



*Republic of the Philippines*  
**COMMISSION ON AUDIT**  
*Commonwealth Ave., Quezon City*

**ANNUAL AUDIT REPORT**

on the

**NATIONAL DEVELOPMENT COMPANY**

**For the Year Ended December 31, 2016**

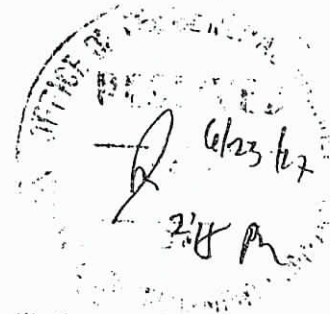


REPUBLIC OF THE PHILIPPINES  
COMMISSION ON AUDIT  
Commonwealth Avenue, Quezon City

**CORPORATE GOVERNMENT SECTOR**  
**Cluster 4 – Industrial and Area Development**

June 23, 2017

**The BOARD OF DIRECTORS**  
National Development Company  
Makati City



**Gentlemen:**

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as Government Auditing Code of the Philippines, we transmit herewith our Annual Audit Report (AAR) on the audit of the accounts and transactions of the National Development Company for the year ended December 31, 2016.

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

The audit observations and the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 23, 2017 are presented in detail in Part II of the AAR.

In a letter of even date, we requested the Company's General Manager to implement the recommendations contained in the report and to inform this Office of the action(s) taken thereon within 60 days from the date of receipt thereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**LEILA S. PARAS**  
Director IV

## **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 No. 2873. 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. 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.

On March 10, 2003, Executive Order (EO) No. 184 was approved by the President of the Philippines directing the reorganization and streamlining of 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.

### **Scope and Objectives of Audit**

The audit covered the accounts, transactions and operations of NDC for calendar years 2016 and 2015. It was aimed at expressing an opinion on the fairness of presentation of the Company's financial statements, and at determining the Company's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.



## Financial Highlights

### Comparative Financial Position

	2016	2015 (as restated)	Increase (decrease)
Assets	16,269,868,886	12,675,121,939	3,594,746,947
Liabilities	4,512,412,052	5,735,373,275	(1,222,961,223)
Equity	11,757,456,834	6,939,748,664	4,817,708,170

### Comparative Results of Operations

	2016	2015 (as restated)	Increase (decrease)
Income	3,698,085,673	4,711,915,989	(1,013,830,316)
Expenses	722,698,103	298,081,245	424,616,858
Net profit	2,975,387,570	4,413,834,744	(1,438,447,174)

## 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 for the years 2016 and 2015.

### Audit Observations and Recommendations

1. The absence of a written accounting policy to serve as guide in the determination of the timing and interval in the conduct of appraisal and in the recognition of changes in fair value resulted in reporting the investment property at amounts which may not approximate their fair value at reporting dates.

We recommended and Management agreed to formulate an accounting policy on the timing and interval in obtaining fair value of investment property and in reporting in the financial statements, taking into consideration the requirements of PAS 40.

2. Several land assets are vacant and some are occupied by illegal occupants either for residence, commercial or personal purposes, depriving NDC of potential income from the use of such assets.

We recommended that Management:

- a) Collect rental from unauthorized users/occupants; and
- b) Dispose the vacant lots and those occupied by illegal settlers.



3. Payment of premiums for the personal accident insurance of NDC's officers and employees in the total amount of P21,160 is contrary to the provisions of RA 6758 as embodied in EO 184 and DBM-CCC No. 10.

We recommended that Management:

- a) Stop disbursing funds for payment of personal accident insurance premiums; and
  - b) Strictly comply with the provisions of RA 6758 as embodied in EO 184 and DBM CCC No. 10.
4. The grant of interest-free loans amounting to P1.100 million to officers and employees is contrary to condition no. 2 of the DBM approved budget.

We recommended that Management:

- a) Stop disbursing funds for the grant of interest-free loan packages; and
- b) Strictly comply with condition no. 2 of the DBM approved budget.

#### **Summary of Suspensions, Disallowances and Charges as of Year-end**

As at December 31, 2016, the unsettled Notices of Disallowance amounted to P18.817 million. Of this amount, P1.717 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011. P15 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, and P1.375 million is pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the 2009 Revised Rules of Procedure of the Commission on Audit.

#### **Status of Implementation of Prior Years' Audit Recommendations**

Of the six audit recommendations embodied in prior years' Annual Audit Reports, three were fully implemented/reconsidered and three were not implemented.

