	26,640	5,213	3,846	6,085	2,249	4,016
Other current assets	61,285	9,676,360	1,705,170	1,156,672	3,334,694	2,981,873
Total Current Assets	**8,869,445**	**19,392,252**	**16,039,384**	**9,289,682**	**12,083,519**	14,441,189
Property and Equipment - net	**31,065,439**	**32,715,727**	**30,415,806**	**30,890,325**	**31,734,235**	**27,084,067**
Electric Plant under Capital Lease - net	**37,314,582**	**43,053,965**	**42,485,629**	**42,158,156**	**41,313,671**	**21,845,063**
Exploratory and Development Costs	**3,352,954**	**4,697,039**	**3,242,281**	**3,539,204**	**4,560,843**	**4,296,660**
Investments – net	**0**	**73,463**	**131,680**	**290,226**	**153,367**	**45,000**
Deferred Income Tax	0	**0**	**0**	**0**	**0**	**1,083,276**
Other Assets	**3,179,335**	**3,388,123**	**3,198,357**	**5,393,225**	**2,498,941**	**1,703,989**
Total Non-current Assets	**74,912,310**	**83,928,317**	**79,473,753**	**82,271,136**	**80,261,057**	**56,058,055**
TOTAL ASSETS	**83,781,755**	**103,320,569**	**95,513,137**	**91,560,818**	**92,344,576**	**70,499,244**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts payable	1,478,878	1,724,096	995,533	204,036	192,853	192,017
Short-term loans	0	0	0	0	333,516	0
Accrued expenses	2,601,657	3,934,633	3,007,412	4,622,391	3,545,349	3,096,774
Income tax payable	374,951	906,086	121,008	236,129	342,614	0
Due to affiliated companies	191,911	195,597	182,339	172,212	176,823	235,348
Due to PNOC	0	0	1,100,000	500,000	200,000	200,000
Royalty fee payable	375,514	475,261	379,113	434,642	418,461	472,996
Current portion of BOT lease obligations	4,196,264	5,176,393	5,155,650	5,425,288	6,125,613	6,352,690
Current portion of foreign loans	1,116,101	8,849,800	2,816,083	3,070,322	3,185,289	3,378,922
Total Current Liabilities	**10,335,276**	**21,261,866**	**13,757,138**	**14,665,020**	**14,520,518**	**13,928,747**
Trust Funds	**16,995**	**15,428**	**491**	**165**	**0**	0
Other Deferred Credits	**753,599**	**1,307,128**	**2,815,874**	**1,274,637**	**1,503,068**	**552,467**
Long-term Liabilities						
Due to Department of Energy	622,638	744,406	884,271	990,555	1,118,247	1,196,282
Due to PNOC	1,100,000	1,100,000	0	0	0	0
BOT lease obligations - net of current portion	27,020,976	28,698,787	24,753,401	19,799,561	14,878,253	8,319,072
Foreign loans - net of current portion	25,592,418	30,651,274	32,898,224	34,093,840	41,650,829	44,694,122
Other long term liabilities	1,024,525	1,498,466	1,832,157	1,157,322	999,648	1,153,058
Total Long-term Liabilities	**55,360,557**	**62,692,933**	**60,368,053**	**56,041,278**	**58,646,977**	**55,362,534**
Total Liabilities	**66,466,427**	**85,277,355**	**76,941,556**	**71,981,100**	**74,670,563**	**69,843,748**
Stockholders' Equity						
Capital Stock - P1,000 par value Authorized & subscribed - 10,000 Shares	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Donated capital	322,248	401,135	423,068	423,068	423,068	423,068
Revaluation Increment						7,771,054
Retained earnings	6,993,080	7,642,079	8,148,513	9,156,650	7,250,945	-17,538,626
Total Stockholders' Equity	**17,315,328**	**18,043,214**	**18,571,581**	**19,579,718**	**17,674,013**	**655,496**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**83,781,755**	**103,320,569**	**95,513,137**	**91,560,818**	**92,344,576**	**70,499,244**

Source: Commission on Audit

Annex 14.7

PNOC-EC - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
NET SALES	46,157	48,134	64,619	1,870,285	3,297,210	4,493,030
COST OF SALES	19,329	22,987	28,998	969,933	1,537,761	2,146,011
GROSS PROFIT	**26,828**	**25,147**	**35,621**	**900,352**	**1,759,449**	**2,347,019**
OPERATING EXPENSES	19,479	21,036	29,060	128,638	168,854	220,541
INCOME FROM OPERATIONS	**7,349**	**4,111**	**6,561**	**771,714**	**1,590,595**	**2,126,478**
OTHER (CHARGES) CREDITS - Net	1,107	-248	856	-1,983,916	-1,265,409	-1,368,026
INCOME BEFORE INCOME TAX	**8,456**	**3,863**	**7,417**	**-1,212,202**	**325,186**	**758,452**
PROVISION FOR INCOME TAX	2,801	1,190	2,280	129,382	197,350	224,241
NET INCOME	**5,655**	**2,673**	**5,137**	**-1,341,584**	**127,836**	**534,211**

Source: Commission on Audit

Annex 14.8

PNOC-EC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and cash equivalents	89,212	112,343	131,896	130,796	209,244	535,602
Accounts receivable - net	21,588	27,160	157,307	1,214,354	1,590,863	1,247,451
Inventories	10,617	10,941	8,808	120,198	61,377	131,602
Prepaid expenses and other current assets	1,137	1,196	869	211,216	219,626	292,391
Total Current Assets	**122,554**	**151,640**	**298,880**	**1,676,564**	**2,081,110**	**2,207,046**
Property and Equipment - net	**136,888**	**112,085**	**82,533**	**12,672,357**	**12,589,227**	**9,806,570**
Cash in Escrow	**0**	**2,413,289**	**98,314**	**0**	**0**	**0**
Investment in Joint Ventures	**453,191**	**6,714,706**	**10,393,574**	**593,539**	**584,310**	**260,431**
Investment in PNOC Malampaya Production Corp.	**0**	**0**	**0**	**0**	**2,110**	**2,120**
Non-Current Trade Accounts Receivable	**0**	**0**	**0**	**0**	**0**	**938,730**
Exploration and Development Costs	**1,297,137**	**1,279,259**	**1,306,576**	**870,505**	**860,756**	**914,772**
Other Assets	**5,079**	**6,494**	**6,526**	**6,092**	**8,863**	**8,891**
Total Non-current Assets	**1,892,295**	**10,525,833**	**11,887,523**	**14,142,493**	**14,045,266**	**11,931,514**
TOTAL ASSETS	**2,014,849**	**10,677,473**	**12,186,403**	**15,819,057**	**16,126,376**	**14,138,560**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued expense	46,358	37,150	29,397	536,155	456,034	411,857
Due to affiliated companies	6,808	8,475,704	4,288	33,233	7,048	31,158
Total Current Liabilities	**53,166**	**8,512,854**	**33,685**	**569,388**	**463,082**	**443,015**
Due to an Affiliated Company	**74,000**	**199,000**	**10,181,958**	**11,471,997**	**11,744,201**	**11,449,109**
Long-term Liabilities						
Deferred credits	0	0	0	1,184,748	1,993,000	2,960,838
Farm-in liability	0	0	0	1,786,576	984,909	0
Future abandonment costs	0	0	0	26,242	33,238	38,586
Loans Payable and other long-term liabilities	62	77	80	1,610	1,614	1,615
Total Non-current Liabilities	**62**	**77**	**80**	**2,999,176**	**3,012,761**	**3,001,039**
Stockholders' Equity						
Capital Stock - P1.00 par value						
Class "A" Common Shares						
Authorized- 2.1 billion shares Subscribed and issued - 1.522 billion shares In 2002 and 1.522 billion shares in 2001	1,447,000	1,522,253	1,522,253	1,522,253	1,522,253	1,522,253
Class "B" Common Shares						
Authorized- 1.4 billion shares Subscribed and issued - 480 million shares	480,000	480,000	480,000	480,000	480,000	480,000
Capital in excess of par value	22,425	22,425	22,425	22,425	22,425	22,425
Treasury stocks, at cost	-735	-735	-735	-735	-735	-735
Donated Capital	130,289	130,289	130,289	130,289	130,289	130,289
Retained earnings (deficit)	25,900	28,568	33,706	-1,375,736	-1,247,900	-2,908,835
allowance for impaired projects	-217,258	-217,258	-217,258			
Total Stockholders' Equity	**1,887,621**	**1,965,542**	**1,970,680**	**778,496**	**906,332**	**-754,603**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**2,014,849**	**10,677,473**	**12,186,403**	**15,819,057**	**16,126,376**	**14,138,560**

