



Republic of the Philippines
COMMISSION ON AUDIT
*Commission Building, 1001 Alvaro Street, 2nd Floor
Manila, Philippines 1000*

ANNUAL AUDIT REPORT

on the

NATIONAL DEVELOPMENT COMPANY

For the Year Ended December 31, 2013

EXECUTIVE SUMMARY

Introduction

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act 2873. On November 13, 1936, it became a public corporation through Commonwealth Act 182, as amended by Commonwealth Act 311 dated June 9, 1938. Pursuant to Presidential Decree No. 1648, NDC was reorganized on October 25, 1979 to be the government's investment arm under the Department of Trade and Industry.

The Company's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country's development.

The Company undertakes vital ventures in agriculture, industry and service sectors where development gaps exist, oversees their operations and ensures their successful privatization. The Company has adopted an effective management system, which is being applied to its present subsidiary companies to derive greater returns on its shareholdings.

On March 10, 2003, Executive Order (EO) No. 184 was approved by the President of the Philippines directing the reorganization and streamlining of the NDC by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;
- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and
- act as a holding company to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Further, the Company was also directed to review its operations, following a set of criteria for measuring its performance, to attain its missions, plans and goals in consonance with the refocused functions.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of NDC for calendar year 2013. It was aimed at expressing an opinion as to whether the financial statements present fairly the Company's financial position, results of operations and cash flows and at determining the Company's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.

Operational Highlights

The NDC reported the following major targets and accomplishments for CY 2013:

	Target (In million Pesos)	Actual (in Million Pesos)	Percentage of Actual over Target
1. Project Development (Board- approved projects)			
a. FCIE Expansion Project	345.00	P 345.00	
b. Palawan State Univ.-School Bldg. Program	66.00	65.35	
c. Rizal Mini-Hydropower Project		90.00	
d. Davao Food Exchange	271.30		
e. PITC-Pharma, Inc.	17.70		
	700.00	500.35	71.48%
2. Investing and Financing			
a. Funds released to PITC-Pharma, Inc.	17.70	17.69	
b. Funds released to FCIE	3.70	.75	
c. Davao Food Exchange	.30	.32	
	21.70	18.76	86.45%
3. Portfolio Management			
a. Return on Investment/ Amount of dividends received	140.10	146.29	104.42%

Financial Highlights

Comparative Financial Position

	2013	2012	Increase (Decrease)
Assets	13,114,890,536	12,293,886,375	821,004,161
Liabilities	8,529,903,190	8,410,243,676	119,659,514
Equity	4,584,987,346	3,883,642,699	701,344,647

Comparative Results of Operations

	2013	2012	Increase (Decrease)
Income	846,469,636	763,962,788	82,506,848
Expenses	362,463,914	433,413,158	(70,949,244)
Net profit	484,005,722	330,549,630	153,456,092

Independent Auditor's Report on the Financial Statements

We rendered an unqualified opinion on the fairness of presentation of the financial statements of the Company.

Significant Audit Observations and Recommendations

1. Unremitted dividends to the National Government accumulated to P2.11 billion as of December 31, 2013.

We recommended that the Management remit the balance of the dividends to avoid incurrence of penalties and additional charges.

2. Arrears in amortization of the housing loans granted to former NDC employees range from four to eleven years.

We recommended that the Management file collection cases against the delinquent borrowers and initiate actions to foreclose the properties mortgaged pursuant to the terms and conditions of the housing loan agreement.

3. Expenses totalling P2.90 million were incurred for the services of consultants whose duties and functions are administrative and financial in nature.

We recommended that the Management hire consultants only for jobs which require technical expertise and which cannot be performed by regular personnel.

Statement of Total Suspensions, Disallowances and Charges as of Year-end

As December 31, 2013, the unsettled Notices of Disallowance amounted to P19.51 million. Of this amount, P1.72 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011 and P1.38 million is under appeal with the Director of Cluster 4, Corporate Government Sector.

Status of Implementation of Prior Years' Audit Recommendations

Of the twenty eight (28) audit recommendations embodied in the Annual Audit Reports for CYs 2006-2012, fourteen (14) were fully implemented, nine (9) were partially implemented and five (5) were not implemented.

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PART I
AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

National Development Company
Makati City

Report on the Financial Statements

We have audited the accompanying financial statements of National Development Company (NDC), which comprise the statement of financial position as at December 31, 2013, and the statement of profit or loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Development Company as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with state accounting principles generally accepted in the Philippines.

Emphasis of Matter

We draw attention to Note 23 to the financial statements which describes the uncertainty related to the outcome of the various civil and tax cases pending before the lower courts and the Supreme Court. Our opinion is not modified in respect of this matter.

***Report on Supplementary Information Required
Under BIR Revenue Regulation No. 15-2010***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 25 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT



FELISA M. DALOPE
Supervising Auditor

May 15, 2014

NATIONAL DEVELOPMENT COMPANY
STATEMENT OF FINANCIAL POSITION

December 31, 2013

(With comparative figures as of December 31, 2012)

(In Philippine Peso)

	Notes	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	4	835,435,371	796,483,044
Short-term investments	5	79,903,949	58,043,255
Receivables, net	6	1,959,859,506	1,498,127,067
Other current assets	7	80,551,301	76,538,219
Total Current Assets		2,955,750,127	2,429,191,585
Non-Current Assets			
Investments	8	1,572,728,383	1,564,549,362
Receivables, net	6	5,183,014,133	4,890,162,665
Investment property	9	2,872,722,642	2,879,726,792
Property and equipment	10	24,412,066	20,810,225
Other non-current assets and deferred charges	11	506,263,184	509,445,746
Total Non-Current Assets		10,159,140,408	9,864,694,790
TOTAL ASSETS		13,114,890,535	12,293,886,375
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	12	666,699,352	599,925,796
Current portion of loans payable	13	3,873,469,542	3,786,272,765
Other current liabilities	15	69,419,334	65,031,114
Total Current Liabilities		4,609,588,228	4,451,229,675
Non-Current Liabilities			
Loans payable, net of current portion	13	308,098,946	308,098,946
Bonds payable	14	3,500,000,000	3,500,000,000
Other long-term liabilities	15	112,216,016	150,915,055
Total Non-Current Liabilities		3,920,314,962	3,959,014,001
Equity		4,584,987,345	3,883,642,699
TOTAL LIABILITIES AND EQUITY		13,114,890,535	12,293,886,375

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENT OF PROFIT OR LOSS

For the Year Ended December 31, 2013

(With comparative figures for the year ended December 31, 2012)

(In Philippine Peso)

	Notes	2013	2012
OPERATING INCOME			
Interest on loans		464,965,946	447,656,296
Dividends	18	159,617,609	172,591,394
Rental and leasehold		86,639,560	96,061,931
Interest on deposits		36,131,660	46,620,333
Interest on receivables		1,201,403	904,642
Guarantee income		494,688	44,192
Management fees		84,000	84,000
		749,134,866	763,962,788
OPERATING EXPENSES	19	355,887,291	410,608,214
		393,247,575	353,354,574
OTHER INCOME (EXPENSES)			
Gain from sale of assets		54,320,260	22,899,454
Foreign exchange gain (loss)		21,272,460	(78,960,602)
Share in net profit from associates		21,739,485	39,554,883
Miscellaneous income		2,565	8,764
		97,334,770	(16,497,501)
PROFIT BEFORE INCOME TAX		490,582,345	336,857,073
INCOME TAX EXPENSE	20	6,576,624	6,307,443
NET PROFIT		484,005,721	330,549,630

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2013

(With comparative figures for the year ended December 31, 2012)

(In Philippine Peso)

	Notes	2013	2012
CAPITAL STOCK	16	8,602,803,483	8,602,803,483
DONATED CAPITAL	17	112,739,868	112,739,868
SHARE IN REVALUATION INCREMENT OF ASSOCIATES		28,883,100	28,883,100
DEFICIT			
Balance at beginning of year		(4,860,783,752)	(7,295,295,528)
Change in accounting policy - FMV valuation of IP		0	2,797,835,516
Prior-period adjustments	21	309,154,462	(643,978,921)
Share in prior-period adjustments of associates		8,184,463	105,551
Dividends		(100,000,000)	(50,000,000)
Adjusted beginning balance		(4,643,444,827)	(5,191,333,382)
Net profit for the year		484,005,721	330,549,630
Balance at end of year		(4,159,439,106)	(4,860,783,752)
TOTAL EQUITY		4,584,987,345	3,883,642,699

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

(With comparative figures for the year ended December 31, 2012)

(In Philippine Peso)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends received			
Collection of rentals		162,617,609	183,664,854
Collection of receivables		125,078,463	90,371,646
Interest received		26,450,988	10,929,631
Miscellaneous collections		16,472,314	110,039,223
Loans granted		2,365,397	1,118,790
Payment of salaries and benefits to officers and employees		(21,926,444)	(2,147,542)
Payment of taxes and licenses		(18,877,508)	(16,422,725)
Payment to suppliers and service providers		(37,122,713)	(61,271,644)
Payment of interest		(58,503,767)	(55,372,607)
		(186,126,837)	(190,470,685)
Net cash provided by operating activities		10,427,502	70,438,941
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of assets		55,826,624	1,709,534
Net proceeds from money market placements		29,285,335	53,225,713
Acquisition of assets		(43,862,563)	(28,438,396)
Payment of subscription		0	(7,552,843)
Net cash provided by investing activities		41,249,396	18,944,008
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from net lending		89,687,500	179,375,000
Payment of loans payable		(2,490,723)	(35,895,754)
Payment of dividends		(100,000,000)	(50,000,000)
Net cash provided by (used in) financing activities		(12,803,223)	93,479,246
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		78,652	(13,119,507)
NET INCREASE IN CASH AND CASH EQUIVALENTS		38,952,327	169,742,688
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		796,483,044	626,740,356
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	835,435,371	796,483,044

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849, as amended by Legislative Act No. 2873. It was authorized to engage in commercial, industrial and other enterprises essential to the economic development of the country.

On November 13, 1936, it became a public corporation through Commonwealth Act No. 182, as amended by Commonwealth Act No. 311, dated June 9, 1938, for the purpose of implementing the economic policies of the National Government and to play an active role in the development of natural resources.

Presidential Decree No. 1648, issued on October 25, 1979, revised the NDC Charter and reorganized NDC to be the government's investment arm under the Department of Trade and Industry. The Company's mandate is to invest in pioneering and development-oriented projects where private investors are unwilling (because of the high risks or uncertainties involved) or unable to venture into (because of the large investment requirement) but are necessary for the country's development.