## TABLE OF CONTENTS

	Page
<b>PART I      AUDITED FINANCIAL STATEMENTS</b>	
Independent Auditor's Report.....	1
Statement of Management's Responsibility for Financial Statements..	3
Statements of Financial Position.....	4
Statements of Profit or Loss .....	5
Statements of Changes in Equity.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8
<b>PART II      AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>	33
<b>PART III     STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS</b>	40

**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 statements of financial position as at December 31, 2016 and 2015, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the years 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 audits. We conducted our audits in accordance with Philippine Public Sector 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, 2016 and 2015, and its financial performance and its cash flows for the years 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 appellate courts, the lower courts and the Supreme Court. Our opinion is not qualified in respect of these matters.

### **Report on Supplementary Information Required Under BIR Revenue Regulations 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 supplementary 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**



**ZENAIDA V. DE VILLA**  
OIC-Supervising Auditor

May 9, 2017



# National Development Company



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of National Development Company is responsible for all information and representations contained in the financial statements as of December 31, 2016 and 2015 and for each of the two years in the period ended December 31, 2016. The financial statements have been prepared in conformity with state accounting principles generally accepted in the Philippines and reflect amounts that are based on best estimates and informed judgment of management with appropriate consideration to materiality.

In this regard, Management maintains a system of accounting and reporting which provides for necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

  
MA. LOURDES F. REBUENO  
General Manager

  
JOYCE ANNE N. ALIMON  
Department Manager III - FAD

5/09/2017  
Date Signed

5/09/2017  
Date Signed



**NATIONAL DEVELOPMENT COMPANY**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2016 and 2015  
(In Philippine Peso)

	Note	2016	2015 (as restated)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	4,126,363	532,311,128
Short-term investments	5	2,012,919,450	788,407,446
Receivables, net	6	211,753,147	182,209,936
Other current assets	7	90,331,223	88,668,610
Total Current Assets		2,319,130,183	1,591,597,120
<b>Non-Current Assets</b>			
Investments	8	1,894,560,869	1,408,590,711
Receivables, net	6	4,270,990,535	6,006,780,277
Investment property	9	7,593,237,565	3,467,578,536
Property and equipment, net	10	15,737,743	15,835,039
Other non-current assets and deferred charges	11	176,211,991	184,740,256
Total Non-Current Assets		13,950,738,703	11,083,524,819
<b>TOTAL ASSETS</b>		<b>16,269,868,886</b>	<b>12,675,121,939</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	12	500,080,738	1,014,355,697
Loans payable	13	3,480,024,400	4,653,224,400
Other current liabilities	14	226,649,476	33,572,387
Total Current Liabilities		4,206,754,614	5,701,152,484
<b>Non-Current Liabilities</b>			
Deferred income tax		256,620,031	0
Dividends payable		6,882,423	0
Other non-current liabilities	14	42,154,984	34,220,791
Total Non-Current Liabilities		305,657,438	34,220,791
<b>Equity</b>		<b>11,757,456,834</b>	<b>6,939,748,664</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>16,269,868,886</b>	<b>12,675,121,939</b>

See accompanying Notes to Financial Statements.

**NATIONAL DEVELOPMENT COMPANY****STATEMENTS OF PROFIT OR LOSS**

For the Years Ended December 31, 2016 and 2015  
(In Philippine Peso)

	Note	2016	2015 (as restated)
<b>OPERATING INCOME</b>			
Dividends	19	1,084,225,147	141,851,168
Rental and leasehold		142,569,050	123,252,811
Interest on deposits		56,551,792	34,823,411
Interest on loans		9,567,134	13,063,398
Interest on receivables		980,687	503,286
Management fees		84,000	84,000
		1,293,977,810	313,578,074
<b>OPERATING EXPENSES</b>			
	20	465,671,142	268,306,273
		828,306,668	45,271,801
<b>OTHER INCOME</b>			
Gain from change in fair value of investment property	9	2,234,771,718	0
Gain on sale of assets		99,176,566	11,254,215
Share in net profit from associates		25,047,618	29,623,990
Foreign exchange gain		6,373,360	47,359
Gain on sale/redemption/transfer of investment		0	4,325,388,838
Miscellaneous income		38,738,601	32,023,513
		2,404,107,863	4,398,337,915
<b>PROFIT BEFORE INCOME TAX</b>			
		3,232,414,531	4,443,609,716
<b>INCOME TAX EXPENSE</b>			
	21	257,026,961	29,774,972
<b>NET PROFIT</b>			
		2,975,387,570	4,413,834,744

See accompanying Notes to Financial Statements.