Source: Commission on Audit

Annex 14.9

PNOC-PDC - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
REVENUES	27,553	49,246	40,477	47,208	27,278	25,724
COST AND EXPENSES	53,885	53,825	59,666	67,995	66,647	52,733
GROSS INCOME/(LOSS)	**-26,332**	**-4,579**	**-19,189**	**-20,787**	**-39,369**	**-27,009**
GENERAL, ADMINISTRATIVE AND OTHER OPERATING EXPENSES	81,670	100,894	132,227	334,410	179,752	87,154
LOSS FROM OPERATIONS	**-108,002**	**-105,473**	**-151,416**	**-355,197**	**-219,121**	**-114,163**
OTHER INCOME	54,795	116,244	163,157	69,909	87,170	103,058
INCOME/ (LOSS) BEFORE INCOME TAX	**-53,207**	**10,771**	**11,741**	**-285,288**	**-131,951**	**-11,105**
PROVISION FOR INCOME TAX	1,313	3,109	4,796	5,624	5	0
NET INCOME/ (LOSS)	**-54,520**	**7,662**	**6,945**	**-290,912**	**-131,956**	**-11,105**

Source: Commission on Audit

Annex 14.10

PNOC-PDC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and cash equivalents	1,300,964	1,255,990	1,054,692	45,550	112,912	278,053
Short-term investments	0	0	140,000	1,075,416	900,948	616,737
Accounts receivable, net	71,507	34,121	40,244	51,772	42,569	51,781
Interest receivable	1,668	8,180	11,958	13,038	15,614	33,490
Land inventory	823,327	833,430	834,797	827,311	827,311	827,311
Due from affiliated companies	0	16,520	16,521	0	0	0
Prepaid expenses and other current assets	18,855	6,141	7,487	8,343	3,851	5,760
Total Current Assets	**2,216,321**	**2,154,382**	**2,105,699**	**2,021,430**	**1,903,205**	**1,813,132**
Non-current Assets						
Property, plant and equipment - net	432,275	430,888	1,172,883	1,175,386	1,165,913	1,139,077
Investments - net	247,994	248,002	26,748	3,096	1,803	157,764
Pre-operating costs-cracker project	3,850	8,111	13,481	39,729	19,864	0
Other non-current assets	0	20,227	24,262	27,942	28,410	22,181
Total Non-current Assets	**684,119**	**707,228**	**1,237,374**	**1,246,153**	**1,215,990**	**1,319,022**
TOTAL ASSETS	**2,900,440**	**2,861,610**	**3,343,073**	**3,267,583**	**3,119,195**	**3,132,154**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accrued expenses and other payables	33,630	62,537	32,627	32,107	17,134	14,368
Due to affiliated companies	8,942	288	476	687	188	46
Total Current Liabilities	**42,572**	**62,825**	**33,103**	**32,794**	**17,322**	**14,414**
Non-current Liabilities						
Deferred credits	33,746	2,267	4,418	4,089	3,703	30,675
Other long-term liabilities	0	0	0	4,977	4,977	4,977
Reserve for development cost	299,506	264,240	233,302	223,091	222,517	222,517
Total Non-current Liabilities	**333,252**	**266,507**	**237,720**	**232,157**	**231,197**	**258,169**
Stockholders' Equity						
Capital Stock - P300 value						
Authorized - 15,0000 shares						
Issued & fully paid- 8,000,000 shares	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000
Retained Earnings/ (Deficit)	124,616	132,278	139,223	-151,690	-283,646	-294,751
Revaluation surplus	0	0	754,322	754,322	754,322	754,322
Unrealized loss on long-term investment	0	0	-221,295	0	0	0
Total Stockholders' Equity	**2,524,616**	**2,532,278**	**3,072,250**	**3,002,632**	**2,870,676**	**2,859,571**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**2,900,440**	**2,861,610**	**3,343,073**	**3,267,583**	**3,119,195**	**3,132,154**

Source: Commission on Audit

Annex 14.11

PNOC-STC - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
REVENUES	299,254	272,422	231,947	252,890	320,785	356,172
OPERATING EXPENSES	263,950	229,233	188,713	202,046	256,321	271,822
GROSS INCOME FROM OPERATIONS	**35,304**	**43,189**	**43,234**	**50,844**	**64,464**	**84,350**
GENERAL AND ADMINISTRATIVE EXPENSES	63,374	55,418	46,219	42,081	41,937	48,467
INCOME FROM OPERATIONS	**-28,070**	**-12,229**	**-2,985**	**8,763**	**22,527**	**35,883**
OTHER INCOME / (CHARGES), NET	-36,684	28,455	6,406	-3,794	-4,649	-27,355
NET INCOME BEFORE TAX	**-64,754**	**16,226**	**3,421**	**4,969**	**17,878**	**8,528**
INCOME TAX	**0**	**0**	**0**	**0**	**1,289**	0
NET INCOME	**-64,754**	**16,226**	**3,421**	**4,969**	**16,589**	**8,528**

Source: Commission on Audit

Annex 14.12

PNOC-STC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash and cash equivalents	98,627	127,952	106,102	113,937	70,148	59,976
Trade accounts receivable, net	49,947	36,734	28,116	42,423	51,378	36,590
Other accounts receivable, net	37,004	40,897	42,108	21,226	6,482	16,416
Fuel and store inventories, net	38,840	34,835	36,500	29,079	46,526	31,012
Due from affiliates	12	38	17	21	8	8
Prepaid expenses and other current assets	44,351	34,848	51,179	47,845	68,087	52,424
Total Current Assets	**268,781**	**275,304**	**264,022**	**254,531**	**242,629**	**196,426**
Non-current Assets						
Property, plant and equipment, net	63,468	62,273	53,345	48,218	264,518	216,006
Investment in shares of stock, at cost	27,781	27,781	27,781	27,781	27,781	27,780
Long-term receivables	1,078	1,337	1,382	1,424	1,486	1,507
Other assets	99,163	41,481	31,211	40,161	38,764	63,544
Total Non-current Assets	**191,490**	**132,872**	**113,719**	**117,584**	**332,549**	**308,837**
TOTAL ASSETS	**460,271**	**408,176**	**377,741**	**372,115**	**575,178**	**505,263**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Due to affiliates	46,877	49,249	47,318	47,133	102,323	102,664
Trade accounts payable	45,337	29,530	4,577	4,994	5,345	15,828
Accrued expenses and other payables	51,238	21,026	18,880	21,096	19,140	16,053
Income Tax payable	706	289	865	1,017	1,289	1,687
Deferred credits	16,304	9,273	4,626	3,369	7,927	4,302
Total Current Liabilities	**160,462**	**109,367**	**76,266**	**77,609**	**136,024**	**140,534**
Non-current Liabilities						
Long-term debt	4,772	5,919	6,120	6,306	136,516	86,605
Estimated liabilities	16,800	3,297	2,342	3,006	3,340	1,441
Total Non-current Liabilities	**21,572**	**9,216**	**8,462**	**9,312**	**139,856**	**88,046**
Stockholders' Equity						
Capital Stock - P1,000 par value						
Authorized - 500,000 shares						
Subscribed & fully paid - 190,000 shares	190,000	190,000	190,000	190,000	190,000	190,000
Retained earnings						
Appropriated	88,237	88,234	88,234	88,234	88,234	86,683
Unappropriated	0	11,359	14,779	6,960	21,064	0
Total Stockholders' Equity	**278,237**	**289,593**	**293,013**	**285,194**	**299,298**	**276,683**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**460,271**	**408,176**	**377,741**	**372,115**	**575,178**	**505,263**