On March 10, 2003, Executive Order (EO) No. 184 was issued directing the reorganization and streamlining of the NDC, by refocusing its operations as the government's investment arm. In fulfilling this role, NDC shall:

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;
- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and
- act as a holding company to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Further, the Company was also directed to review its operations, following a set of criteria for measuring its performance, to attain its missions, plans and goals in consonance with the refocused functions.

The Department of Budget and Management approved on May 29, 2003 the new structure of NDC and the required staffing pattern and qualification standards for all positions. The corresponding Implementing Rules and Regulations (IRR) of EO No. 184 was promulgated and approved by the Secretary of the Department of Trade and Industry (DTI) on August 28, 2003 under DTI Department Order No. 70. With the implementation of EO No. 184, new employees were hired to work and implement the mandate of NDC as the government's investment arm.

The Company's principal office is located at the NDC Building, No. 116 Tordesillas St., Salcedo Village, Makati City.

The accompanying financial statements as of December 31, 2013 and 2012 were approved and authorized for issue by the General Manager on April 23, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements of NDC are presented in conformity with state accounting principles generally accepted in the Philippines. These are prepared under the historical cost basis, except for investment properties which are measured at fair value.

Functional and presentation currency

The financial statements are presented in Philippine peso, the Company's functional currency.

Change in accounting policy

Starting 2012, the Company adopted the fair value method in accounting for its investment properties. The resulting adjustment from the change was reported as an adjustment to the opening balance of retained earnings.

Recognition of financial assets and liabilities

Financial assets or financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities.

Derecognition of financial assets and liabilities

The Company derecognizes a financial asset when it no longer controls the contractual rights that comprise the financial instrument and a financial liability when the obligation is extinguished or cancelled.

Financial assets. A financial asset (or, where applicable, a part of a financial asset or part of group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the assets and either (a) has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred nor retained substantially all the risk and rewards but it no longer has control over the asset or a portion of the asset.

Financial liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of original liability and recognition of new liability.

Disclosure and presentation of financial instruments

Financial instruments are to be classified as debt or equity in accordance with their substance and not their legal form.

Cash and cash equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less from the date of acquisition and are subject to insignificant risk of change in value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Allowance for doubtful accounts is provided based on an evaluation of the estimated collectability of receivables with respect to aging of accounts, past loss experience and specific identification of uncollectible accounts. The Company's receivables consist of loans, rental, accrued interest, and other receivables and advances to related parties.

Interests and penalties on non-performing loans are not accrued but are taken up as income only when actual payments thereon are received.

Investments

In preparing the Parent Company's financial statements, investments in subsidiaries and joint venture companies are recorded at cost less allowance for impairment.

Investments in associates are accounted for under the equity method of accounting. An associate is an entity over which the Company exercises significant influence.

Investment property

Investment property consists of lands that are held to earn rentals and are measured at fair market value.

Investment properties are derecognized on disposal or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the disposal of investment properties is recognized in profit or loss in the year of disposal.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation.

The initial cost of property and equipment comprises its purchase price, including import duties and taxes, and any costs that are directly attributable to bringing the asset to its working condition and location for intended use. Expenditures incurred after the property and equipment have been put into operation, such as maintenance and repairs, are normally charged to expense in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

When an asset is sold or retired, or otherwise disposed of, the cost and related accumulated depreciation or amortization, if any, are removed from the accounts. Any gain or loss resulting from the disposal is recognized in profit or loss for the period.

Foreign currency transactions and translation

Transactions in foreign currencies (principally related to foreign currency liabilities) are initially recorded in Philippine peso based on the reference rates prevailing at the dates of the transactions. Foreign currency denominated monetary assets and liabilities are translated at the exchange rates prevailing at reporting dates. Exchange gains or losses arising from foreign exchange transaction are recognized in profit or loss for the period.

Deferred income tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred tax assets and liabilities are measured using the tax rates applicable to the taxable income in the periods in which the temporary differences could be recovered or settled. The net effect on the deferred tax assets and liabilities arising from any change in the applicable income tax rates is included in the computation of the provision for deferred income tax for the year.

Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. On the other hand, expenses are recognized when there is a decrease in future economic benefit related to a decrease in an asset or an increase in liability.

An expense is recognized immediately in profit or loss when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition as an asset, or in those cases when a liability is incurred without recognition of an asset.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Company's financial statements were prepared in accordance with state accounting principles generally accepted in the Philippines, which require the Company to make estimates and assumptions that affect amounts reported in the financial statements and related notes.

Judgments

- Distinction between property and equipment and investment property

The Company determines whether a property qualifies as property and equipment or investment property. In making its judgment, the Company considers whether the assets are held for rental to others, for administrative purpose or capital appreciation and whether they are expected to be used during more than one period.

- Operating lease

The Company has entered into various operating leases on its investment property portfolio, retaining all significant risks and rewards of ownership on these properties.

Estimates and assumptions

- Allowance for doubtful accounts

Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. Management's judgment is required in the estimation of the amount and timing of cash flows when determining the level of allowance required.

Such estimates are based on assumptions on a number of factors and actual results may differ resulting in the future changes of allowance. The provision is recognized in profit or loss.

- Estimated useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on their economic lives. The estimated useful lives are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. It is possible that future results or operations could be materially affected by changes in the estimates brought about by changes in factors

mentioned earlier. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

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

Type of Asset	Estimated useful life in years
Land improvements	40
Building and building improvements	2 to 20
Furniture and equipment	3 to 10

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2013	2012
Cash in banks	5,751,467	9,077,343
Cash with collecting/disbursing officer	4,026,679	4,379,161
Money market placements	825,657,225	783,026,540
	835,435,371	796,483,044

Cash in banks earn interest at the prevailing bank deposit rates. The money market placements consist of placements with interest rates per annum ranging from 1.075% to 1.35%, with maturity period of three months or less.

5. SHORT-TERM INVESTMENTS

This account consists of money market placements in the Land Bank of the Philippines and the Development Bank of the Philippines in the total amount of P79,903,949 and P58,043,255 in 2013 and 2012, respectively.

6. RECEIVABLES

This account consists of:

	2013	2012
Current		
Loans receivable	268,497,096	268,497,096
Accrued interests	2,515,621,601	2,089,871,824
Rental receivables	83,255,676	91,649,227
Due from subsidiaries and affiliates	26,948,260	26,948,260
Due from officers and employees	4,985,864	5,482,494
Due from National Government	3,252,978	3,252,978
Other receivables	393,579,287	383,411,134
Allowance for impairment	(1,336,281,256)	(1,370,985,946)
	1,959,859,506	1,498,127,067
Non-Current		
Loans receivable	5,842,043,793	5,735,248,539
Due from subsidiaries and affiliates	121,995,641	121,995,641
Due from officers and employees	16,218,379	15,162,165
Other receivables	107,700,174	107,700,174
Allowance for impairment	(904,943,854)	(1,089,943,854)
	5,183,014,133	4,890,162,665
	7,142,873,639	6,388,289,732

Accrued interests pertains to interests from various investments and income-generating activities which were already earned as of the reporting date, but which were not yet actually received.

Rental receivables consists of collectibles from lease of real properties covered by lease agreements between the Company and lessees.

Due from subsidiaries and affiliates consists of advances made to the Company's various subsidiaries and affiliates.

Due from officers and employees pertains to loans granted by the Company to its officers and employees.

Due from National Government represents amount due from the Republic of the Philippines representing expenses accompanying the Company's transferred accounts to the National Government. These accounts, consisting of loans, equity investments, advances, acquired assets, other assets and liabilities, were identified and approved for transfer to the National Government pursuant to Administrative Order No. 64 dated March 31, 1987.

Other receivables includes management fees, guarantee fees, commitment fees, and other receivables.

Loans receivable – non-current represents the loan granted to the National Irrigation Administration (NIA), which loan was funded from the proceeds of Agri-Agra bonds, and to the restructured loan of PITC Pharma, Inc.

7. OTHER CURRENT ASSETS

This account consists of:

	2013	2012
Short-term investments (held-in-trust)	76,093,332	73,569,037
Deposits	2,006,418	1,757,555
Prepaid assets	1,806,704	775,135
Others	644,847	436,492
	80,551,301	76,538,219

Short-term investments (held-in-trust) consists of the principal and accumulated interest of the Housing and Car Fund for the Company's employees and an escrow account for the shareholders of a former affiliate.

8. INVESTMENTS

This account consists mainly of investments in stocks, bonds and other securities, as summarized below:

	2013	2012
Investments in stocks and other securities		
Common shares	2,167,084,054	2,167,084,054
Preferred shares	1,837,467,152	1,837,467,152
Affiliates accounted under equity	373,903,880	355,125,497
Venture capital	4,000,000	4,000,000
	4,382,455,086	4,363,676,703
Allowance for impairment	(3,334,413,341)	(3,334,413,341)
	1,048,041,745	1,029,263,362
Money market placements	524,111,638	534,711,000
Other investments		
Investments in projects	62,406,520	62,406,520
Others	100,030,145	100,030,145
	162,436,665	162,436,665
Allowance for impairment	(161,861,665)	(161,861,665)
	575,000	575,000
	1,572,728,383	1,564,549,362

The Company's gross investments in common shares and preferred shares, carrying values of investment in affiliates, and venture capital are presented below:

		% of Ownership	2013	2012
Common Shares				
Operational				
Philippine International Trading Corp.	PITC	99.50	199,000,000	199,000,000
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	158,895,989	158,895,989
Batangas Land Company, Inc.	BLCI	60.00	55,659,300	55,659,300
Science Park of the Philippines	SPP	5.18	24,951,957	24,951,957
Paper Industries Corp. of the Phils.	PICP	0.28	15,000,000	15,000,000
G.Y. Real Estate, Inc.	GYREI	60.00	13,084,200	13,084,200
First Cavite Industrial Estate	FCIE	100.00	8,845,038	8,845,038
Kamayay Realty Corporation	KRC	60.00	7,447,000	7,447,000
Pinagkaisa Realty Corporation	PRC	60.00	2,508,629	2,508,629
Semirara Mining Corporation	SMC	3.83	1,136,462	1,136,462
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	400,000,000	400,000,000
Manila Gas Corporation	MGC	91.70	111,282,000	111,282,000
NDC-Philippine Infrastructure Corp.	NPIC	100.00	80,000,000	80,000,000
Menzi Development Corporation	MDC	5.20	10,000,000	10,000,000
San Jose Oil Company	SJOC	20.00	1,716	1,716
For dissolution				
Luzon Stevedoring Corporation	LSC	100.00	330,987,000	330,987,000
P.T Asean Aceh Fertilizer	PTAAF	13.00	106,605,963	106,605,963
Resort Hotels	RH	6.30	6,474,300	6,474,300
LSCO- PDCP	LPDCP	0.00	188,550	188,550
LSCO – Republic Planters Bank	LRPB	0.00	96,000	96,000
LSCO- PLDT	LPLDT	0.00	15,250	15,250
Pre-operating				
Asean Potash Mining Corp	APMC	1.00	12,598,944	12,598,944
Under receivership				
National Steel Corporation	NSC	12.50	622,305,756	622,305,756
			2,167,084,054	2,167,084,054
Preferred Shares				
Operational				
San Carlos Bio-Energy, Inc.	SCBE	25.00	38,850,000	38,850,000
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	500,000,000	500,000,000
Philippine Dockyard Corporation	PDC	35.00	101,650,000	101,650,000
Under receivership				
National Steel Corporation	NSC	12.50	1,196,967,152	1,196,967,152
			1,837,467,152	1,837,467,152