**NATIONAL DEVELOPMENT COMPANY**  
**STATEMENTS OF CHANGES IN EQUITY**

For the Years Ended December 31, 2016 and 2015  
(In Philippine Peso)

	Note	Share Capital (Note 15)	Donated Capital (Note 16)	Share in Revaluation Increments of Associates	Retained Earnings/(Deficit) (Note 17)	Total
<b>Balances, December 31, 2014</b>		<b>8,602,803,483</b>	<b>112,739,868</b>	<b>28,883,100</b>	<b>(5,460,666,214)</b>	<b>3,283,760,237</b>
Correction of prior years' income	17	0	0	0	(531,850,116)	(531,850,116)
Restated balance, January 1, 2015		8,602,803,483	112,739,868	28,883,100	(5,992,516,330)	2,751,910,121
<b>Changes in Equity for 2015</b>						
Net profit for the year, as restated	18	0	0	0	4,413,834,744	4,413,834,744
Dividends		0	0	0	(225,996,201)	(225,996,201)
<b>Balances, December 31, 2015</b>		<b>8,602,803,483</b>	<b>112,739,868</b>	<b>28,883,100</b>	<b>(1,804,677,787)</b>	<b>6,939,748,664</b>
<b>Changes in Equity for 2016</b>						
Net profit for the year		0	0	0	2,975,387,570	2,975,387,570
Revaluation of investment property (Cost to fair value)	9	0	0	0	1,890,887,311	1,890,887,311
Dividends		0	0	0	(48,566,711)	(48,566,711)
<b>Balances, December 31, 2016</b>		<b>8,602,803,483</b>	<b>112,739,868</b>	<b>28,883,100</b>	<b>3,013,030,383</b>	<b>11,757,456,834</b>

See accompanying Notes to Financial Statements.



**NATIONAL DEVELOPMENT COMPANY**  
**STATEMENTS OF CASH FLOWS**

For the Years Ended December 31, 2016 and 2015  
(In Philippine Pesos)

	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Dividends received			
Collection of loans	1,104,602,606	159,684,216	
Collection of rentals	344,752,372	996,549,853	
Collection of interest	160,285,434	124,777,323	
Collection of receivables	22,933,855	631,887,805	
Miscellaneous collections	12,141,952	12,670,448	
Payment of taxes and licenses	21,748,664	2,414,146	
Payment to suppliers and service providers	(437,844,124)	(157,775,019)	
Payment of salaries and benefits to officers and employees	(131,889,216)	(70,697,208)	
Loans granted to NDC employees	(20,614,987)	(17,829,988)	
	(511,455)	(1,066,070)	
Net cash provided by operating activities		1,075,605,101	1,680,615,506
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of assets			
Return of capital	94,850,039	6,612,968	
Acquisition of assets	63,700,000	161,350,000	
	0	(76,850)	
Net proceeds (transfer to short-term investments) from money market placements	(1,731,018,539)	(671,679,749)	
Net cash used in investing activities		(1,572,468,500)	(503,793,631)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of dividends			
Payment of loans payable	(41,684,288)	0	
	0	(711,635,291)	
Net cash used in financing activities		(41,684,288)	(711,635,291)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		10,362,922	41,521
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(528,184,765)	465,228,105
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		532,311,128	67,083,023
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	4,126,363	532,311,128

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 (DTI). 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 184 was promulgated and approved by the DTI Secretary on August 28, 2003 under DTI



Department Order No. 70. With the implementation of EO 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, 2016 and 2015 were approved and authorized for issue by the General Manager on May 9, 2017.

---

## 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.

### Presentation of financial statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, Presentation of Financial Statements. NDC presents all items of income and expenses and other comprehensive income in one single statement.

### Functional and presentation currency

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

### 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 when:

- 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 and buildings that are held to earn rentals or, for capital appreciation or both and are measured at fair market value.

Investment properties are initially measured at cost and subsequently measured using fair value model. The accounts 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 (PE) includes office furniture, fixtures, office and transportation equipment. All items of PE 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.

#### Impairment of assets

Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is higher than the assets fair value less cost to sell and value in use. Impairment losses are recognized in profit or loss in the period in which they were impaired.

#### 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 transactions 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. These 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 JUDGMENTS AND ESTIMATES**

The Company's financial statements have been 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:

	2016	2015
Cash in banks	4,073,681	4,262,774
Cash with collecting/disbursing officer	52,682	54,549
Money market placements	0	527,993,805
	<b>4,126,363</b>	<b>532,311,128</b>

Cash in banks earn interest at the prevailing bank deposit rates. Money market placements consist of placements with interest rates ranging from 0.55 per cent to 1.875 per cent per annum 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 P2.013 billion and P788.407 million in 2016 and 2015, respectively.