Source: Commission on Audit

PNOC-DMC - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
	Formerly Filoil	*Formerly Filoil*	*Formerly Filoil*	*As Restated*		
INCOME						
Cost of Sales	0	0	0	217	29,027	1,568
Gross Profit	**0**	**0**	**0**	**7,823**	**74,758**	**130,504**
Unrealized gross profit on installment Sales	0	0	0	6,765	66,634	87,066
Realized gross profit – current	**0**	**0**	**0**	**1,058**	**8,124**	43,438
Realized gross profit from prior years' sales	0	0	0	0	1,118	8,637
NET REALIZED INCOME	**0**	**0**	**0**	**1,058**	**9,242**	**52,075**
Rental Income	0	0	33,110	4,230	3,814	3,814
Interest Income	5,731	3,827	7,436	3,432	6,414	15,855
Other Income	63	43	627	23,847	4,807	5,551
TOTAL INCOME	**5,794**	**3,870**	**41,173**	**32,567**	**24,277**	**77,295**
EXPENSES AND OTHER CHARGES						
Employee costs	0	0	0	18,014	28,021	30,613
Services and utilities	10,865	6,624	12,493	0	0	0
Business expenses	3,352	7,066	10,823	10,871	10,537	24,721
Professional fees	214	423	6,252	4,054	4,815	5,565
Taxes and licenses	48	23	3,816	1,022	1,955	1,901
Miscellaneous expenses	0	0	0	2,361	368	1,525
TOTAL EXPENSES AND OTHER CHARGES	**14,479**	**14,136**	**33,384**	**36,322**	**45,696**	**64,325**
NET INCOME / (LOSS)	**-8,685**	**-10,266**	**7,789**	**-3,755**	**-21,419**	**12,970**
PROVISION FOR INCOME TAX	**0**	**0**	**0**	**0**	**0**	**1,205**
NET INCOME (LOSS) AFTER TAX	**-8,685**	**-10,266**	**7,789**	**-3,755**	**-21,419**	**11,765**

Source: Commission on Audit

Annex 14.14

PNOC-DMC - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
	Formerly Filoil	*Formerly Filoil*	*Formerly Filoil*	*As Restated*		
ASSETS						
Current Assets						
Cash and cash equivalents	58,924	78,641	91,620	55,547	31,255	35,808
Notes and other receivables – net	1,969	1,666	2,144	15,823	17,562	44,529
Inventory	0	0	0	22,957	2,452	2,882
Other current assets	240	1,318	2,961	65	672	125
Total Current Assets	**61,133**	**81,625**	**96,725**	**94,392**	**51,941**	**83,344**
Non-current Assets						
Long-term mortgage receivables	0	0	0	5,709	89,374	154,403
Project development costs	4,013	9,819	4,314	0	0	0
Property and equipment - net	5,144	5,134	6,688	9,706	9,306	8,229
Stocks and other investments	133	104	44	23	10,024	15,024
Other assets	1,564	1,600	0	2,293	2,300	2,685
Total Non-current Assets	**10,854**	**16,657**	**11,046**	**17,731**	**111,004**	**180,341**
TOTAL ASSETS	**71,987**	**98,282**	**107,771**	**112,123**	**162,945**	**263,685**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts payable and accrued expenses	39	1,367	616	1,675	6,258	7,603
Due to affiliated companies	152	39,131	43,348	3,812	212	161
Income tax payable	-27	1	0	0	0	831
Total Current Liabilities	**164**	**40,499**	**43,964**	**5,487**	**6,470**	**8,595**
Non-current Liabilities						
Deferred credits	2,356	2,531	757	8,948	80,207	167,058
Total Non-current Liabilities	**2,356**	**2,531**	**757**	**8,948**	**80,207**	**167,058**
Stockholders' Equity						
Capital Stock - P1 par value						
Preferred Stock - 7% cumulative non-voting						
Authorized - 11,000,000 shares held in treasury						
Class "A" Common Stock						
Authorized - 73,000,000 shares						
Issued and Outstanding	27,230	31,602	31,612	63,475	63,474	63,474
Subscribed				10	10	10
(Subscription receivable which amounts						
to P35,064,518)	1,200					
Class "B" Common Stock						
Authorized – 7,000,000 shares						
Issued and Outstanding	2,173			6,520	6,520	6,520
(Subscription receivable which amounts						
to P3,346,412)	1,000					
Capital in Excess of Par Value of Common Stock	2,350	2,350	2,350	2,350	2,350	2,350
	33,953	**33,952**	**33,962**	**72,355**	**72,354**	**72,354**
Retained Earnings	**35,514**	**21,300**	**29,088**	**25,333**	**3,914**	**15,678**
Total Stockholders' Equity	**69,467**	**55,252**	**63,050**	**97,688**	**76,268**	**88,032**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**71,987**	**98,282**	**107,771**	**112,123**	**162,945**	**263,685**

Source: Commission on Audit

Selected Financial Ratios

PNOC Current Ratio, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
PNOC Mother	2.54	1.60	3.14	2.57	3.18	2.58	2.60
PNOC-EDC	0.86	0.91	1.17	0.63	0.83	1.04	0.91
PNOC-EC	2.31	0.02	8.87	2.94	4.49	4.98	3.94
PNOC-PDC	52.06	34.29	63.61	61.64	109.87	125.79	74.54
PNOC-STC	1.68	2.52	3.46	3.28	1.78	1.40	2.35
PNOC-DMC	372.76	2.02	2.20	17.20	8.03	9.70	68.65
PNOC Consolidated	1.46	0.80	1.68	1.07	1.14	1.31	1.24

Source of basic data: Commission on Audit

PNOC Debt-to-Asset Ratio, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
PNOC Mother	0.45	0.50	0.46	0.45	0.45	0.63	0.49
PNOC-EDC	0.79	0.83	0.81	0.79	0.81	0.99	0.83
PNOC-EC	0.06	0.82	0.84	0.95	0.94	1.05	0.78
PNOC-PDC	0.13	0.12	0.08	0.08	0.08	0.09	0.10
PNOC-STC	0.40	0.29	0.22	0.23	0.48	0.45	0.35
PNOC-DMC	0.04	0.44	0.41	0.13	0.53	0.67	0.37
PNOC Consolidated	0.74	0.78	0.75	0.73	0.73	0.84	0.76

Source of basic data: Commission on Audit

PNOC Debt-to-Equity, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
PNOC Mother	0.80	1.01	0.87	0.82	0.82	1.67	1.00
PNOC-EDC	3.84	4.73	4.14	3.68	4.22	106.55	21.19
PNOC-EC	0.07	4.43	5.18	19.32	16.79	-19.74	4.34
PNOC-PDC	0.15	0.13	0.09	0.09	0.09	0.10	0.11
PNOC-STC	0.65	0.41	0.29	0.30	0.92	0.83	0.57
PNOC-DMC	0.04	0.78	0.71	0.15	1.14	2.00	0.80
PNOC Consolidated	2.83	3.63	2.94	2.73	2.75	5.42	3.39

Source of basic data: Commission on Audit

PNOC Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	1.460	0.799	1.682	1.067	1.143	1.306	1.243
Debt-to-Asset Ratio	0.739	0.784	0.746	0.732	0.733	0.844	0.763
Debt-to-Equity Ratio	2.833	3.632	2.941	2.734	2.751	5.423	3.385

Source of basic data: Commission on Audit

15. PHILIPPINE NATIONAL RAILWAYS

Background. The Philippine National Railways (PNR) was created in June 1964 to provide a nationwide railroad and transportation system. Its forerunner was the Manila Railroad Company of the Philippine Islands which was dissolved and abolished when PNR was created. Subsequent amendments expanded its mandate to include owning and operating railroad tramways, bus lines, trucklines, subways, and other kinds of land transportation, vessels, and pipelines, for the purposes of transporting passengers, mail and property between and to any point in the Philippines. The PNR was also allowed to (1) own and operate powerhouses, hotels, restaurants, terminals, warehouses, timber concessions, coal mines, iron and other properties; (2) manufacture rolling stocks, equipment, tools, and other appliances; and (3) to construct and operate toll viaducts, toll tunnels in connection with its railroad lines.