		% of Ownership	2013	2012
Affiliates Accounted Under Equity				
Cost				
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	245,000,000	245,000,000
Refractories Corporation of the Phils.	RCP	33.00	193,620,979	193,620,979
San Carlos Bio-Energy, Inc.	SCBI	25.00	172,900,000	172,900,000
Manila Exposition Complex	MEC	36.36	60,000,000	60,000,000
Philippine Mining Development Corp.	PMDC	20.00	25,000,000	25,000,000
PITC Pharma, Inc.	PPI	40.00	15,000,000	15,000,000
Triad Asia, Ltd.	TAL	50.00	65,435,000	65,435,000
Phividec Industrial Estate	PIE	23.95	17,000,000	17,000,000
Metro Hospital Waste Conversion	MHWC	40.00	12,000,000	12,000,000
First International Document Masters, Inc.	FIDMI	40.00	4,000,000	4,000,000
UP-NDC Basilan Plantations, Inc	UNBPI	40.00	2,400,000	2,400,000
LIDE Management Corporation	LMC	20.00	20,000	20,000
			812,375,979	812,375,979
Accumulated equity in net earnings (losses)				
Balance at beginning of year			(385,485,483)	(414,057,959)
Share in net income (loss) for the year			21,739,485	39,554,883
Share in prior-period adjustments			38,898	166,357
Dividends received			(3,000,000)	(11,148,764)
Balance at end of year			(366,707,100)	(385,485,483)
Share in revaluation increment of an affiliate			28,883,100	28,883,100
			474,551,979	455,773,596
Allowance for impairment			(100,648,099)	(100,648,099)
			373,903,880	355,125,497
Venture Capital				
Non-operational				
Interbank Venture Capital Corporation	IVCC	20.00	1,000,000	1,000,000
Philbancor Venture Capital Corporation	PBVCC	20.00	1,000,000	1,000,000
PNB Venture Capital Corporation	PVCC	20.00	1,000,000	1,000,000
Veterans Venture Capital Corporation	VVCC	20.00	1,000,000	1,000,000
			4,000,000	4,000,000
			4,382,455,086	4,363,676,703

The Luzon Stevedoring Corporation had ceased operations in 1999. The records and books of accounts were not turned-over to NDC.

The First Centennial Clark Corporation (FCCC) had ceased operations way back in 2007 when Clark Development Corporation (CDC), a subsidiary of the Bases Conversion and Development Authority (BCDA), terminated with finality the Lease Agreement, dated October 30, 1997, between CDC and FCCC for the failure of FCCC to pay the rental fees. Prior to such termination, FCCC and CDC entered into a Management Agreement whereby CDC operated the FCCC leasehold area. However, CDC simultaneously cancelled the said Memorandum of Agreement and the Lease Agreement. Both NDC and FCCC requested CDC to reconsider such termination but to no avail. As a

consequence of CDC's cancellation of the leasehold rights, CDC took over and appropriated the structures and buildings of FCCC erected on the leased area.

The original stock certificates representing NDC's shareholdings in San Carlos Bio-Energy, Inc. (SCBI) were pledged as collateral security for the P1.778 billion syndicated loan of SCBI from a consortium of banks participated by the Development Bank of the Philippines (DBP), Land Bank of the Philippines (LBP), Banco de Oro (BDO) and China Banking Corporation (CBC). The stock certificates are in the care and safekeeping of the Collateral Agent of the Lenders, which is BDO.

Refractories Corporation of the Philippines (RCP) is a minority-owned affiliate of NDC at 33% (4.3 million shares equivalent to P108.2 million in equity). On September 2, 2009, RCP filed for corporate rehabilitation before the Regional Trial Court Branch 159 in Pasig City. The Court approved the rehabilitation on May 7, 2010. As part of the rehabilitation, RCP's total debt as of March 31, 2010 will be converted into common shares. As a result, NDC's shareholdings in RCP will be diluted from 33% to 11%. To date, the rehabilitation process has not yet been finalized. Moreover, the RCP Board has not called a stockholders' meeting since the company underwent corporate rehabilitation in 2009.

Update on National Steel Corporation (NSC)

The NSC Liquidation Plan involves, among others, the disposition of the NSC Plant Assets as an integral facility in order to allow a prospective buyer to resume the operation thereof within a short period of time from acquisition. Under the Plan, the NSC Plant Assets are to be used exclusively in settling the claims of all the NSC Secured Creditors, who are to waive their right to claim against the other assets of NSC for any deficiency in their secured credit and their unsecured credit.

Two years after NSC's liquidation, majority of the secured creditors and the stockholders of NSC came into a general understanding and agreement as to the disposition of the NSC Plant Assets; the payment of the liabilities owing to the NSC secured creditors and the business operation of the Special Purpose Vehicle (SPV) which shall eventually purchase the NSC plant assets.

On January 29, 2004, the NSC Liquidator, the NSC Secured Creditors, the NSC Shareholders and Global Ispat Holdings Ltd. (GIHL) entered into an Initial Agreement which sets out the basic terms and conditions of the sale and purchase of the NSC Plant Assets. The proposed sale to and purchase of the NSC Plant Assets by GIHL was approved by the SEC, in its Order issued on May 6, 2004.

On September 10, 2004, the Parties executed an Asset Purchase Agreement (APA) to document the detailed terms and conditions of the sale and purchase of the right, titles and interests in and to, including the ownership of the NSC Plant Assets. However, at the time of signing, the NDC was not able to obtain Board approval for its authorized signatory. Thus, its share in the down payment was held in escrow with the Philippine National Bank (PNB). To remedy the situation, an Accession Agreement was executed among the Company, GIHL and Global Steel Corporation. As soon as the Accession Agreement is signed by all Parties, the Company shall withdraw the escrow fund held by PNB and recognize the sale accordingly.

The Company, in its capacity as a GOCC secured creditor of NSC, sought the Department of Finance's approval to consider the transaction as a "true sale" and thus, be eligible for all the incentives available under the SPV Law of 2002. The Bangko Sentral ng Pilipinas (BSP), the appropriate regulatory authority for creditor banks, considered the transaction structure on the sale of NSC Plant Assets to GIHL a "true sale" under the SPV Law as confirmed by the Monetary Board under Resolution No. 514 of April 15, 2004.

The Company's primary consideration in consenting to the sale is twofold. Firstly, the national interest was taken into account given the government commitment to reopen NSC at the soonest time possible and the mandate given to the Department of Trade and Industry to facilitate the same. Secondly, NDC's corporate interest was also considered with the opportunity to recover partially its investments in NSC that was unlikely in the first place given the liquidation status of NSC.

Money market placements primarily consists of funds invested in Retail Treasury Bonds (RTB).

9. INVESTMENT PROPERTY

Investment property includes land and buildings which are held to earn rentals under operating leases. The carrying amounts recognized in the statement of financial position reflect the fair values based on the appraisal conducted in 2010.

This account consists of parcels of land and buildings held by the Company under Contract of Lease to earn rentals, as follows:

	2013	2012
Land		
Pandacan, Manila	726,340,000	726,340,000
Lapu-lapu, Cebu	703,860,000	703,860,000
Sen. Gil Puyat, Makati	335,270,000	335,270,000
M Fortich/Libona, Bukidnon	222,860,000	222,860,000
Tordesillas, Salcedo Vill., Makati	200,400,000	200,400,000
Barrangca, Mandaluyong	113,700,000	113,700,000
San. Juan St., Bacolod	98,980,000	98,980,000
P.Tamo & Dela Rosa Sts., Makati	91,560,000	91,560,000
Bugo Dist., Cagayan De Oro	83,530,000	83,530,000
Kamagong & Sampaloc Sts., Makati	62,800,000	62,800,000
Isabel, Leyte	47,681,847	47,681,847
Lacson & Rizal Sts, Bacolod	39,575,000	39,575,000
Bagong Ilog, Pasig	37,080,000	37,080,000
Diliman, Quezon City	36,450,000	36,450,000
San Roque, Tarlac	17,330,000	17,330,000
Sta. Fe, Bantayan, Cebu	10,590,000	10,590,000
	2,828,006,847	2,828,006,847
Buildings		
Industry & Investment Building	22,490,964	26,255,151
Leyte Port Complex	11,447,709	12,488,410
NDC Building	10,777,122	12,976,384
	44,715,795	51,719,945
	2,872,722,642	2,879,726,792

Fair value and accumulated depreciation of buildings are shown below:

	Industry & Investment Bldg.	NDC Building	Leyte Port Complex	Total
Fair value	151,600,000	56,320,000	50,426,000	258,346,000
Accumulated depreciation	(129,109,036)	(45,542,878)	(38,978,291)	(213,630,205)
Net book value	22,490,964	10,777,122	11,447,709	44,715,795

Except for lands located at 1) Isabel, Leyte, 2) Sen. Gil Puyat, Makati, 3) Tordesillas, Salcedo Village, Makati, 4) Cagayan de Oro, and 5) Bukidnon, the rest are covered by Second Lease Agreement entered into by and between National Development Company and Caltex (Philippines), Inc. (now Chevron) for a period of twenty-five (25) years effective May 27, 2000 until May 26, 2025.

The Leyte Port Complex at Leyte Industrial Development Estate (LIDE), Isabel, Leyte, is being leased to the Philippine Phosphate Fertilizer Corporation (PHILPHOS) under a Contract of Lease commencing on January 1, 1986 until December 31, 2030.