## 6. RECEIVABLES

This account consists of:

	2016	2015 (as restated)
Current		
Loans receivable	55,962,816	47,776,311
Accrued interests	87,027,676	84,755,867
Rental receivables	69,607,030	74,083,343
Due from subsidiaries and affiliates	300,000	300,000
Due from officers and employees	6,057,591	5,869,860
Due from National Government	3,252,978	3,252,978
Other receivables	294,362,015	256,947,013
Allowance for impairment	516,570,106 (304,816,959)	472,985,372 (290,775,436)
	211,753,147	182,209,936
Non-Current		
Loans receivable	3,989,684,583	4,980,136,194
Accrued interests	1,267,205,538	1,734,946,610
Due from subsidiaries and affiliates	121,643,900	121,643,900
Due from officers and employees	11,252,024	13,526,460
Other receivables	1,020,331,439	1,020,331,439
Allowance for impairment	6,410,117,484 (2,139,126,949)	7,870,584,603 (1,863,804,326)
	4,270,990,535	6,006,780,277
	4,482,743,682	6,188,990,213

*Accrued interests* pertains to interests from various investments and income-generating activities which were already earned as of 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 (NG). These accounts, consisting of loans, equity investments, advances, acquired assets, other assets and liabilities, were identified and approved for transfer to the NG 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* pertains to 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. On August 16, 2016, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-F-15-0008111 amounting to P1.498 billion for partial settlement of NIA's loan to NDC of P1.443 billion (principal of P975.000 million and interest of P467.741 million), of which only P325.670 million was actually received by NDC because such was used to partially settle its loans to NG amounting to P1.173 billion.

## 7. OTHER CURRENT ASSETS

This account consists of:

	2016	2015
Short-term investments	85,906,094	84,372,850
Deposits	1,757,555	2,118,319
Prepaid assets	1,655,654	1,247,367
Others	1,011,920	930,074
	<b>90,331,223</b>	<b>88,668,610</b>

*Short-term investments* 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:

	2016	2015 (as restated)
Money market placement	1,068,842,185	523,842,185
Investments in stocks and other securities		
Common shares	2,165,947,592	2,165,947,592
Preferred shares	1,798,617,152	1,798,617,152
Affiliates accounted under equity	183,142,281	242,172,123
Venture capital	4,000,000	4,000,000
	4,151,707,025	4,210,736,867
Allowance for impairment	(3,326,563,341)	(3,326,563,341)
	825,143,684	884,173,526
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
	1,894,560,869	1,408,590,711

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

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	2016	2015
<b>Common Shares</b>			
<b>Operational</b>			
Philippine International Trading Corp.	PITC	99.50	199,000,000
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	158,895,989
Batangas Land Company, Inc.	BLCI	60.00	55,659,300
Science Park of the Philippines	SPP	5.18	24,951,957
Paper Industries Corp. of the Phils.	PICOP	0.28	15,000,000
GY Real Estate, Inc.	GYREI	60.00	13,084,200
First Cavite Industrial Estate, Inc.	FCIEI	100.00	8,845,038
Kamayan Realty Corporation	KRC	60.00	7,447,000
Pinagkaisa Realty Corporation	PRC	60.00	2,508,629

		% of Ownership	2016	2015
<b>Non-operational</b>				
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 Corporation	APMC	1.00	12,598,944	12,598,944
Under receivership				
National Steel Corporation	NSC	12.50	622,305,756	622,305,756
			<b>2,165,947,592</b>	<b>2,165,947,592</b>
<b>Preferred Shares</b>				
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
			<b>1,798,617,152</b>	<b>1,798,617,152</b>
<b>Affiliates Accounted Under Equity</b>				
Cost				
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
Triad Asia, Ltd.	TAL	50.00	65,435,000	65,435,000
Manila Exposition Complex, Inc.	MECI	36.36	60,000,000	60,000,000
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	58,800,000	122,500,000
Philippine Mining Development Corp.	PMDC	20.00	25,000,000	25,000,000
Phividec Industrial Estate	PIE	23.95	17,000,000	17,000,000
PITC Pharma, Inc.	PPI	40.00	15,000,000	15,000,000
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
			<b>626,175,979</b>	<b>689,875,979</b>
Accumulated equity in net earnings (losses)				
Balance at beginning of year			(377,174,119)	(388,965,063)
Share in net profit for the year			25,047,618	29,623,990
Dividends received			(20,377,460)	(17,833,046)
Balance at end of year			<b>(372,503,961)</b>	<b>(377,174,119)</b>



	% of Ownership	2016	2015
Share in revaluation increment of an affiliate		28,883,100	28,883,100
Share in prior period adjustment of affiliates		1,235,262	1,235,262
		283,790,380	342,820,222
Allowance for impairment		(100,648,099)	(100,648,099)
		183,142,281	242,172,123
<b>Venture Capital</b>			
Non-operational			
Interbank Venture Capital Corporation	IVCC	20.00	1,000,000
Philbancor Venture Capital Corporation	PBVCC	20.00	1,000,000
PNB Venture Capital Corporation	PVCC	20.00	1,000,000
Veterans Venture Capital Corporation	VVCC	20.00	1,000,000
		4,000,000	4,000,000
		4,151,707,025	4,210,736,867

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.