The PNR was initially an attached GOCC under the Office of Economic Coordination. It was later transferred to the Office of the President and then to the Department of Transportation and Communications (DOTC).

Capitalization. When the PNR was created in 1964 it had an authorized capital stock of P250 million which was fully subscribed by the National Government. Subsequent laws increased capitalization to P650 million in 1971 and to P 1.5 billion in 1975.

Borrowing authority. The PNR was initially not authorized to borrow or contract loans. Subsequent amendment gave PNR the authority to borrow money and contract loans, credits and indebtedness from domestic and/or foreign sources for the pursuit of its goals. There are no ceilings set on the amount of domestic loans that the corporation can borrow or incur. Ceiling on foreign loan was set at US$200 million. The loans, credits and indebtedness of the PNR are guaranteed, absolutely and unconditionally, by the Republic of the Philippines.

In addition, the PNR is exempt from the payment of all taxes.

Board of Directors. The present composition of the Board of Directors – 10 members - is based on the amendment done in 1975. They are: Chairman; the General Manager who shall also be the Vice-Chairman; the Deputy Executive Secretary of the Office of the President; the Deputy Director General (Programs and Projects) of the NEDA; the Undersecretary (Fiscal Affairs) of the DOF; Undersecretary of DPWH; Undersecretary of DOTC; and three other members. The Chairman, and three other members are appointed by the President and they serve for 6 years. Competence and experience in the fields of transport planning, engineering, economics, management, finance, corporate law and/or marketing are required of board members.

The Board meets once a month. They receive per diem for every meeting attended.

It should be noted that when PNR was created in 1964, the Board was composed of 5 to 11 members, all of which were appointed by the President of the Philippines with the consent of the Commission on Appointments (CA). They had a fixed term of 3 years.

On the other hand, when the PNR Charter was amended in 1971, the Board consisted of 11 members. All but one were appointed by the President of the Philippines with the consent of the CA. The other member was recommended by the minority party and served at the pleasure of the minority party.

Management. The management of the corporation is vested in the General Manager who is appointed by the President of the Philippines. The general manager should have the following qualifications: (a) technical competence in management preferably in railroad transport management; (b) demonstrated executive ability; and (c) good moral character. The general manager is to hold office for eight years.

The General Manager's responsibilities are as follows: (a) to recommend to the Board short- and long-range plans and programs consistent with the overall objectives of the Corporation; (b) to direct and manage the affairs and business of the Corporation on behalf of the Board; (c) to sit in all meetings of the Board as Vice-Chairman and participate in its deliberations with the right to vote and to preside in the meetings for and in the absence of the Chairman; (d) to submit and recommend consolidated annual budget and propose capital and other supplemental budgets to the Board; (e) to appoint officials and employees and to suspend or discipline all subordinate officials and employees of the Corporation; (f) to recommend to the Board changes in the organizational structure and staffing pattern of the Corporation; (g) to submit to the Office of the President of the Philippines an annual report (within sixty days after the end of the fiscal period) and other reports on the corporation's operations; and (h) to perform other duties and functions as assigned by the Board.

To assist the General Manager, assistant general managers can be appointed by the General Manager with the approval of the Board of Directors and the President of the Philippines.

An annual report is to be submitted to the Office of the President of the Philippines within sixty days after the end of the fiscal period. However, for several years, PNR has not prepared such report and instead issued management reports which are made available to interested parties.

PNR is not subject to the authority and supervision of the Civil Service Commission. However, its salary schedules/scales follow the Salary Standardization Law.

Operational Highlights. PNR has three main operations: passenger service (the Manila-Bicol line), customer service (Metro Manila line) and express service (freight/cargo service). From 1999 up to 2004, the revenues of the three PNR operations have been declining, largely due to the decreasing number of trains being operated (Table 15.1). PNR's rolling stock availability (or the number of train cars) has decreased in the said period due to lack of funds needed for new purchases and maintenance and repair activities of old train cars. In fact, 17 train cars have remained inoperational since 2003 because they were considered to be under repair and/or have been awaiting repair for a period of one year. An employee strike in 2003 affected

PNR's passenger service because of disrupted operations for 10 days and likewise, affected PNR's total revenue for the year.

The following are some of the highlights of PNR's operational performance in 2004:

- For the Passenger Service, the number of trains operated daily and the total train runs for the year decreased substantially from 2003 levels. The declining level of rolling stock was cited as the major reason for such performance. Similarly, a train accident in November 2004 in Quezon Province which caused the temporary suspension of passenger train service to Bicol also contributed to reduced train runs for the year.

- For its Commuter Service, the average number of trains operated daily and train runs continued to decline since 2002 levels. Again the declining level of PNR's rolling stock was cited as the major reason for the decreased number of train runs which fell from 7,408 in 2002 to 6,201 in 2004. Load factor level, however, increased by 60 percent in 2004 as more passengers utilized the commuter service.

- For the Express Service, load factor increased slightly from 8.69 percent in 2003 to 10.92 percent despite fewer long-distance passenger train trips and a decrease in baggage car-kilometers in 2004.

Table 15.1 PNR Operating Performance,1999-2004

	1999	2000	2001	2002	2003	2004
I. Passenger Service						
Operating Days	no data	337	350	363	342	310
Trains Operated Daily	no data	4	4	4	3.9	2.2
Total Train Runs	no data	1343	1405	1457	1338	670
Load Factor (%)	50.36	51.15	52.82	48.24	54.05	65.38
Revenue (P, 000)	87,085.00	67,753.40	66,038.80	55,583.00	55,555.00	51,754.51
II. Commuter						
Operating Days	no data	361	365	no data	351	362
Trains Operated Daily	no data	16.8	20	20.6	19.7	17.1
Total Train Runs	no data	6048	7299	7408	6902	6201
Load Factor (%)	58.77	61.3	65.44	53.62	53.16	60.03
Revenue (P,000)	22,698.00	18,157.00	31,809.00	30,079.00	26,997.00	25,570.29
III. Express Service						
Average Cars/Trains	no data	2	2	1	1	1
Load Factor (%)	14.71	16	11.9	8.16	8.69	10.92
Revenue (P,000)	7,195.00	4,967.00	4,972.00	5,189.00	3,735.00	3,288.28

Source: PNR Annual Reports, 1999-2004

Financial Highlights. PNR has consistently registered net losses from 1999 to 2004, the largest of which was the P1.1 billion loss in 2004 (Annex 15.1). The sharp net loss in 2004 was largely due to almost P500 million increase in other charges. Other charges are mainly interest expenses on long-term debts and net advances. It should be noted that despite the annual infusion of government subsidy, which peaked at more than P350 million in 2001, PNR still incurred heavy losses in the said period.

More than half of PNR's revenues came from its non-operating revenue, in particular, miscellaneous income (Annex 15.1). Miscellaneous income is composed of rent on land, interest income, income from sale of scrap, gain on sale of fixed assets, dividend income and other income. PNR's operating revenues have been on a steady decline since 2001 mainly due to the decreased number of train runs for all its operations. PNR's expenditures, meanwhile, exceeded revenues throughout the period.

PNR's total assets have increased from P10 billion in 1999 to P12.3 billion in 2004 (Annex 15.2). Property, plant and equipment accounted for 95 percent of the company's assets. Current assets, meanwhile, decreased during the period as PNR's cash position declined by as much as 50 percent to P70 million in 2004. Despite an increase in cash generated from operations in 2004, the company, however, incurred a negative cash position for the said year as capital expenditure and long-term debt payments were made.