Below are the fair values of the investment properties:

	Fair Value	As of	Appraiser
Pandacan, Manila	726,340,000	09/24/10	Cal-Fil Appraisal
Lapu-lapu, Cebu	703,860,000	09/10/10	Cal-Fil Appraisal
Sen. Gil Puyat, Makati	335,270,000	08/23/10	Cal-Fil Appraisal
M Fortich/Libona, Bukidnon	222,860,000	10/15/10	Cal-Fil Appraisal
Tordesillas, Salcedo Vill., Makati	200,400,000	08/23/10	Cal-Fil Appraisal
Industry and Investment Building	151,600,000	08/23/10	Cal-Fil Appraisal
Barangca, Mandaluyong	113,700,000	05/03/10	Alpha Appraisal
San. Juan St., Bacolod	98,980,000	09/12/10	Cal-Fil Appraisal
P.Tamo & Dela Rosa Sts., Makati	91,560,000	05/03/10	Alpha Appraisal
Bugo Dist., Cagayan De Oro	83,530,000	10/15/10	Cal-Fil Appraisal
Kamagong & Sampaloc Sts., Makati	62,800,000	05/05/10	Cal-Fil Appraisal
NDC Building	56,320,000	08/23/10	Cal-Fil Appraisal
Leyte Port Complex	50,426,000	08/13/10	LCH Philippines
Isabel, Leyte	47,681,847	08/13/10	LCH Philippines
Lacson St., Bacolod City	39,575,000	05/05/10	Alpha Appraisal
Bagong Ilog, Pasig	37,080,000	05/03/10	Alpha Appraisal
Diliman, Quezon City	36,450,000	05/05/10	Alpha Appraisal
San Roque, Tarlac	17,330,000	08/23/10	Cal-Fil Appraisal
Sta. Fe, Bantayan, Cebu	10,590,000	10/05/10	Cal-Fil Appraisal
	3,086,352,847		

The rental income earned by the Company from its investment properties, all of which are under operating leases, amounted to P86.64 million and P96.06 million for the year 2013 and 2012, respectively. All the investment properties generated rental income.

10. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Total
Cost:				
At January 1, 2013	607,879,546	47,612,155	668,054,766	1,323,546,467
Additions	0	6,163,599	2,576,609	8,740,208
Disposals	0	0	(1,220,091)	(1,220,091)
Adjustments	0	(3,866,178)	(577,438)	(4,443,616)
At December 31, 2013	607,879,546	49,909,576	668,833,846	1,326,622,968
Accumulated depreciation:				
At January 1, 2013	606,438,862	34,783,936	661,513,445	1,302,736,243
Additions	209,128	2,116,621	1,615,357	3,941,106
Disposals	0	0	(1,220,091)	(1,220,091)
Adjustments	0	(2,784,841)	(461,515)	(3,246,356)
At December 31, 2013	606,647,990	34,115,716	661,447,196	1,302,210,902
Net carrying amount, December 31, 2013	1,231,556	15,793,860	7,386,650	24,412,066
	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Total
December 31, 2012				
Cost	607,879,546	47,612,155	668,054,766	1,323,546,468
Accumulated Depreciation / Adjustment	606,438,862	34,783,936	661,513,445	1,302,736,243
Net carrying amount, December 31, 2012	1,440,684	12,828,219	6,541,321	20,810,225

Included in the Improvement and Equipment accounts are the properties at the Leyte Port Complex at Isabel, Leyte, which are being leased to PHILPHOS under a Contract of Lease commencing on January 1, 1986 until December 31, 2030.

11. OTHER NON-CURRENT ASSETS AND DEFERRED CHARGES

This account consists of:

	2013	2012
Lands not used in operation	484,713,839	486,158,839
Others	964,460,393	964,067,536
Allowance for impairment	(955,801,564)	(955,801,564)
	493,372,668	494,424,811
Deferred charges		
Coal Operating Contract	42,000,000	42,000,000
Miscellaneous	1,921,951	828,305
	43,921,951	42,848,305
Allowance for impairment	(42,000,000)	(42,000,000)
	1,921,951	828,305
Deferred tax	10,968,565	14,192,630
	12,890,516	15,020,935
	506,263,184	509,445,746

Lands not used in operation account includes the land located at Macapagal Blvd., Pasay City which was acquired in January 2009 for P355.236 million to be used as construction site for the One-DTI Building Project.

Others principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P962.08 million through a Deed of Assignment dated September 16, 1983. ICB sold these assets to NDC as a means of rehabilitating the former pursuant to a Memorandum of Agreement executed by and among NDC, the Central Bank of the Philippines, the Development Bank of the Philippines and the ICB. In 2012, allowance for impairment was reinstated for this account amounting to P955.82 million.

Deferred charges - Coal Operating Contract pertains to the project for the exploration, development, exploitation, production and utilization of the country's coal resources pursuant to the Coal Development Program under Presidential Decree 972 (Coal Development Act of 1976). NDC acquired the rights, titles and interest to the Coal Operating Project from Vulcan Industrial and Mining Exploration Corporation (VIMC). The project, however, did not commence commercial operations and the account had been outstanding since 1980. The amount of the project, which was provided with a full allowance for non-recovery, is part of the accounts being requested for write-off from the Commission on Audit.

Deferred charges - deferred tax represents the excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) to the extent that it is probable that future taxable profit will be available against which the deferred income tax assets can be utilized.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2013	2012
Accounts payable for:		
Settlement of legal cases	156,876,221	156,876,221
Guarantee fees	39,891,506	4,891,506
Various service providers	20,933,738	20,057,251
	217,701,465	181,824,978
Accrued interest on:		
Net lending	427,518,755	396,621,686
Bondholders (AA Bonds)	16,940,972	16,940,972
Domestic loan - DOLE Phils.	4,538,160	4,538,160
	448,997,887	418,100,818
	666,699,352	599,925,796

Accounts payable for settlement of legal cases represents payable to Sta Ines, Melale Forest Products Corporation (Sta. Ines), et al, involving a case filed for collection of sum of money.

On April 22, 1985, Sta. Ines et al instituted a collection suit against NDC for the payment of advances made to Galleon and the value of their equity in the Corporation. On September 16, 2003, the trial court ruled in favor of Sta. Ines et al and ordered NDC to pay the total amount of P61.89 million with interest of 6% per annum from date of the filing of the case in 1985 up to full payment plus 10% of the total amount due as attorney's fees plus the cost of the suit.

NDC, through the OGCC, appealed the case with the Court of Appeals. The Court of Appeals, in its Decision dated March 24, 2010, upheld the Decision of the RTC and increased the interest rate from 6% per annum to 12% per annum from the date of filing of the case until satisfaction of the judgment award. NDC filed a Motion for Reconsideration of the said Decision. The Court of Appeals, on July 21, 2010, denied NDC's Motion for Reconsideration. On August 17, 2010, NDC filed a Petition for Certiorari with the Supreme Court (SC). On February 14, 2012, OGCC received a SC Resolution dated December 12, 2011 requiring NDC to file its comment to DBP's petition. NDC, thru OGCC, filed a Motion for Extension of Time to File Comment on February 21, 2012. On March 21, 2012, OGCC filed comment with Motion to Consolidate Case.

Accounts payable for guarantee fees represents payables to the Bureau of the Treasury (BTr) as a result of the sovereign guaranty issued by the National Government (NG) to the Company in favor of the bond holders relative to the issuance of NDC Agri-Agra Bonds and in favor of the lending institutions for the loans obtained by NDC for the account of the subsidiaries. The increase was principally due to the accrued guarantee fees for the year 2013.

13. LOANS PAYABLE

This account consists of:

	2013	2012
Domestic loans	4,181,568,488	4,094,371,711
Current portion Domestic loans	3,873,469,542	3,786,272,765
Long - term portion	308,098,946	308,098,946

Domestic loans includes the P1.5 billion loan granted by the National Government (NG) to NDC under the Net Lending Program of the Department of Finance (DOF), in settlement of NDC's loan obligations to the Social Security System (SSS), Government Service Insurance System (GSIS), and Land Bank of the Philippines (LBP). These loan obligations are related to NDC's additional equity infusion and relending to the First Centennial Clark Corporation (FCCC). The increase in the account represents the additional advances made by NG for payment of interests due to bondholders (see Note 12).

The Net Lending Program is a program by the NG, through the DOF, wherein the BTr makes payments for servicing loans obtained by or guaranteed by government-owned or controlled corporations, including government financial institutions, when for valid reasons, such institutions are unable to pay.

14. BONDS PAYABLE

The Company was authorized to issue P50 billion NDC Agri-Agra "AA" Bonds (formerly NDC Agri-Agra Economic Recovery through Agricultural Productivity "ERAP" Bonds) under Executive Order No. 83 dated December 25, 1998. The issuance of NDC "AA" Bonds is primarily aimed to fund projects which would increase productivity of the agriculture and agrarian sectors for economic growth under a revitalized rural development program in cooperation with other government agencies and private sector. The NDC "AA" bonds also served as alternative compliance by the banking sector to P.D. 717 (Agri-Agra Law), which required banks to allocate at least 25% of their loanable funds for agriculture and agrarian reform purposes.

The Company auctioned on April 15, 1999 the first tranche of the NDC Agri-Agra "AA" bonds amounting to P5 billion, with maturity date of five (5) years and interest rate of 7.875%. On December 26, 2002, the Company auctioned the second tranche of the above NDC "AA" bonds amounting to P2 billion, with maturity date of seven (7) years and interest rate of 6.875%. These bonds were subsequently redeemed in April 2004 and December 2009, respectively.

The third tranche was auctioned on July 19, 2006, in the amount of P2 billion, with maturity date of five (5) years and interest rate of 5.875%. This bond was subsequently redeemed in July 2011.

The fourth tranche was auctioned on November 26, 2009, in the amount of P3.5 billion, with maturity date of five (5) years and interest rate of 5.125%.

15. OTHER LONG-TERM LIABILITIES

This account substantially represents the remaining balance payable to the Philippine Reclamation Authority (PRA) amounting to P84.20 million and P123.22 million in 2013 and 2012, respectively, for the acquisition of land located at Block D, CBP-1A, Macapagal Blvd., Pasay City, with an area of 12,687 square meters covered by Transfer Certificate of Title No. 150251. The remaining balance of the purchase price after twenty per cent down payment is payable in equal quarterly amortizations over a period of eight years with six per cent interest per annum.

The land was acquired for the development of One-DTI Building Project. The Project intends to consolidate the operations of Department of Trade and Industry's (DTI) various offices currently located in Metro Manila in a permanent headquarter to facilitate seamless transactions and boost operational efficiency.

This account also includes other long-term liabilities amounting to P28.02 million and P27.70 million in 2013 and 2012, respectively, as security deposits of lease property of the Company.

The current portion of the account, amounting to P69.42 million and P65.03 million in 2013 and 2012, respectively, is presented under *Other current liabilities*.

16. CAPITAL STOCK

This account represents the capital infusion of the National Government from 1937 to 2002 aggregating P8.6 billion. The Company has an authorized capital stock of P10 billion, the amount to be subscribed by the National Government and to be paid up in accordance with project funding requirements.

17. DONATED CAPITAL

This account consists mainly of the value of lands donated by American companies to the Company upon the termination of the American Parity Agreement on July 3, 1974 and the value of certain reparation goods transferred pursuant to the Memorandum of the President of the Philippines dated September 29, 1977.