Refractories Corporation of the Philippines (RCP) is a minority-owned affiliate of NDC at 33 per cent (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 per cent to 11 per cent. Currently, the company is undergoing court litigation on its corporate rehabilitation plan. A court hearing was held last February 26, 2016 at the Pasig Regional Trial Court.

#### 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, 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 NDC, 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.

NDC, 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.

On October 15, 2004, the Parties executed the Omnibus Agreement, which set the terms and conditions governing the deferred payment of the balance of the agreed price in the remaining sum of P12.250 billion, spread over eight years. However, Global Steel has not paid the real property taxes on the Iligan Plant from the time the NSC plant assets were turned over to it in 2005. Global Steel has interposed the following reasons: the alleged over-assessment by the City; the pendency of its application for tax incentive under a city ordinance; and the alleged misapplication by the City of its previous real property tax payments to other NSC properties. By 2006 therefore, Global Steel began defaulting on its installment payments and/or obligation to provide the stand-by letters of credit as required under the APA and the Omnibus Agreement.



Global Steel filed an action with the Regional Trial Court of Makati City on October 2, 2008, praying for an injunctive relief specifically to prohibit the NSC Secured Creditors from declaring an event of default in case it fails to pay the maturing installments. The trial court denied its prayer for injunctive relief.

Global Steel then filed for arbitration with the Singapore International Arbitration center on October 13, 2008. Using the arbitration proceedings as the legal excuse, Global Steel sought provisional relief from the Singapore High Court where it prayed that the NSC Secured Creditors be restrained from declaring Global Steel to be in default under the Agreement and from declaring due and payable the balance of the purchase price and all other amounts payable under the Agreement. Global claimed that the Liquidator and the Secured Creditors failed to deliver title to the NSC plant assets free and clear from all liens, since the real property tax lien of the City of Iligan had not been discharged. Thus, Global allegedly could not obtain title to the NSC plant assets and seek additional financing.

At this point, NDC did not become a signatory to the Implementing Agreements (Omnibus Agreement, the Asset Purchase Agreement and Purchase Price Sharing Agreements) of the sale of NSC assets. While NDC has signed the Accession Agreement, a document which makes a creditor accede to and adhere to the Implementing Agreements, the same was not perfected due to Global Steel's failure to sign given their filing for arbitration.

On May 9, 2012, the Arbitral Tribunal issued the Partial Award (the "Award") in favor of Global, and against NSC Liquidator Danilo L. Concepcion and the Secured Creditors. The Award specifically held Danilo L. Concepcion and the Secured Creditors solidarily liable to Global. In sum, the Award ordered Danilo L. Concepcion and the Secured Creditors to pay Global the amount of US\$80 million by way of damages and to transfer all NSC plant assets free from all liens to Global and for the Secured Creditors to pay Global the amount of US\$1.043 billion with respect to the Lost Land Claim. Majority of the Secured Creditors of Global then filed an application to set aside the Award with the Singapore High Court on July 9, 2012.

The High Court of Singapore issued a Decision dated July 31, 2014 ("High Court Decision") which set aside the arbitral Award in its entirety. In addition, the High Court granted the Secured Creditors' claims for the payment of its legal costs for the proceedings in the court, which shall be subject to further submissions.

Global appealed the High Court's Decision to the Singapore Court of Appeals on all points. The Singapore Court of Appeals allowed in part and dismissed in part Global's appeals. The practical effect of the decision is that certain parts of the Award remain to be set aside. However, the Court of Appeals reinstated the findings of the Tribunal in the Award that the Liquidator and the Secured Creditors breached the APA in failing to transfer clean title over the NSC plant assets to Global Steel.

On August 23 and 30, 2016, the City Treasurer of Iligan City caused the publication of a Notice of Real Property Tax Delinquency in the Gold Star Daily, covering all real properties declared in the name of National Steel Corporation (NSC) in Iligan City, pertaining to the period beginning on the 4th quarter of 1999 ending on the 2nd quarter

of 2016. The Liquidator wrote the City Treasurer a letter to remind them that any attempt to levy on the subject properties will be in contravention of the Stay Order issued by the Securities and Exchange Commission (SEC) on November 30, 2006. SEC affirmed the continuing validity of the said Stay Order, in its letter to the Office of the City Treasurer of Iligan City dated January 5, 2016. Notwithstanding the writ of execution issued by Branch 57 of the Regional Trial Court of Makati, the City of Iligan, through the City Treasurer, proceeded with the tax sale on October 19, 2016. No bid was submitted. Pursuant to the Local Government Code, there being no bidder, the City Treasurer shall purchase the property for the local government.