PNR's total liabilities stood at P20.1 billion in 2004. Current liabilities, which have been increasing since 1999, were at P14.3 billion in 2004 (Annex 15.2). The company's current liabilities for the period 1999-2004 are mainly accounts payable and other accrued expenses. It should be noted that PNR's capital deficiency has also been increasing since 1999 due to the company's losses in the said period.

In general, PNR's financial ratios show a deteriorating position from 1999 to 2004 (Table 15.2). PNR's current ratio during the said period averaged 0.042 indicating that the company is not able to meet its short-term loan obligations. Debt-to-asset ratio has been increasing since 1999. Debt-to-equity ratio, on the other hand, was negative reflecting equity deficit.

Table 15.2 Selected Financial Ratios, 1999-2004

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**Average**
Current Ratio	0.062	0.044	0.042	0.038	0.035	0.030	**0.042**
Debt-to-Asset Ratio	1.387	1.419	1.462	1.507	1.554	1.630	**1.493**
Debt-to-Equity Ratio	(3.584)	(3.385)	(3.166)	(2.917)	(2.805)	(2.588)	(3.083)

Source of basic data: Commission on Audit

Annex 15.1

PNR - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
REVENUE						
OPERATING REVENUE	117,219	91,416	103,220	92,060	88,010	82,319
Passenger	87,321	68,290	66,430	56,780	57,284	53,435
Freight/Express	7,200	4,968	4,980	5,200	3,740	3,311
Commuter	22,698	18,158	31,810	30,080	26,987	25,572
NON-OPERATING REVENUE	87,020	85,502	133,150	133,270	95,745	101,222
Hospital services	9,606	4,901	6,120	5,810	4,025	3,209
Miscellaneous income	77,406	80,601	127,030	127,460	91,720	98,013
GROSS REVENUE	**204,240**	**176,918**	**236,370**	**225,330**	**183,755**	**183,540**
Less: Interest, discount, refunds, allowances, employees' privileges	656	640	480	1,330	1,783	2,030
NET REVENUE	**203,584**	**176,278**	**235,890**	**224,000**	**181,972**	**181,511**
EXPENSES						
Personal services & maintenance & other operating expenses	500,832	529,090	561,360	604,770	487,133	482,077
Other charges	519,494	490,752	585,940	548,180	552,781	1,022,855
TOTAL EXPENSES & OTHER CHARGES	**1,020,320**	**1,019,842**	**1,147,300**	**1,152,950**	**1,039,914**	**1,504,933**
NET LOSS BEFORE SUBSIDY	(816,740)	(843,558)	(911,410)	(928,950)	(857,942)	(1,323,422)
Add: Subsidy from National Government	147,040	159,080	352,800	316,100	213,914	198,718
NET LOSS AFTER SUBSIDY	(669,700)	(684,478)	(558,610)	(612,850)	(644,028)	(1,124,704)

Source: Commission on Audit

Annex 15.2

PNR - Balance Sheet, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
PROPERTY, PLANT & EQUIPMENT - Net	9,469,940	10,383,050	10,634,270	10,935,280	11,311,500	11,739,463
CURRENT ASSETS						
Cash	156,670	51,630	83,610	77,070	77,646	70,237
Accounts receivable-trade-net	5,510	5,130	4,770	9,270	8,768	7,160
Accounts receivable-non trade	253,910	262,320	267,260	272,870	265,579	272,204
Materials and supplies	99,080	90,780	87,450	83,400	81,999	82,251
Jobs in progress	430	400	360	500	505	453
Prepaid expenses	280	280	70	70	59	59
Special funds & investments	210	210	210	210	224	215
Advances to PIO	5,570	5,570	5,570	5,570	5,569	5,569
Total Current Assets	521,660	416,320	449,300	448,960	440,349	438,147
OTHER ASSETS	12,190	28,020	12,290	12,290	12,290	12,290
CONTINGENT ASSETS	42,730	35,720	35,350	35,340	35,272	35,272
UNADJUSTED DEBITS	2,300	122,410	122,410	122,410	122,415	122,415
TOTAL ASSETS	10,048,820	10,985,520	11,253,620	11,554,280	11,921,826	12,347,587
LIABILITIES AND CAPITAL DEFICIENCY						
LONG-TERM DEBTS	5,467,960	6,029,570	5,821,190	5,688,880	585,693	5,736,904
CURRENT LIABILITIES						
Accounts payable & other accrued Expenses	8,450,910	9,544,500	10,607,810	11,710,290	12,652,500	14,375,555
Miscellaneous accounts payable	9,330	8,240	9,250	7,960	7,757	9,514
Total Current Liabilities	8,460,240	9,552,740	10,617,060	11,718,250	12,660,257	14,385,070
Trust Fund & Reserves						669
OTHER LIABILITIES	1,530	1,530	1,530	1,530	1,535	1,535
CONTINGENT LIABILITIES	8,650	8,570	8,570	8,570	8,569	223
Total Liabilities	13,938,380	15,592,410	16,448,350	17,417,230	18,527,053	20,124,400
CAPITAL DEFICIENCY						
Capital stock	1,500,000	1,500,000	1,500,000	1,500,000		
Contingent capital	39,390	39,390	39,390	39,390		
Government grants & contribution	900	900	900	900		
Deficit	(6,453,440)	(7,170,770)	(7,758,610)	(8,426,830)		
Appraisal increment due to revaluation of fixed assets	1,023,590	1,023,590	1,023,590	1,023,590		
	(3,889,560)	(4,606,890)	(5,194,730)	(5,862,950)	(6,605,228)	(7,776,813)
TOTAL LIABILITIES NET OF						
CAPITAL DEFICIENCY	10,048,820	10,985,520	11,253,620	11,554,280	11,921,826	12,347,587

Source: Commission on Audit

16. PHILIPPINE PORTS AUTHORITY

Background. The Philippine Ports Authority (PPA) is a government corporation involved in financing, managing and operating public ports throughout the archipelago. It also regulates the operations of private ports. It is mandated to implement an integrated port system accelerating maritime trade and commerce. Its mandate was later expanded to include undertaking all port construction projects under its port system, a responsibility once exercised by Department of Public Works and Highways (DPWH). PPA was likewise granted financial autonomy to be able to assume its expanded mandate. PPA has an initial capital stock of P 3 billion.

The PPA Ports System. The PPA ports system comprises the vast majority of all ports in the country today. It consists of 155 PPA-owned public ports and around 400 PPA-regulated private ports. The public ports are largely operated by the PPA, except for few instances where operations have been turned over to private terminal operators such as the Manila International Container Terminal (MICT) and South Harbor. Private ports on the other hand are mostly for industrial use, except for about 30 which are for commercial use. While PPA has no investment in these ports, they exact shares from various port dues such as usage/berthing fees and wharfage dues.

Several ports do not fall under the jurisdiction of the PPA System and they are the following:

- Ports under the jurisdiction of the 6 independent port authorities (IPAs). These are the Subic Bay Metropolitan Authority (SBMA), Cebu Port Authority (CPA), Cagayan Economic Zone Authority (CEZA), Phividec Industrial Authority (PIA), Autonomous Region of Muslim Mindanao (ARMM) and the Bases Conversion Development Authority (BCDA);
- Public ports devolved to local government units (LGUs) including fishing ports/wharves; and
- The Road Roll-on-Roll-off (RORO) Terminal System which is under the auspices of the Maritime Industry Authority (MARINA).

Regulation and Setting Fees. For public, PPA-owned ports, the PPA sets and collects all port charges (such as wharfage dues, harbor fees, berthing and anchorage fees, pilotage fees, etc.) and receives a share of cargo handling revenues. For private ports, on the other hand, PPA exercises regulatory control over them in terms of (a) issuing permits to construct and operate these ports and (b) approving cargo handling rates and port charges. Private ports pay 50 percent of revenues from port charges to the PPA. PPA is also required by law to remit 50 percent of its net income as dividends to the national government.