18. DIVIDENDS

This account consists of dividends received from the following:

	2013	2012
Semirara Mining Corporation	136,375,918	136,375,918
Batangas Land Company, Inc.	18,633,804	2,857,183
Science Park of the Philippines, Inc.	2,524,277	850,997
Kamayan Realty Corporation	1,365,570	0
Philippine International Trading Corp.	413,073	0
Pinagkaisa Realty Corp.	304,967	348,659
Manila Gas Corporation	0	32,083,333
Prudential Venture Capital Corp.	0	41,790
Philippine National Lines	0	33,514
	159,617,609	172,591,394

19. OPERATING EXPENSES

The Company's operating expenses are broken down as follows:

	2013	2012
Personal services		
Salaries and wages	16,254,939	14,637,448
Social security benefits	2,003,923	1,883,979
Bonus and incentives	1,563,800	3,426,193
Non-commutable allowances	390,000	362,290
Other benefits	1,478,010	871,772
	21,690,672	21,181,682
Maintenance and other operating expenses		
Interest expense and financial charges	254,570,761	303,586,981
Other services and legal fees	24,936,623	24,419,629
Taxes and licenses	17,706,009	12,772,438
Depreciation	10,945,256	16,195,742
Auditing services	4,367,267	4,007,083
Impairment loss	3,398,784	6,101,327
Light and water	3,107,207	3,684,657
Meeting/planning and conference	3,034,653	2,628,479
Consultancy fees	2,511,277	2,290,954
Rentals	1,292,432	1,208,824
Maintenance of motor vehicles	1,212,148	1,181,816
Communication services	1,142,620	1,092,766
Training and personal development	1,033,107	1,121,669
Traveling	854,650	656,385
Supplies and materials	597,843	504,281
Repairs and maintenance of facilities	258,009	3,653,100
Miscellaneous	3,227,973	4,320,401
	334,196,619	389,426,532
	355,887,291	410,608,214

20. INCOME TAX EXPENSE

The reconciliation of pre-tax income computed at the statutory tax rate to provision for (benefit from) income is as follows:

	2013	2012
Tax at statutory tax rate	147,174,704	101,057,122
Additions / deductions to income resulting from:		
Income tax (tax benefit)	30,662,781	11,798,219
Income subjected to final tax	(4,262,874)	(7,678,657)
Dividend income not subject to income tax	(47,885,283)	(51,777,418)
Impairment/share in net loss (income) of affiliates	(5,502,211)	(11,509,081)
Others-net	(113,610,493)	(35,582,742)
	6,576,624	6,307,443

The Company is subject to the 2% MCIT or normal income tax, whichever is higher. The excess of MCIT over the normal income tax is carried forward and credited against the normal income tax for three consecutive years.

21. PRIOR-PERIOD ADJUSTMENTS

The prior-period adjustments are as follows:

	2013	2012
Correction of prior years' expenses	197,994,190	(627,286,484)
Reversal of deferred tax	(5,266,493)	(9,571,394)
Correction of prior years' income	116,426,765	(7,121,043)
	309,154,462	(643,978,921)

Correction of prior years' expenses in 2013 pertains to the following:

Reversal of previously provided allowance for impairment	194,701,763
Expense related to over accrual of DOLI	2,000,000
Others	1,292,427
	197,994,190

Correction of prior years' income in 2013 pertains to the following:

Interest income on restructured loan of affiliate	98,604,207
Rental from prior years	25,927,703
Others	(8,105,145)
	<u>116,426,765</u>

22. COMPLIANCE WITH REPUBLIC ACT No. 7656

Pursuant to Republic Act (RA) No. 7656, requiring government - owned or controlled corporations (GOCCs) and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government, NDC remitted to the Bureau of the Treasury P100 million and P50 million in CYs 2013 and 2012, respectively. Similarly, the following NDC subsidiaries remitted total dividends of P20.30 million and P35.29 million in 2013 and 2012, respectively, which represent NDC's share in the dividends, broken down as follows:

	2013	2012
Batangas Land Company, Inc.	18,633,804	2,857,183
Kamayan Realty Corporation	1,365,570	0
Pinagkaisa Realty Corporation	304,967	348,659
Manila Gas Corporation	0	32,083,333
	<u>20,304,341</u>	<u>35,289,175</u>

Non-recognition of dividends due to the NG

Section 1 of RA No. 7656 provides that the declaration of dividends shall not impair the viability of a GOCC and the purpose for which it has been established. Considering NDC's negative retained earnings, the NDC Board, in its August 25, 2011 meeting, instructed Management to seek exemption from the Office of the President (OP) from dividend declaration and remittance to NG which NDC did per letter dated October 24, 2011. The Undersecretary of the Department of Finance (DOF) in charge of Corporate Affairs advised that the DOF will review the provisions of RA No. 7656, particularly, on the request for exemption.

NDC met with DOF U/Sec. John P. Sevilla on September 26, 2013 to discuss NDC's dividends payable to the NG. U/Sec. Sevilla understood NDC's predicament and acknowledged the flaws in the dividend law, considering that the bulk of NDC's income are non-cash. U/Sec. Sevilla instructed NDC to submit computation of adjusted net earnings of NDC. The computation was submitted on October 1, 2013.

NDC is, thus, constrained not to recognize in its books and not to pay the dividends due to the NG until it secures the OP's decision on the above-mentioned request for exemption and DOF's action on the letter dated September 30, 2013.

23. CONTINGENT ASSETS /CONTINGENT LIABILITIES

The Company, in the normal course of business, became party to litigations. Cases/petitions were filed for or against NDC and are now pending before the appellate courts, the lower courts and certain administrative bodies. These cases involve civil actions for collection of sum of money, reconveyance of property/title, payment of just compensation, specific performance and action for refund of taxes withheld.

Since the ultimate outcome of the cases cannot presently be determined, claims for assets and provision for any liability that may result have not been recognized in the financial statements.

The details of NDC pending cases as of December 31, 2013 are as follows:

Title of Case	Nature	Amount	Status
Mero Structures, Inc. vs. Asian Construction FCCC and NDC. (Civil Case No. 02-206 RTC-Makati, Branch 145).	Sum of money	P5 million	On May 27, 2013, OGCC filed Appellee's Brief.
NDC vs. JAO & Company. (CA-GR CV No. 50087 Civil Case No. R-81-1226 RTC-Manila, Br. 38).	Sum of money	Involved: P7.520 million plus 6% interest per annum and liquidated damages of 5% for the principal obligation and interest.	Awaiting RTC's Order on NDC's Motion for the issuance of writ of execution.
Victoria Corcelles Abunda, et al. vs. NDC, et al. (DARAB Case No. X-678-SC-2000).	Reconveyance	No amount involved as the issue to be resolved in this case is ownership.	Awaiting Order from RTC for the submission of position paper.
Liwanag L. Cruz, et al. vs. Juanito F. Galumo and Register of Deeds of South Cotabato. (Civil Case No. 12-436, RTC-Br. 39, Polomolok, South Cotabato).	Reconveyance	No amount involved as the issue to be resolved in this case is ownership.	The December 4, 2013 hearing for NDC's presentation of witness was reset to March 13, 2014.

Title of Case	Nature	Amount	Status
Primo Gelacio vs. NDC-Guthrie Plantations, Inc. & NDC Luzviminda Gelacio-Bahala vs. NDC GR No. 138736 (CA-GR CV No. 43924).	Reconveyance	P100,000 more or less (principal only)	Awaiting Supreme Court decision on NDC's Motion for Reconsideration.
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer (PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg. Case No. XI-608-SC-99).	Reconveyance	No amount involved as the issue to be resolved in this case is ownership.	Received on April 5, 2010, copy of the respondent appellee DARBCI's opposition to NDC's MR dated January 25, 2010.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15 th Division).	Determination of just compensation	P2.737 million	Supreme Court remanded the case back to RTC for the determination of just compensation.
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City).	Determination of just compensation	Per Commissioner's Report P40 per sq. meter involving 80,000 sq. meters or approximately P3.2 million principal only	OGCC sent to Branch Clerk of Court, RTC Ormoc City blue print copy of the amended plan of Leyte Sub. A Basin Development Authority as Exhibit I as per Court's notice.

Title of Case	Nature	Amount	Status
NDC vs. Commissioner of Internal Revenue. (DOJ Case No. 91-06).	Refund of taxes	P 660,001.94	Submitted for DOJ's resolution.
NDC vs. Hon. Jim Sampulna, in his capacity as Regional Executive Director of Department of Environment & Natural Resources (DENR), Region XII, Koronadal City, Sps. Valencia. CA-GR SP No. 02444 [Ildefonso Tabiling (Dec) (now Enriqueta Montaña) s. Pascual Boada, NDC represented by its GR or President and DOLE Phils.). RED CLAIM NO. 038-2003 CENRO CLAIM NO. 84 LOT NO. 13-Gss-390]	Petition for Certiorari with TRO or Preliminary Injunction	No amount involved as the issue to be resolved in this case is ownership.	CA denied private respondents' MR for want of merit.
Mateo Rubio et al vs. DOLE Phils., et al. (DARAB Case No. XII-1067-SC-2009).	For Declaration of Nullity of Transfer, Recovery of Possession Cancellation of Titles of Lot No. 65 (1161) PLS 247-D	No amount involved as the issue to be resolved in this case is ownership.	Filed Answer with Compulsory Counterclaim on August 20, 2009. As of November 2012, no further court order or any related document has been received.

24. GENDER AND DEVELOPMENT (GAD)

The Company allotted P617,000 for Gender and Development (GAD) program for CY 2013. The GAD fund was utilized for programs that are cognizant of the strict austerity and expenditure-efficiency measures being observed among government agencies, in accordance with the purpose of GAD Plans and Programs. Various activities were undertaken by the Company.

25. SUPPLEMENTARY INFORMATION ON TAXES

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

a. Taxes and licenses (National and local):

Real estate tax	14,337,843
Mayor's permit	765,074
Community tax certificate	10,500
Annual registration-BIR	500
	<hr/>
	15,113,917

b. Withholding taxes paid:

Tax on compensation	2,859,139
Creditable withholding taxes	3,937,876
	<hr/>
	6,797,015

PART II

**AUDIT OBSERVATIONS AND
RECOMMENDATIONS**

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The Company had substantially achieved its targets for the year

The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 2849. It became a public corporation through Commonwealth Act No. 311 dated June 9, 1938. Presidential Decree No. 1648 issued on October 5, 1979 revised the NDC Charter and reorganized NDC to be restructured and strengthened in order to give necessary impetus to national economic development. Executive Order No. 184 dated March 10, 2003 was issued reorganizing and streamlining NDC to redirect and refocus its thrusts and priorities to position the country's competitive advantage in the international environment by assisting in the efforts to market it as a premier investment site and to synchronize its tasks with the Department of Trade and Industry's concerns and policies.