## 9. INVESTMENT PROPERTY

*Investment property* includes land and buildings which are held to earn rentals under operating leases. The carrying amounts recognized in the statements of financial position reflect the fair values based on an appraisal conducted mostly in 2015. Details are as follows:

	2016	2015
<b>Lands</b>		
M Fortich/Libona, Bukidnon	1,398,898,565	222,860,000
Macapagal Blvd., Pasay City	1,230,639,000	365,019,461
Pandacan, Manila	1,005,876,000	726,340,000
Dasmariñas, Cavite	899,344,000	2,681,376
Lapu-lapu, Cebu	754,140,000	703,860,000
Sen. Gil Puyat, Makati City	335,270,000	335,270,000
Barrangca, Mandaluyong City	291,830,000	113,700,000
P.Tamo & Dela Rosa Sts., Makati City	251,790,000	91,560,000
San. Juan St., Bacolod	211,152,000	98,980,000
Bugo Dist., Cagayan De Oro	203,779,000	83,530,000
Tordesillas, Salcedo Vill., Makati City	200,400,000	200,400,000
Toril, Davao City	114,750,000	9,017,702
Bagong Ilog, Pasig City	79,928,000	37,080,000
Isabel, Leyte	70,520,000	47,681,847
Kamagong & Sampaloc Sts., Makati City	69,080,000	62,800,000
Lacson & Rizal Sts., Bacolod	67,620,000	39,575,000
Diliman, Quezon City	59,708,000	36,450,000
Sta. Fe, Bantayan, Cebu	26,485,000	10,590,000
Aguinaldo & Luna St., Iligan City	17,556,000	638,400
San Roque, Tarlac	17,325,000	17,330,000
	<b>7,306,090,565</b>	<b>3,205,363,786</b>
<b>Buildings</b>		
Industry & Investment Building	162,300,000	151,600,000
Leyte Port Complex	59,913,000	50,426,000
NDC Building	56,320,000	56,320,000
Manila Luxury Condominium	8,614,000	3,868,750
	<b>287,147,000</b>	<b>262,214,750</b>
	<b>7,593,237,565</b>	<b>3,467,578,536</b>



Lands located at Barrangca, Mandaluyong, Pasong Tamo and Dela Rosa Sts., Makati City, Bagong Ilog, Pasig, Lacson and Rizal Sts., Bacolod, and Diliman, Quezon City are covered by Second Lease Agreement entered into by and between NDC and Caltex (Philippines), Inc. (now Chevron) for a period of 25 years effective May 27, 2000 until May 26, 2025. The rest are used for lease, capital appreciation and project development.

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.

The rental income earned by the Company from its investment properties under operating leases amounted to P142.569 million and P123.253 million for the years 2016 and 2015, respectively.

## 10. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Total
December 31, 2016				
Cost				
At January 1, 2016	610,808,701	45,677,202	667,615,508	1,324,101,411
Additions	179,552	4,540,179	3,903,581	8,623,312
Disposals	0	0	(1,123,705)	(1,123,705)
Adjustments	0	(2,678,571)	(5,532,160)	(8,210,731)
At December 31, 2016	610,988,253	47,538,810	664,863,224	1,323,390,287
Accumulated depreciation				
At January 1, 2016	606,880,070	38,645,984	662,740,318	1,308,266,372
Additions	1,126,019	2,597,345	1,625,275	5,348,639
Disposals	0	0	(1,123,704)	(1,123,704)
Adjustments	(861,104)	0	(3,977,659)	(4,838,763)
At December 31, 2016	607,144,985	41,243,329	659,264,230	1,307,652,544
<b>Net carrying amount, December 31, 2016</b>	<b>3,843,268</b>	<b>6,295,481</b>	<b>5,598,994</b>	<b>15,737,743</b>
December 31, 2015				
Cost	610,808,701	45,677,202	667,615,508	1,324,101,411
Accumulated Depreciation/ Adjustment	606,880,070	38,645,984	662,740,318	1,308,266,372
<b>Net carrying amount, December 31, 2015</b>	<b>3,928,631</b>	<b>7,031,218</b>	<b>4,875,190</b>	<b>15,835,039</b>

Included in the Improvement and Equipment accounts are the properties at the Leyte Port Complex at Isabel, Leyte, which are being leased to PHILPHOS.