PPA has also awarded concessions to two private terminal operators. The PPA entered into a 25-year agreement with the International Container Terminal Services Inc. (ICTSI) in 1988. Under the agreement, ICTSI would be responsible for the management, operation and development of the Manila International Container Terminal (MICT) at the Port of Manila subject to the direct control and supervision of the Authority. The ICTSI, in turn, would pay the PPA a fixed fee of US$ 313 million (P17.5 billion) to be paid in 25 years. In addition to a fixed fee, ICTSI is also contractually obligated to pay PPA a share of the gross revenues generated from its operation of the MICT including, but not limited to harbor dues, berthing fees, wharfage, and cargo handling revenues. This model was replicated 10 years later with the awarding of the terminal operations of the South Harbor to another private port operator, the Asian Terminals, Inc. (ATI).

Board of Directors. The Board of Directors of PPA consists of 9 members and they are as follows: (1) the Secretary of Transportation and Communication as Chairman; (2) General Manager of PPA, as Vice-Chairman; (3) Secretary of Finance; (4) Secretary of Trade and Industry; (5) Secretary of Environment and Natural Resources; (6) Secretary of Public Works and Highways; (7) NEDA Director-General ; (8) Administrator of the Maritime Industry Authority (MARINA); and (9) a representative from the private sector.

All board members other than the private sector representative are ex-officio members and are co-terminus with their positions. The private sector member is appointed by the President of the Philippines and has a three-year term.

Regular board meetings are held monthly; special meetings may be called from time to time.

Management. The operation of the Authority is handled by the General Manager who is assisted by three (3) Assistant General Managers (Assistant General Managers for Operations, for Engineering Services, and for Finance). The General Manager, who acts as Vice-Chairman of the Board, is a presidential appointee while the three assistant general managers are permanent career executives.

Operational Highlights.

Cargo Traffic. Cargo throughput, or the volume of cargo handled nationwide, whether outgoing or incoming, grew by 10 percent from 143 million metric tons in 1999 to 157 million metric tons in 2004. Both international and domestic cargo movement are growing, but faster for the volume of foreign cargo from 2003 to 2004.

Table 16.1 Cargo Throughput, 1999-2004

(In million MT)

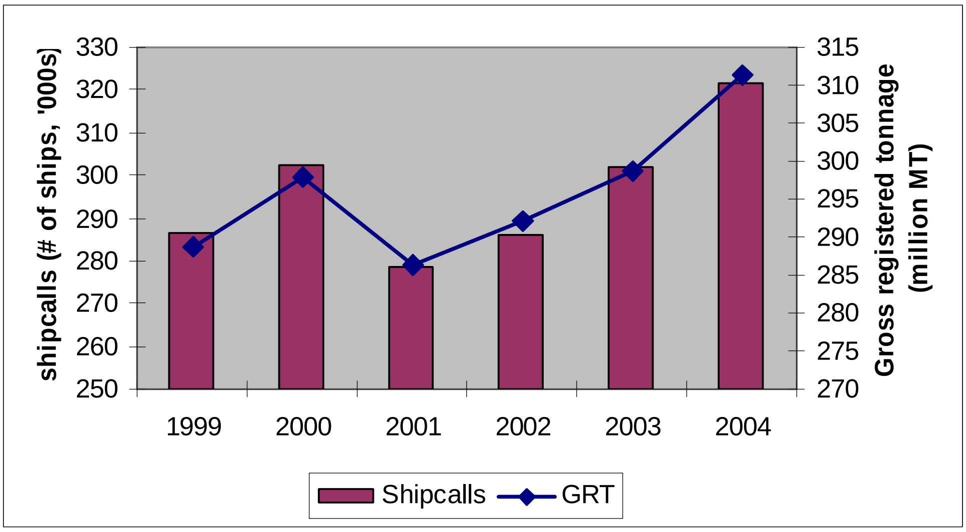
	1999	2000	2001	2002	2003	2004
Total Cargo	**143**	**150**	**148**	**149**	**147**	**157**
Domestic	77	78	76	80	80	83
Foreign	66	72	72	70	67	74

Source: PPA

Ship Traffic and Gross Registered Tonnage. Alongside the recent growth in cargo throughput, the total number of shipcalls (arrivals and departures) continued to grow for the third year in a row. There were a total of 321,350 shipcalls in 2004, up from 286,651 shipcalls in 1999. Majority of these ships, or more than 7 percent, were domestic. The traffic of domestic craft grew by more than 10 percent from 1999 to 2004, while foreign vessels registered less than 5 percent growth during the same period.

The total gross registered tonnage (GRT) of these vessels has also continued to register an increase for the third straight year, after experiencing a huge drop between 2000 and 2001. Total GRT grew from 289 million in 1999 to 311 million in 2004, representing more than 5 percent growth. Domestic vessels accounted for this growth while GRT of foreign vessels has actually continued to shrink for the second straight year. Average GRT of domestic vessels grew from 642 tons in 2003 to 645 tons in 2004. Average GRT of foreign vessels decreased from 11,340 tons in 2003 to 11,028 tons in 2004. This means that, though there have been more shipcalls in 2004, the average size of these vessels has been decreasing.

Figure 16.1 Number of Shipcalls and Gross Registered Tonnage, 1999-2004



Source: PPA

Financial Highlights. The PPA is a profitable government corporation with a net income of P1.9 billion in 2004 (Annex 16.1). The PPA's revenues are derived from the various fees and tariffs, and continue to outpace expenses. PPA annually remits half of its net income from the previous year to the national government as dividend payments. PPA remitted P442 million in 2004 to the government, down by more than 50 percent compared to the previous year (Annex 16.1).

The PPA's largest source of revenue is the collection of a fixed fee from ICTSI (Annex 16.1). Revenues from the agreement with ICTSI reached P1.95 billion in 2004. Revenues from operating the MICT are generally quite substantial given that it serves as one of the country's two major maritime gateways to the rest of the world along with the South Harbor. Furthermore, while MICT only handles foreign containerized cargo, it easily captures nearly 80 percent of all such cargo, owing to the fact that it has three times the space of South Harbor, has more berths (5 against South Harbor's 3) and is generally better equipped. The higher volume of foreign containerized cargo passing through the nation's ports and the weakening of the peso against the dollar explain the increase in government's revenues from ICTSI.

Wharfage dues accounted for around 22 percent of PPA's income in 2004. Wharfage dues are levied against all cargoes, whether inbound, outbound or transshipments, on a per tonnage basis (for non-containerized cargo) or a per box basis (for containerized cargo). Wharfage dues have barely increased for the last four years. Around 15 percent of PPA's revenues come from its share in arrastre and stevedoring income. At present, PPA receives a 10 percent share of all revenues derived from the handling of domestic cargo as well as a 20 percent share for all foreign cargo. Prior to 2003, the share that the Authority would receive from the cargo handling companies would vary on a per port basis sometimes going as high as 30 percent of revenues.

Income from dockage fees increased in 2004 after two consecutive years of decline, reflecting the increase in the number of shipcalls as well as the increase in the total GRT of vessels in PPA ports in 2004 (Annex 16.1). Dockage fees include both berthing and anchorage fees which are collected from vessels engaged in international trade. Vessels utilizing the designated berths in a port or attaching themselves to vessels which are berthed are charged berthing fees. These are charged on a per gross registered tonnage (GRT) and per calendar day basis. Anchorage fees are collected from vessels which do not berth but instead drop anchor in the designated anchorage area.

Expenses on salaries, wages and other staff benefits account, on the average, for more than a fifth of the total expenses. In absolute terms, this expense has been increasing since 2000, reaching up to P807 million in 2004. The PPA has an agency-wide plantilla of around 3,800, less than 70 percent of which are filled up.

Depreciation charges were the biggest expense items from 2000 to 2003 but they tempered to around P700 million in 2004, due to the transfer of some public ports to the control of LGUs and other port authorities. The sharp increase in depreciation charges from 2000 to 2003 was due to new accounting standards that effectively shortened the economic useful lives of its assets and some computation errors.