The Company's mandate is to undertake, when necessary or when private enterprise is not willing or able to undertake vital projects, as it may, on its own or in joint venture with the private sector.

Pursuant to its mandate, the Company was able to accomplish the following:

	Target (In million Pesos)	Actual (in Million Pesos)	Percentage of Actual over Target
A. Project Development (Board approved projects)			
▪ FCIE Expansion Project	345.00	P 345.00	
▪ Palawan State Univ. - School Bldg. Program	66.00	65.35	
▪ Rizal Mini-Hydropower Project		90.00	
▪ Davao Food Exchange	271.30		
▪ PITC-Pharma, Inc.	17.70		
	700.00	500.35	71.48%
B. Investing and Financing			
▪ Funds released to PITC- Pharma, Inc.	17.70	17.69	
▪ Funds released to FCIE	3.70	.75	
▪ Davao Food Exchange	.30	.32	
	21.70	18.76	86.45%
3. Portfolio Management			
▪ Return of investment/ amount of dividends received	140.10	146.29	104.42%

The NDC Management Committee (ManCom) presented to the Board various projects in the estimated amount of P700 million, of which P500.35 million was approved for implementation. The Rizal Mini-Hydropower Project was not included in the target because although PNOC has the control over the project, the NDC Board approved the same as well. On the other hand, the Davao Food Exchange and the PITC-Pharma, Inc. are on-going projects which have been previously presented to the Board and will be acted upon on the next Board Meeting.

For CY 2013, the Company had released funds to PITC-Pharma, Inc. in the amount of P17.69 million as Standby Letter of Credit with the Land Bank of the Philippines for performance security for the supply of medicine to the Department of Health while P0.75 million and P0.32 million were released for the First Cavite Industrial Estate expansion project and feasibility contract for the Davao Food Exchange, respectively.

NDC overshot its targeted return on investments of P140.10 million by P6.19 million, or 104.42 per cent, in terms of dividends received from its investments in subsidiaries and affiliates.

It is noteworthy to mention that NDC has been 100% ISO recertified for the CY 2013 and achieved an overall rating of 95.37% in its performance rating for the year.

We commended NDC Management and personnel for a job well done and encouraged them to continue their good performance to achieve their mandate.

2. Unremitted dividends to the National Government (NG) accumulated to P2.11 billion as of December 31, 2013.

Section 7 (a) of the Revised Implementing Rules and Regulations (RIRR) of RA No. 7656 provides that "xxx, all GOCCs shall declare cash dividends and shall remit to the BTr at least fifty (50) percent of the dividend due on or before April 30 following the dividend year, based on the financial statements submitted to COA for audit. The balance thereof shall be computed based on the COA audited net income and shall be remitted to the BTr within seven (7) working days after receipt of the COA Annual Audit Report for the dividend year."

Section 10 of the RIRR of RA No. 7656 also provides "xxx GOCCs which fail to declare and remit dividends on the stipulated deadlines provided in Section 7 hereof shall be assessed a penalty charge for late payment equivalent to the prevailing 364-day regular treasury bill rate plus five per cent on the dividend due."

Dividends computed based on net earnings for calendar years 1999-2012 had accumulated to P2.51 billion.

Our audit of the NDC dividend payments disclosed total remittance to the NG of P400 million in CYs 2009-2013 leaving an unremitted amount of P2.11 billion as of December 31, 2013.

In view of the foregoing, we reiterated our recommendation as embodied in the CY 2012 Annual Audit Report for Management to pay immediately the underremittance in dividends amounting to P2.11 billion (excluding penalty and additional charges) to the NG thru the Bureau of the Treasury to avoid incurrence of penalties and additional charges. Otherwise, the officers and the governing board responsible therefore shall be liable to the sanctions provided by law and the penalty imposed under Section 11 of the RIRR of RA No. 7656.

Management, reiterated their request for the Commission's favorable consideration for NDC to await the final decision of the Office of the President (OP) and the DOF on NDC's request for dividend exemption or adjustment of the dividend rate to be applied on the net earnings, allowed under Section 5(f) of the IRR of Republic Act (RA) No. 7656, to quote:

"GOCCs with net income but have negative retained earnings may be exempt from declaring and remitting dividend upon proper submission to the Secretary of Finance of a request for exemption on or before February 15 of the year following the dividend year."

In the meantime, NDC will initially remit P100 million dividends to the NG in the second quarter of this year and will meet with the new Undersecretary of the DOF to finally settle the amount of dividends payable to the NG and the mode of payment. Even if NDC acknowledges the computed amount of dividends, it does not have sufficient funds to pay for its dividend obligation. The income generated through the years had been used to pay off its domestic and foreign loans and the income as of late had been non-cash revenues. NDC, likewise, needs funds to carry out its mandate of investment and project financing. Once decisions have been reached, there is also a need to reconcile the figures.

NDC presented rationale for requesting dividend exemption/adjustment of the dividend rate to be applied to net earnings, as follows:

- a. NDC's financial condition shows negative Retained Earnings of P4.18 billion, the bulk of its income is non-cash which is in the form of receivables, it has P8.5 billion obligations, and without budget appropriations from the government, it needs funds to carry out its mandate of investment and financing so as not to impair the viability of the company;
- b. The base amounts of the application of the 50 percent dividends are the net earnings of the company where non-cash expenses, such as allowance for doubtful accounts and impairment loss, were added back increasing net earnings. However, non-cash revenues, such as income accruals, were not deducted for fair accounting;

- c. A bulk of NDC's revenues consists of interest from loans which is actually non-cash and booked as receivables. These include interest income from the National Irrigation Administration (NIA), and non-cash gain from the redemption of NDC's Preferred Shares from PNOC, among others;
- d. NDC's current fund balance basically came from dividend income from its past investments which came in fruition only during the last seven years (2006-2013). The income from 1996-1998 were used primarily to fund payments of NDC obligations, notably its OECF and Marubeni loans used to construct the Leyte Port Project. Total payments over the years amounted to P4.84 billion, with principal payments of P3.78 billion;
- e. NDC likewise invested in/financed pioneering projects such as the ethanol project of San Carlos Bio-Energy Inc., low-cost medicine program through PITC Pharma, Inc., Alabang-Sto. Tomas Development, Inc., Science Park of the Philippine Mining Development Corporation. Disbursements did not come from government support but from internally generated funds; and
- f. NDC has Bonds, Loans and Other Payables of P8.53 billion as of December 31, 2013 including the P3.5 billion principal loan to the NDC Agri-Agra Bondholders.

NDC had series of requests for exemption from dividend declaration with the Office of the President (OP) and the DOF in the previous years. In the last discussion it had with the DOF Undersecretary on September 26, 2013, he was inclined to act on the NDC request either through dividend exemption or adjustment of dividend rate to be applied on the net earnings. He requested NDC to prepare a revised schedule of net earnings to reflect non-cash transactions, among others. The requirements had already been submitted to DOF and NDC is awaiting for the exemption or the appropriate amount that NDC should remit to the National Government from the DOF if the dividend rate is adjusted.

3. Arrears in amortization of the housing loans granted to former NDC employees range from four to eleven years.

The Company provides loans not only to other government agencies but also to its officers and employees. Among the loans available to qualified officials and employees are housing loans of up to a maximum amount of P 1.5 million, payable up to a maximum period of 25 years at 7 per cent per annum.

As of December 31, 2013, total unpaid principal of housing loans amounted to P 14.031 million, of which P 7.732 million pertains to the accounts of 25 former employees/ borrowers where not even one payment/ amortization was received in 2013. The subsidiary ledgers pertaining to these borrowers showed that amortization stopped in 2010 to as far back as 2003, or arrears in amortization ranging from four to eleven years. Loan documents disclosed that the loans were granted from 1998 to 2006.

The Housing Loan Agreement entered into by and between NDC and the employee/borrower provides:

"3. Security – To secure his/her obligation to NDC, the borrower shall execute in favor of the former a deed of real estate mortgage covering the property being financed by the loan and the improvements constructed thereon. Should the total amount of the said collateral prove to be insufficient, the employee shall be required to provide such additional collateral as may be acceptable to NDC."

On the other hand, the real estate mortgage states:

"3. Should the MORTGAGOR be in default for at least three (3) consecutive months in the payment of the monthly amortizations on the loan obligations secured by this mortgage, the MORTGAGEE may immediately foreclose this mortgage judicially or extra-judicially and in the latter event, the MORTGAGEE shall be as it is hereby empowered to take over the immediate possession of the property and sell the same at public auction in accordance with the provisions of Act 3135 as amended."

On October 19, 2010, the NDC Legal Officer requested the Office of the Government Corporate Counsel (OGCC) to handle the filing of collection cases including foreclosure of real estate mortgage when warranted against 16 delinquent housing loan avalees at that time.

Had NDC strictly implemented the remedies provided in the terms and conditions of the real estate mortgage, it could have collected substantial amounts that would decrease the receivables.

We recommended that the Management file collection cases against the remaining delinquent borrowers and initiate actions to foreclose the properties mortgaged pursuant to the terms and conditions of the housing loan agreement.

4. **Expenses totalling P2.90 million were incurred for the services of consultants whose duties and functions are administrative and financial in nature**

Section 211(b) and (d), Volume 1 of the Government Accounting and Auditing Manual (GAAM) provides that:

"b. In no case shall contractual appointments or contracts of personnel services be issued to non-technical personnel or those whose duties and functions are clerical or administrative in nature or those who will hold positions in the labor or trade and craft groups. If such services are needed in support of the job or project, the regular staff or personnel may be augmented by hiring casual or emergency staff."

"d. All contracts of personnel services including contracts for consultancy management services shall be submitted to the Civil Service Commission for final review and confirmation. Contracts of personnel services shall first be forwarded to the Compensation and Position Classification Bureau, DBM before they are sent to the Civil Service Commission for appropriate action pursuant to Letter of Implementation No. 29. xxx"

Audit disclosed that the Company continuously hired seven Consultants and expended a total of P2.90 million for their services in CY 2013 as shown below:

	Amount	No. of consultants
Office of the General Manager (OGM)	P 2,199,999.87	5
Operations Group	350,000.01	1
Legal Department	350,000.01	1
	<u>P 2,899,999.89</u>	<u>7</u>

Five of these consultants were former employees/officials who were involuntarily separated from the service effective October 20, 2003 pursuant to Executive Order (EO) No. 184 dated March 10, 2003, entitled "Directing the Reorganization and Streamlining of NDC". They were hired since 2004 and 2006 as consultants in the Office of the General Manager (OGM). Further verification revealed that they are performing functions that are administrative and financial in nature and not technical functions, thus, redundant to the job description of the regular employees. This is supported by their accomplishment reports which show that the duties and services they rendered could very well be handled by the regular employees of NDC as they are regular routine work.