# 11. OTHER NON-CURRENT ASSETS AND DEFERRED CHARGES

This account consists of:

	2016	2015 (as restated)
Other Non-current assets		
Lands not used in operation	95,995,235	99,616,327
Others	1,042,915,116	1,041,987,819
Allowance for impairment	(963,526,665)	(963,526,665)
	175,383,686	178,077,481
Deferred charges		
Coal Operating Contract	42,000,000	42,000,000
Allowance for impairment	(42,000,000)	(42,000,000)
Miscellaneous	828,305	828,305
	828,305	828,305
Deferred tax	0	5,834,470
	828,305	6,662,775
	176,211,991	184,740,256

*Lands not used in operation* account balance as of December 31, 2016 includes agricultural land located in Don Carlos, Bukidnon costing P38.959 million and industrial land located in Sucat, Muntinlupa City in the amount of P12.912 million, both acquired in 1985. The decrease in the account was due to the disposal thru public bidding of the 50-hectare raw land located in Isabel, Leyte.

*Others* principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P973.165 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 then Central Bank of the Philippines, the Development Bank of the Philippines and ICB.

*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 No. 972 (Coal Development Act of 1976). NDC acquired the rights, titles and interest to the Coal Operating Project from Vulcan Industrial and Mining 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 requested for write-off from the Commission on Audit. Under COA Decision No. 2015-297, dated November 24, 2015, COA denied NDC's request to write-off the account in the amount of P42 million.

*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:

	2016	2015 (as restated)
Accounts payable for:		
Settlement of legal cases	156,876,221	156,876,221
Various service providers	20,975,511	610,905,824
	177,851,732	767,782,045
Accrued interest on:		
Net lending	317,690,846	242,035,492
Domestic loan - DOLE Phils.	4,538,160	4,538,160
	322,229,006	246,573,652
	500,080,738	1,014,355,697

*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 Regional Trial Court (RTC) ruled in favor of Sta. Ines et al., and ordered NDC to pay the total amount of P61.89 million with interest of six per cent per annum from date of the filing of the case in 1985 up to full payment plus 10 per cent of the total amount due as attorney's fees plus the cost of the suit.

NDC, through the Office of the Government Corporate Counsel (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 six per cent per annum to 12 per cent 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 SC Resolution, dated December 12, 2011, requiring NDC to file its comment to DBP's petition. NDC, through the OGCC, filed a Motion for Extension of Time to File Comment on February 21, 2012. On March 21, 2012, OGCC filed a comment with Motion to Consolidate Case.

On February 1, 2017, the Supreme Court rendered Decision affirming the March 24, 2010 Decision and July 21, 2010 Resolution of the Court of Appeals with modifications. On March 21, 2017, OGCC filed a Motion for Reconsideration.



---

### 13. LOANS PAYABLE

This account consists mainly of domestic loans. It includes the P3.449 billion advances granted by the National Government (NG) under the net lending program of the Department of Finance (DOF) for the payment of interest due to bondholders. The amount also includes non-interest bearing loan amounting to P26.591 million payable to the Bureau of the Treasury relating to the National Steel Corporation accounts.

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.

The decrease in the account was due to the settlement made by NDC to NG amounting to P1.173 billion pertaining to advances made by the latter for payment of interest due to bondholders of NDC Agri-Agra Bonds, thru the issuance of SARO by the Department of Budget and Management (Note 6).

---

### 14. OTHER LIABILITIES

#### Current

This account primarily consists of advance rental, trust liabilities and deferred income amounting to P226.649 million and P33.572 million in 2016 and 2015, respectively.

#### Non-current

This account represents the security deposits on the lease of the Company's properties amounting to P42.155 million and P34.221 million in 2016 and 2015, respectively.

---

### 15. SHARE CAPITAL

This account represents the capital infusion of the NG from 1937 to 2002 aggregating P8.600 billion. The Company has an authorized capital stock of P10 billion, the amount to be subscribed by the NG and to be paid up in accordance with project funding requirements.