Operating costs for the repair and maintenance of PPA structures and port facilities (including maintenance of harbor basins, navigational channels, etc.) cost the PPA P210 million in 2004, less than 10 percent of its total operating expenditures.

The PPA booked huge losses worth P1.2 billion for 2003 and 2004 due foreign exchange revaluation. The amount reflects the net loss after deducting the gains on foreign exchange recognized in the revaluation of the balances of the foreign currency deposit, and loans outstanding at year-end. This also includes the amortization of the balances of deferred charges and deferred credits pertaining to prior years' gains and losses on foreign exchange.

The PPA's assets were worth P78.8 billion in 2004, 3 percent of which were held as current assets (Annex 16.2). Current assets include prepayments, in the form of prepaid taxes, down payments to contractors and prepaid insurance. Cash position has been on a steady decline since 2002. Property and equipment accounted for more than 90 percent of PPA's assets.

The PPA's liabilities were pegged at P11.5 billion in 2004, two-thirds of which were held as foreign debt (Annex 16.2). Its foreign debt is accounted for mostly by borrowings made in conjunction with the construction of the Batangas port as well as for dredging operations. Current liabilities are estimated at around one third, largely accounts payable and current portion of public debt. Equity stood at P67.3 billion in 2004, up by a billion compared to the previous year.

The current ratio fell from 1.728 in 1999 to 0.624 in 2004, averaging 0.820 for the entire 6-year period (Table 16.2). This reflects the declining assets from 1999 to 2004, more noticeably the P3.6 billion decline in temporary investments. The low debt-to-asset and debt-to-equity ratios indicate relatively low reliance on borrowing for the company.

Table 16.2 Selected Financial Ratios, 1999-2004

	1999	2000	2001	2002	2003	2004	Average
Current Ratio	1.728	0.391	0.731	0.775	0.672	0.624	**0.820**
Debt-to-Asset Ratio	0.135	0.162	0.114	0.124	0.135	0.147	**0.136**
Debt-to-Equity Ratio	0.156	0.193	0.128	0.141	0.156	0.172	**0.158**

Source of basic data: Commission on Audit

Annex 16.1

PPA - Income Statement, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
Revenue						
Fixed Fee – ICTSI	1,074,199	1,249,747	1,441,319	1,630,236	1,756,131	1,951,777
Wharfage Dues	1,096,582	1,120,005	1,195,262	1,213,956	1,206,508	1,218,816
Share in Arrastre/Stevedoring Income	629,195	719,244	837,155	846,694	855,886	852,584
Other Income	218,353	257,648	298,001	324,294	337,798	330,754
Port Dues (Harbor Fees)	219,441	254,635	296,168	291,600	313,125	316,187
Dockage - Berthing	217,829	255,823	303,661	291,191	283,687	288,981
Fund Management Income	378,248	338,012	390,382	380,971	259,164	262,894
Port Usage Fees	104,932	104,220	126,383	156,124	164,720	169,281
Storage Charges	132,275	136,009	149,043	138,892	147,896	141,649
Dockage/Anchorage	67,215	60,462	65,546	74,086	54,939	58,427
Pilotage	6,759	10,839	17,170	13,923	20,943	24,068
Lay-up Fees	434	167	759	19	727	78
Total Revenue	4,145,461	4,506,811	5,120,848	5,361,986	5,401,525	5,615,496
Less : Expenses						
Personal Services						
Salaries and Wages	321,419	357,712	362,000	394,330	398,816	416,767
Other Staff Benefits	305,209	222,935	318,162	276,146	327,487	321,415
Social Security Premiums	45,465	50,839	52,231	59,933	61,058	64,081
Manpower Development	6,468	5,211	5,017	12,212	12,037	3,849
Professional Fees	924	802	810	804	849	971
Committee Allowances	1,045	892	627	101	431	0
Total Personal Services	680,531	638,390	738,848	743,526	800,678	807,083
MOOE						
Depreciation Charges	815,075	2,086,748	1,125,752	1,125,115	1,109,875	710,429
Taxes, Licenses & Fees	194,006	11,770	14,881	301,293	391,509	410,317
Repairs & Maintenance	173,888	266,874	225,846	209,094	335,904	209,563
Dredging (Note 26)	182,084	221,492	176,575	212,030	308,463	301,403
Miscellaneous Expenses	52,304	72,802	157,833	151,679	240,258	150,906
Interest on Loans/Bank Charges-Foreign	348,483	256,348	255,161	209,598	152,220	140,182
Security Services	72,723	86,787	98,934	112,184	110,126	120,521
Light, Power & Water	47,855	57,552	64,099	72,137	79,927	91,599
Bad Debts (Note 27)	4,102	2,871	2,199	22,209	36,618	18,981
Auditing Services	37,686	31,649	33,061	33,492	36,100	35,328
Grants, Subsidies, Contribution, etc.	921	1,538	1,988	24,225	31,669	6,734
Insurance	25,085	30,889	32,115	33,745	22,330	25,134
Supplies and Materials	13,498	15,831	14,834	15,667	21,319	22,966
Representation and Transportation	14,957	17,734	18,018	19,786	19,741	18,793
Traveling Expenses	17,262	16,121	13,873	17,334	18,464	20,109
Communication Expenses	13,028	15,538	14,674	15,920	17,789	19,576
Maintenance of Motor Vehicle	10,268	11,813	10,176	10,804	12,650	14,143
Rent	10,920	10,415	11,118	54,260	11,261	11,243
Meetings & Conferences	7,026	7,554	5,725	8,067	7,720	7,220
Discr Expenses/ Intelligence Fund	2,000	2,000	3,950	5,000	6,007	8,000
Amortization Charges	213,114	378,739	423,642	67,430	6,049	7,555

	1999	2000	2001	2002	2003	2004
Athletics & Cultural Expenses	5,785	5,710	820	1,159	3,711	3,451
Advertising & Promotions	2,763	1,737	686	781	1,415	1,003
Discretionary Expenses/Board	1,912	876	864	1,461	1,228	4,287
Registration & Insurance-Motor Vehicle	2,561	780	606	357	385	564
Medical Expenses	472	377	358	227	230	13,090
Interest & Bank Charges	30	35	48	33	44	54
Total MOOE	2,269,808	3,612,581	2,707,836	2,725,087	2,983,013	2,373,149
Total Personal & Operating Expenses	2,950,340	4,250,971	3,446,684	3,468,613	3,783,691	3,180,233
Income from Operations	1,195,121	255,840	1,674,164	1,893,373	1,617,834	2,435,263
Deduct: Other Expenses						
Loss on Revaluation (Note 31)	0	0	0	0	723,771	453,176
Foreign Exchange (Gain) Loss	25,675	45,433	(10,059)	19,349	47,900	16,804
Loss on Disposal of Assets	0	0	0	414	848	113
Extraordinary Loss	90	169	7	0	0	0
	25,765	45,602	(10,052)	19,763	772,519	470,094
NET INCOME	1,169,357	210,238	1,684,216	1,873,611	845,315	1,965,169

Source: Commission on Audit

Annex 16.2

PPA - Balance Sheets, 1999-2004

(In thousand pesos)