We recommended that the Management hire Consultants only for jobs requiring technical expertise and which cannot be performed by regular personnel.

Management acknowledged the need to review the needs of the Company for consultants and will take appropriate action as necessary. However, they commented on the Audit Observation, specifically on the hiring of the seven consultants, as follows:

- a. The consultants were primarily hired to do work that is highly technical/proprietary or primarily confidential or policy determining.
 - There is this inherent trust and confidence that the General Manager has on the capabilities of the Consultants that they will render advice that are beneficial to the Company since these are done with utmost due diligence, research and evaluation.
 - These advice, opinion and recommendation will not compromise NDC's involvement in projects and other financial and legal transactions.
- b. The consultants possess quality education and substantial experience.
 - The Consultants are professionals. With the education and experience that each brings to NDC, Management draws from their abilities to carry out the Company's mandate.
 - NDC actually appreciates what it derives from the consultants' expertise that complements the relatively new and lean present organization of NDC.
- c. In terms of accomplishments, there are those that with the nature of his/her contribution to the company, some are not detailed in the accomplishment reports, such as those involving advice, recommendations and opinions. These also include giving access to the NDC Chairman and/or liaising with other parties which are needed by the Company to carry out its functions.
- d. Legal Basis
 - The action of the Civil Service Commission on contracts of services and job orders was repealed with the issuance of CSC Memorandum Circular No. 01, s. 2007, which states that, "contracts of service and job orders will no longer be submitted to the CSCRO for review and requests for exemptions from said circulars will no longer be required with respect to hiring under a contract of service or job order."
 - CSC Memorandum Circular No. 01, s. of 2007 is an apparent re-expression of the provisions of Section 1, Rule XI of the Revised Omnibus Rules on Appointments and Other Personnel Actions that hiring under contracts of services and job orders are not considered government service and therefore this class of contracts need not be submitted for review by the Civil Service Commission.

e. Management Plan of Action

- Management will conduct a review on the need for consultants and will take the necessary and appropriate action.
- This is also to inform that NDC has been trying to build up its plantilla through hiring of personnel which the organization finds difficulty to fulfill.

Auditor's rejoinder

Considering the long period that the Consultants had been hired, their expertise should have been passed on to the present personnel complement of NDC who are professionals and qualified as well.

CSC Circular No. 01, series of 2007, merely clarified that services under contracts of services/job orders are not considered government service and hence, outside the ambit of CSC review. This type of contract should instead pass the review of the Commission on Audit and the Department of Budget and Management.

The DBM approved the Corporate Operating Budget of NDC allocated funds for Consultancy Fees for hiring of consultant for projects. However, the seven Consultants were hired continuously and not on project basis.

5. Certain deficiencies were noted relative to the Gender and Development (GAD) activities undertaken.

For CY 2013, NDC had allocated for GAD a total of P0.617 million from the approved Corporate Operating Budget of P1.578 billion. The GAD Plan and Budget was submitted to the Department of Trade and Industry, the oversight agency for NDC.

Our comparison of the GAD Accomplishment Report with the GAD Plan and Budget for CY 2013 disclosed the following:

- a) Total expenses incurred for GAD of P0.752 million exceeded the approved budget of P0.617 million, or by P0.135 million;
- b) Certain planned/targeted activities in the GAD Plan and Budget were not undertaken, with the budget allotted thereto utilized instead for activities which are not included in the approved GAD Plan and Budget;

- c) GAD activities undertaken during the observance of the National Women's Month in March 2013 were not in consonance with the theme "Kababaihan: Gabay 'sa Pagtahak sa Tuwid na Daan" as laid down in CSC Memorandum Circular No. 4, series 2013, emphasizing the need to accelerate women's participation in governance and enhance gender perspective in upholding good governance. It is our opinion that the activities undertaken, such as the Health Talk and the Nurture Spa, dwell more on enhancing the women's physical appearances rather than their participation and perspective in upholding good governance; and
- d) GAD-related expenses were charged to various accounts instead of to a specific sub-code for GAD.

We recommended that the Management ensure that:

- a) Actual expenses for GAD do not exceed the budget;
- b) GAD activities conducted are in accordance with the submitted GAD Plan and Budget;
- c) GAD activities in observance of Women's Month are aligned to the theme adopted by CSC; and
- d) All GAD-related expenses are summarized in one GAD sub account to facilitate verification/validation of GAD-related matters.

Management commented that the GAD activities for FY 2013 were all in accordance with approved Plans and Budget. Additions and revisions of plans were necessary to cope with the changing need of the organization since the GAD Plan and Budget for FY 2013-2014 were prepared in March 2012. After the review by the GAD Committee in mid 2013 of the program, additional activities were incorporated and formed part of the FY 2013 GAD activities. These additional activities were embodied in Inter-Office Memorandum (IOM) dated July 15, 2013, Item B thereof, IOM dated May 21, 2013 pertaining to the Team Building Activity and IOM dated October 2, 2013 for the NDC Family Day.

Auditor's Rejoinder:

PCW-DBM-NEDA Joint Circular No. 2012-01, re: Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Reports to Implement the Magna Carta of Women provides:

- "9.2. Agencies shall inform the PCW in writing if there are changes in the PCW endorsed GPBs as a result of revising the GPB based on the approved GAA and/or the need to implement additional PAPs relevant to current gender issues or GAD-related undertakings as needed. PCW, in turn, shall acknowledge receipt of adjusted GPB and shall inform the agencies if the GAD PAPs or activities in the adjusted GPB are acceptable."

Although Management justified that additions or revisions to the plan were necessary to cope with the changing need of the organization, such revisions should have been submitted to DTI for its review and then submitted to the Philippine Commission on Women (PCW). There are no documents that would show that PCW was informed in writing of the revisions made. Inter-Office Memorandum (IOM) dated July 15, 2013 is not acceptable in lieu of the above requirement.

6. Unsettled audit suspensions and disallowances

As of December 31, 2013, the details of Notices of Suspensions, Disallowances and Charges issued upon the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA) are as follows:

	Balances as of January 1, 2013	Issued during the year	Settled during the Year	Balance as of December 31, 2013
Notice of Suspension		P 1,338,497	-	P 1,338,497
Notice of Disallowance	P 17,406,667	2,100,000		19,506,667
Notice of Charge	-	-	-	-
Total	P 17,406,667	P 3,438,497	-	P 20,845,164

The details of NDs are shown below:

Date	ND No.	Amount	Settled	Balance
August 12, 2012	2013-001(2012)	P 1,375,000	-	P 1,375,000
August 14, 2012	2013-002(2012)	725,000	-	725,000
July 7, 2010	2010-001-101(07)*	399,999	-	399,999
July 7, 2010	2010-002-101(07)*	333,333	-	333,333
July 13, 2010	2010-003-101(08)*	266,667	-	333,333
July 13, 2010	2010-004-101(08)*	83,333	-	83,333
July 13, 2010	2010-005-101(08)*	233,333	-	233,333
July 13, 2010	2010-006-101(09)*	233,333	-	233,333
July 13, 2010	2010-007-101(09)*	166,667	-	166,667
July 24, 2009	2007-01(07)***	690,000	-	690,000
May 20, 2003	2003-001-001**	15,000,000	-	15,000,000
		P 19,506,667	-	P 19,506,667

*With Petition for Review on Certiorari filed in Supreme Court on May 9, 2011

** With COA Decision No.2013-104 dated August 14, 2013

*** With Notice of Finality of Decision dated February 16, 2011

PART III

**STATUS OF IMPLEMENTATION OF PRIOR
YEARS' AUDIT RECOMMENDATIONS**

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the twenty eight (28) audit recommendations embodied in the Annual Audit Reports for CYs 2006-2012, fourteen (14) were fully implemented, nine (9) were partially implemented and five (5) were not implemented.

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2012 No. 1, page 32	1. Unremitted balance of dividend due to the National Government (NG) for the net earnings covering 2010 and prior years aggregated to P1.420 billion.	Remit the balance of dividend to the NG, thru the Bureau of the Treasury, to avoid incurrence of penalty and additional charges.	<p>Not implemented</p> <p>NDC has pending clarification with the DOF in its letter dated February 5, 2013.</p> <p>NDC met with DOF Usec. Sevilla on September 26, 2013 to discuss NDC's dividends payable to the NG. Usec. Sevilla understands NDC's predicament and acknowledges flaws in the dividend law, considering that the bulk of NDC's income are non-cash. Usec. Sevilla instructed NDC to submit computation of adjusted net earnings of NDC which NDC submitted in September 2013.</p> <p>This is reiterated in Audit Observation No. 2 of this Report.</p>
2012 No. 2, page 34	2. Discrepancy between the balance per books and inventory for furniture and fixtures and office equipment was not reconciled.	<p>a. Reconcile the variance of the indicated balance per books of office furniture and fixtures between Lapsing Schedule/ General Ledger and Inventory Report.</p> <p>b. Comply with the documentary and procedural requirements as provided in COA Circular Nos. 97-001 and 80-124, for proper request for write-off of the unreconciled items.</p>	<p>Partially implemented</p> <p>On July 8, 2013, NDC submitted reconciliation statement to COA.</p> <p>Implemented</p> <p>Documentary requirements as provided in COA Circular Nos. 97-001 and 80-124 have been complied with and were submitted to COA on July 1, 2013.</p>

		c. Recognize in the books those items of office furniture which were counted but not recorded. For those items with no cost, assign a nominal value P1 for accountability purposes, and recognize them in the books.	Not Implemented Adjustment will be prepared in 2014.
2012 No. 3, page 37	3. The terms and conditions of the contract of lease entered into with delinquent tenant whose rental receivable accumulated to P.438 million, exclusive of interests, electric and water consumptions, were not implemented.	<p>a. Demand for the immediate payment of rental receivable including interests and assessment fees from Ecobay Property Management, Inc.</p> <p>b. Demand for the immediate payment of electric and water consumed by EPMI, with a notice of disconnection.</p> <p>c. Terminate the contract of lease upon due notification and have the office space leased to others.</p>	<p>Implemented</p> <p>EPMI is currently paying its rental arrearages.</p> <p>Implemented</p> <p>EPMI is paying in installment/ staggered amounts.</p> <p>Implemented</p> <p>Lease Agreement with EPMI was not renewed.</p>
2012 No. 4, page 38	4. Certain properties at LIDE, Isabel, Leyte and Ormoc City were either not found/ missing, idle, unserviceable and in poor condition.	a. Transfer the registration of vehicles in the name of NDC in order to establish ownership.	<p>Implemented</p> <p>The matter was discussed and issues were clarified during the exit conference except for the valuation used. However, the valuation issue was later on cleared with COA upon submission of Journal Voucher No. 8-79 dated August 31, 1998.</p>