	1999	2000	2001	2002	2003	2004
ASSETS						
Current Assets						
Cash on Hand & In Banks (Note 3)	756,663	404,367	794,699	982,258	688,342	435,210
Temporary Investments	3,568,050	0	0	0	0	0
Accounts Receivable - Net (Notes 1 & 4)	203,626	227,321	248,838	329,558	344,422	376,866
Notes Receivable (Note 5)	12,614	5,089	4,084	5,495	2,041	1,862
Other Receivables (Note 6)	248,305	476,509	348,274	285,482	283,738	426,791
Inventories (Notes 1 & 7)	260,273	253,527	239,623	249,971	224,100	207,940
Prepayments (Note 8)	126,148	223,695	255,240	376,582	455,493	488,265
Advances to National Government (Note 9)	0	0	0	500,000	200,000	378,576
Guaranty Deposits (10)	29,061	29,670	64,531	7,453	5,965	6,833
Other Current Assets (Note 11)	3,113	3,117	1,867	54	57	55
Total Current Assets	5,207,854	1,623,295	1,957,156	2,736,853	2,204,158	2,322,398
Property & Equipment (Notes 1 & 12)	58,871,043	57,213,246	68,641,495	67,693,499	69,401,249	72,133,616
Other Assets (Note 13)	1,518,051	6,450,431	5,140,259	5,490,317	4,961,393	4,379,119
TOTAL ASSETS	65,596,949	65,286,972	75,738,910	75,920,668	76,566,800	78,835,132
LIABILITIES & NET WORTH						
Current Liabilities						
Accounts Payable (Note 14)	2,256,912	3,501,151	1,697,074	2,369,793	2,346,882	2,745,957
Other Current Liabilities (Note 15)	542,828	525,500	851,967	497,999	366,107	402,759
Current Portion of Public Debt - Foreign (Notes 1 & 17)	134,816	99,202	101,124	591,697	528,738	568,256
Accrued Interest Payable	79,955	26,782	26,782	71,481	39,606	1,997
Total Current Liabilities	3,014,511	4,152,635	2,676,947	3,530,969	3,281,332	3,718,969
Contingent Liabilities (Note 16)	52	52	131,223	135,145	367,537	0
Long Term Liabilities						
Public Debt - Foreign (Net of Current Portion) (Notes 1 & 17)	5,823,734	6,415,527	5,791,210	5,712,715	6,692,131	7,832,763
Contracts Payable	10,196	0	0	0	0	0
Total Liabilities	**8,848,494**	**10,568,214**	**8,599,380**	**9,378,829**	**10,341,001**	**11,551,732**
Total Net Worth	**56,748,455**	**54,718,757**	**67,139,530**	**66,541,839**	**66,225,799**	**67,283,400**
TOTAL LIABILITIES & NET WORTH	65,596,949	65,286,972	75,738,910	75,920,668	76,566,800	78,835,132

Source: Commission on Audit

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Part I

Executive Order No. 936. Providing for the Establishment of a Government Corporate Monitoring and Coordinating System. (29 February 1984)

Presidential Decree No. 2029. Defining Government-Owned Or -Controlled Corporations And Identifying Their Role In National Development. (4 February 1986)

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Senate Bill No. 486. An Act Directing All Government Corporations To Prepare Their Respective Asset and Liability Management Guidelines That Will Define The Parameters and/or Limits Of Their Financial And Operational Capabilities For Central Control And Monitoring By The Department of Finance. Introduced by Senator Sergio R. Osmeňa III

Senate Bill No. 487. An Act Providing For a Periodic Review of the Economy, Efficiency and Viability of Government-Owned and -Controlled Corporations by Congress, And For Other Purposes. Introduced by Senator Sergio R. Osmeňa III

Senate Bill No. 2222. An Act To Ensure The Accountability Of Government-Owned Or -Controlled Corporations, Government Financial Institutions, State-Owned Universities, And Other Similar Agencies In The Public Sector By Requiring These Entities To Be Evaluated And Subjected To The Test Of Economic And Financial Viability, Creating A Congressional Oversight Committee Therefore, And For Other Purposes. Introduced by Senator Richard J. Gordon.

Part II

I. Home Guaranty Corporation

Executive Order No. 90. Identifying The Government Agencies Essential For The National Shelter Program And Defining Their Mandates, Creating The Housing And Urban Development Coordinating Council, Rationalizing Funding Sources And Lending Mechanisms For Home Mortgages And For Other Purposes. (17 December 1986)

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II. Light Rail Transit Authority

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III. Local Water Utilities Administration

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IV. Metropolitan and Waterworks and Sewerage System

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V. National Development Company

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VI. National Electrification Administration

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VIII. National Housing Authority

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IX. National Irrigation Administration

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X. National Power Corporation

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Republic Act No. 9136. An Act Ordaining Reforms In The Electric Industry, Amending For The Purpose Certain Laws And For Other Purposes. (8 June 2001)

XI. Philippine Amusement and Gaming Corporation

PD No. 1067-A. Creating The Philippine Amusement And Gaming Corporation, Defining Its Powers And Functions, Providing Funds Therefore, And For Other Purposes (1 January 1977)

PD No. 1067-B. Granting The Philippine Amusement And Gaming Corporation A Franchise To Establish, Operate, And Maintain Gambling Casinos On Land Or Water Within The Territorial Jurisdiction Of The Republic Of The Philippines (1 January 1977)

PD No. 1399. Amending Certain Sections Of Presidential Decree No.1067-A Dated January 1, 1977, Entitled "Creating The Philippine Amusement And Gaming Corporation, Defining Its Powers And Functions, Providing Funds Therefore, And For Other Purposes" and Presidential Decree No.1067-B Dated January 1, 1977, Entitled "Granting The Philippine Amusement And Gaming Corporation A Franchise To Establish, Operate, And Maintain Gambling Casinos On Land Or Water Within The Territorial Jurisdiction Of The Republic Of The Philippines" (2 June 1978)

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PD No. 1869. Consolidating And Amending Presidential Decree Nos. 1067-A, 1067-B, 1067-C, 1399 And 1632, Relative To the Franchise And Powers Of The Philippine Amusement And Gaming Corporation (PAGCOR) (11 July 1983)

EO No. 604. Reconstituting The Board Of Directors Of The Philippine Amusement And Gaming Corporation, Created Under Presidential Decree No. 1067-A (18 July 1980)

XII. Philippine Charity Sweepstakes Office

RA No. 1169. An Act Providing For Charity Sweepstakes, Horse Races And Lotteries (18 June 1954)

BP Blg. 42. An Act Amending The Charter Of The Philippine Charity Sweepstakes Office (24 September 1979)

XIII. Philippine Economic Zone Authority

RA No. 7916. An Act Providing for the Legal Framework and Mechanisms for the Creation, Operation, Administration and Coordination of Special Economic Zones in the Philippines, Creating for this Purpose, the Philippine Economic Zone Authority and for Other Purposes (24 February 1995)

RA No. 8748. An Act Amending RA No. 7916, Otherwise Known as the "Special Economic Zone Act of 1995" (1 June 1999)

XIV. Philippine National Oil Company

Memorandum Order No. 18. Modifying Presidential Decree No.334 Creating The Philippine National Oil Company, Defining Its Powers And Functions. Providing Funds Therefore, And For Other Purposes. (19 June 1986)

Presidential Decree No. 334. Creating The Philippine National Oil Company, Defining Its Powers And Functions, Providing Funds Therefore, And For Other Purposes. (9 November 1973)

Presidential Decree No. 405. Amending The Charter Of The Phillippine National Oil Company, As Provided For In Presidential Decree No.334 Dated November 9, 1973, And For Other Purposes. (26 December 1972)

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Republic Act No. 9136. An Act Ordaining Reforms In The Electric Industry, Amending For The Purpose Certain Laws And For Other Purposes. (8 June 2001)

XV. Philippine National Railways

Presidential Decree No. 741. Amending Certain Sections of Republic Act Numbered Forty-One Hundred and Fifty-Six, Entitled "An Act Creating the Philippine National Railways, Prescribing Its Powers, Functions, and Duties And Providing For The Necessary Funds For The Operations", As Amended By Republic Act Numbered Sixty-Three Hundred And Sixty-Six. (3 July 1975)

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XVI. Philippine Ports Authority

Presidential Decree No. 505. Providing For The Reorganization Of The Port Administration And Operation Functions In The Country, Creating The Philippine Port Authority, Paving The Way For The Establishment Of Individual, Autonomous Port / Industrial Zone Authorities In The Port/ Industrial Zone Authorities In The Different Port Districts, And For Other Purposes. (11 July 1974)

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