		<p>b. Exert effort to locate the missing furniture and fixtures and transportation equipment. If the said assets were already disposed, provide/submit documents to the Office of the Auditor as proof of disposal.</p> <p>c. Consider the rehabilitation of the mentioned buildings and structures and look for possible income generating activity for these assets.</p> <p>d. Effect the applicable mode of disposal for the various unserviceable properties and equipment as soon as possible to avoid further loss on the part of the Company and to properly derecognize the said assets in the books.</p>	<p>Partially implemented</p> <p>On August 15 to 17, 2013, NDC and COA representatives conducted an ocular inspection of properties located at Ormoc City and Isabel Leyte.</p> <p>On November 11, 2013, NDC submitted to COA several documents to support the noted deficiencies.</p> <p>Recommendation reconsidered</p> <p>Management commented that while some assets are in poor condition or are already deteriorated and idle, there is no economic loss to NDC because the area is covered by the lease contract entered into with PHILPHOS.</p> <p>Not implemented</p> <p>No disposal has been conducted by Management.</p>
2012 No. 5, page 41	5. Grant of Corporate Package to NDC Officers and employees was without legal basis	Stop the grant of unauthorized corporate package, strictly comply with the conditions specified by the Department of Budget and Management in the approved COB, and require the concerned officials and employees to refund all the amounts received by them as corporate package.	<p>Implemented</p> <p>Management stopped the grant of Corporate Package. Notice of Disallowance No. 2013-001(2012) dated August 12, 2013 was issued.</p> <p>Appeal Memorandum was filed with the CGS- Cluster 4 on February 4, 2014. The Answer of the Supervising Auditor is being prepared.</p>

2012
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page
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6. Grant of CNA was not in accordance with existing laws, rules and regulations.

Submit proof that the requirements on the grant of CNA incentive are complied with; otherwise, the concerned officers and employees should be required to refund the amounts received by them.

Recommendation reconsidered

On June 18, 2013, NDC submitted to COA the computation/ basis of the CNA.

Notice of Suspension No. 2013-01(12) dated August 30, 2013 was issued.

Compliance with the requirement of the Notice of Suspension depended on the approval of NDC's request for exception or revised amount of dividend due to NG. In its regular meeting on July 30, 2014, the NDC Board of Directors approved the payment of the balance of the P133 million dividends due to the NG for the year 2013. Further, the remittance of dividends to the NG from net earnings prior to 2013 amounting to P1.789 billion will be paid in cash in the amount of P1.063 billion over six years and by the Diosdado Macapagal property appraised at P726 million.

2012
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Page
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7. GAD activities for 2012 did not address the goals and objectives of the program and were not in consonance with the original GAD budget and plans submitted to the PCW and Civil Service Commission (CSC) Memo Circular.

Implement GAD programs/ projects/ activities that would address gender issues. Moreover, the GAD Committee should be in constant coordination with the PCW for guidance and cooperation on the proper conduct of GAD activities.

Not implemented

Management will improve GAD activities to address the various issues affecting employees and to align GAD activities with the theme.

Likewise, GAD budget will be specified in the COB.

This is reiterated in Audit Observation No. 5 of this Report.

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8. The accuracy and reliability of Investment Property and Other Assets with book values of P41.24 million and P1.42 billion, respectively, cannot be ascertained due to deficiencies noted.

Exert effort in the titling of untitled properties in NDC's name and cause the transfer of title of those properties which are not registered in the name of NDC in order to establish ownership.

Partially implemented

This is part of the work program of the Asset Management Group for 2012-2016.

Initial talks with DMPI Land Matters were made for the consolidation of documentary requirements in the titling of lots in Cagayan de Oro and Bukidnon.

The Bantayan Cebu Property is at the moment not declared as Alienable and Disposable because it is part of the wilderness area in Bantayan Island under Proclamation No. 2151 of December 29, 1981, thus, NDC cannot have it titled under its name.

2011
No. 4,
Page
38

9. The accuracy and reliability of certain balances of Receivable and Payable accounts are doubtful due to the discrepancies noted between the balance per books and balance per confirmation.

Reconcile the noted differences and effect the necessary journal entries.

Implemented

Reconciliation statements have been prepared and submitted to COA on May 3, 2013.

2010
No. 2,
Page
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10. No Real Estate Mortgage (REM) was executed by the National Irrigation Administration (NIA) for the loan granted by NDC amounting to P2 billion.

Require the Legal Department to prepare the REM and oblige NIA to sign it and have it registered with the Register of Deeds since NIA is not executing the REM in accordance with the MOA, in order to protect the rights and interests of NDC.

Partially implemented

NDC sought the assistance of the Governance Commission on GOCCs (GCG) in relation to the reconstitution and registration of the title to NDC. Per GCG, it has instructed NIA to include the matter in its Major Final Outputs (MFOs).

			NDC has also sought the assistance of the NDC Chairman and NIA Chairman through various letters to resolve the issues with NIA to include the reconstitution of title.
2009 No. 2, Page 31	11. Several of NDC's landholdings are burdened with unpaid real property taxes (RPTs), including fines and penalties, while some unattended lands were occupied by informal settlers either as residence or for commercial purposes which may cause NDC to incur unnecessary legal expenses and difficulty in case of their ejection.	<p>a. Update the payments of RPTs to preclude the further incurrence of fines and penalties. Require Chevron to furnish NDC with proofs of payments of taxes and governmental assessments as required in the Agreement.</p> <p>b. Secure NDC's landholdings from the entry of informal settlers.</p> <p>c. Consider the disposal of the vacant lots and those occupied by illegal settlers to relieve NDC from unnecessary costs and the concomitant expenses of maintaining the property.</p> <p>d. Evaluate and coordinate with proper government agencies on the possibility of disposing the lands to the present informal settlers under any of the socialized housing programs of the government.</p>	<p>Implemented.</p> <p>Implemented.</p> <p>Management has identified areas where guards need to be posted.</p> <p>Guard houses and perimeter fences were constructed / repaired on the following properties: a) San Juan St., Bacolod City; and b) Lankaan II, Dasmariñas, Cavite.</p> <p>Partially implemented</p> <p>These properties are included in the 2011-2015 program of the Asset Management Group.</p> <p>Partially implemented</p> <p>Management has coordinated with LGUs offering the properties for their proposed community projects.</p>

12. Present conditions existing in NDC's eighteen (18) parcels of land, measuring 139,822 square meters, and with total book value of P815,918.41 cast doubt on the reliability of the recorded asset account, may result in the incurrence of additional expenses, and deprive NDC of revenues because of delays in the disposal of these lands.

Expedite the titling of lands to provide useful information regarding the recorded asset account; earn revenues to NDC and generate savings from any unnecessary expenses that may be compounded by the delays. Further, payments for real property taxes should be updated to avoid surcharges and penalties that may be imposed for NDC's delinquent tax payment.

Partially implemented

These are included in the 2011-2015 program of the Asset Management Group.

The certificates of title for the following properties are already in the name of NDC: Macasandig and Iponan, Cagayan de Oro City. Management is looking at the possibility of having these properties sold under the Community Mortgage Program of the government.

NDC also recognizes that the titles of the following properties have yet to be transferred in its name: Bonot Legazpi City, Langihan Dist., Butuan City and Talakag, Bukidnon Properties.

Titling process of the above properties was temporarily put on hold as Management prioritized the activity for titling of properties requiring the filing of Petition in Court i.e. LIDE lots, San Francisco Del Monte and Tagbilaran, Bohol properties.

LIDE lots. Management is working with BIR for the issuance of Certificate Authorizing Registration.

San Francisco Del Monte Property. Petition for Reconstitution of Title was already filed in the RTC, Quezon City Branch.

For the Lagonoy and Balatan, Camarines Sur Properties, the Asset Management Group has met with the PARO for the records and status of the subject properties.

			<p>Lagonoy, Camarines Sur Property. Management shall be consolidating LBP documentary requirements for land compensation claims</p> <p>Balatan Property. Not included in the DAR's list of properties under CARP coverage nor are reflected in the Tax Map of the Municipal Assessor's Office. Management shall initiate the relocation survey of the property.</p>
2008 No. 2, Page 33	13. The low collection efficiency of Rental Receivable contributes to the already high percentage of NDC's delinquent receivables	Improve collection efficiency by strictly enforcing the sanctions provided in the lease contracts regarding the lessees' default in payments. Discuss with the legal office of the agency on measures to be taken against delinquent lessees. Review contracts of lease for any lenient provisions that are disadvantageous to interest of NDC.	<p>Implemented</p> <p>Statements of Accounts were sent regularly. Some accounts were referred to Legal Department/ Office of the Government Corporate Counsel (OGCC). Hence, most of the accounts were updated.</p>
2008 No. 4, Page 36	14. Former NDC officials have not paid the full amount of their car loans aggregating P575,541.05 now aging 35 -125 months.	Avail of legal remedies for immediate recovery of the loaned amount.	<p>Partially implemented</p> <p>Accounts of two former NDC officials were referred to Legal-OGCC. Awaiting OGCC's action.</p>
2007 No. 4, Page 31	15. The correctness and existence of scrap materials worth P820,699 cannot be determined, thus casting doubt on the accuracy and validity of the balance of the account miscellaneous fixed assets stated at P1,819,748.	Investigate / locate / identify scrap metals / waste materials recorded in the books for almost seventeen years and determine the person/s accountable.	<p>Partially implemented</p> <p>Management is trying to contact former employees to know the whereabouts of the scrap materials.</p>

2006 No. 1, Page 20	16. Expenditures for projects which are already inexistent and for which recovery is remote are still carried in the NDC books.	Thoroughly analyze and evaluate the proposed adjustments and determine the persons that could be held responsible / liable for the losses that NDC suffered under the Coal Operating Project of 1985.	Not implemented Management is still waiting for COA's reply on the request for write-off of the account.
2006 No. 3, page 23	17. Poor financial performance of Science Park of the Phil., Inc. (SPPI) indicates no possible future benefits to NDC.	Hasten the disposal of NDC's investment in SPPI in accordance with the divestment thrust over companies with minimum NDC involvement.	Implemented SPPI has started to generate income since 2012. The timing of NDC's disposition of the SPPI shares would depend on the Company's financial projection/performance to maximize return of its investments. NDC received a dividend from SPPI in 2013 amounting to P2,524,277.
2006 No. 4, page 24	18. Non-generation of income and incurrence of additional expenses on idle lands.	Study the marketing strategy to hasten the disposal of idle assets and to explore possibilities to generate income out of these assets in the meantime that these are not disposed of.	Implemented Management has implemented the following marketing program for the properties that are idle/available for lease: - Formulated guidelines on hiring of real estate brokers; - Formulated guidelines in the determination of lease rate.