---

### 16. 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.

## 17. DEFICIT

The deficit at January 1, 2015 was restated as follows:

As previously reported	
Adjustments:	(5,460,666,214)
Adjustment of provision on receivables recovered	15,426,265
Tax consequence on the expense arising from Standard Input VAT	44,625
Tax provision on interest receivable from NIA	(537,264,673)
Share in prior period adjustment of affiliate	(5,817,716)
2012 Expired MCIT	(3,810,603)
Interest arising from Standard Input VAT	(148,749)
Adjustment on the erroneous entry on disposal of ICB asset	(34,206)
Others	(245,059)
	(531,850,116)
As restated	(5,992,516,330)

## 18. NET PROFIT

The 2015 net profit was restated as follows:

As previously reported	
Adjustments:	4,386,320,359
Income arising from Standard Input VAT	40,177,873
Representation expense refunded	108,315
Tax consequence on the income arising from Standard Input VAT	(12,053,362)
Others	(718,441)
As restated	4,413,834,744

## 19. DIVIDENDS

This account consists of dividends received from the following:

	2016	2015
Asean-Bintulu Fertilizer Sdn. Bhd.	1,044,015,391	0
Science Park of the Philippines, Inc.	16,657,349	0
Batangas Land Company, Inc.	11,395,142	2,610,359
Philippine International Trading Corporation	8,217,802	155,956
Kamayana Realty Corporation	3,601,284	1,095,646
Pinagkaisa Realty Corporation	338,179	330,837
Semirara Mining Corporation	0	136,375,918
Philippine Infrastructure Corporation	0	1,282,452
	1,084,225,147	141,851,168



The total dividends received for the years 2016 and 2015 amounted to P1.105 billion and P159.684 million, respectively, as reflected in the Statements of Cash Flows.

The difference between the dividend income and dividends received for the years 2016 and 2015 in the total amount of P20.377 million and P17.833 million, respectively, was due to the accounting treatment of dividends from affiliates, which was accounted for as reduction to the cost of investments from affiliates (Note 8).

## 20. OPERATING EXPENSES

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

	2016	2015 (as restated)
Personnel services		
Salaries and wages	13,015,883	14,354,050
Bonus and incentives	4,152,943	4,143,370
Social security benefits	1,623,996	1,805,017
Non-commutable allowances	430,057	469,602
Other benefits	1,563,346	1,507,631
	<b>20,786,225</b>	<b>22,279,670</b>
Maintenance and other operating expenses		
Impairment loss	295,499,581	36,249,260
Interest expense and financial charges	75,662,286	124,825,955
Other services and legal fees	24,187,466	35,544,084
Taxes and licenses	20,985,852	18,273,349
Repairs and maintenance	4,744,487	4,024,844
Depreciation	4,134,362	4,942,076
Auditing services	3,987,217	3,803,885
Consultancy fees	3,762,900	3,045,606
Light and water	2,356,410	2,827,162
Rentals	1,721,091	1,420,482
Communication services	1,340,387	1,384,927
Meeting/planning and conference	1,220,499	1,601,598
Training and personal development	1,078,924	1,175,932
Supplies and materials	795,186	580,315
Traveling	794,576	746,654
Christmas and anniversary expenses	767,331	975,078
Miscellaneous	1,846,362	4,605,396
	<b>444,884,917</b>	<b>246,026,603</b>
	<b>465,671,142</b>	<b>268,306,273</b>



## 21. INCOME TAX EXPENSE

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

	2016	2015 (as restated)
Tax at statutory tax rate	969,724,359	1,333,082,915
Additions/deductions to income resulting from:		
Income tax (tax benefit)	(77,821,761)	46,437,197
Income subjected to final tax	(16,965,537)	(10,447,024)
Dividend income not subject to income tax	(12,062,927)	(42,555,350)
Impairment/share in net loss (income) of affiliates	(7,514,285)	1,987,581
Others, net	(598,332,888)	(1,298,730,347)
	<b>257,026,961</b>	<b>29,774,972</b>

The Company is subject to the two per cent 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.

The Company's Net Operating Loss Carry-Over (NOLCO) based on its Annual Income Tax Return filed for the years 2013 and 2014 are P102.209 million and P143.442 million, respectively. The total NOLCO for 2013 and 2014 were applied in 2016.

## 22. COMPLIANCE WITH REPUBLIC ACT No. 7656

Pursuant to Republic Act 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 (NG), NDC remitted to the Bureau of the Treasury P41.684 million in 2016 and settled its outstanding dividends payable to NG amounting to P2.015 billion due from 1996 to 2014 thru transfer of its Semirara Mining and Power Corporation's (SMPC) shares in 2015. Similarly, the following NDC subsidiaries remitted total dividends of P40.210 million and P4.037 million in CYs 2016 and 2015, respectively, which represent NDC's share in the dividends, broken down as follows:

	2016	2015
Science Park of the Philippines, Inc.	16,657,349	0
Batangas Land Company, Inc.	11,395,142	2,610,359
Philippine International Trading Corporation	8,217,802	0
Kamayana Realty Corporation	3,601,284	1,095,645
Pinagkaisa Realty Corporation	338,179	330,836
	<b>40,209,756</b>	<b>4,036,840</b>

## 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, 2016 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 23, 2015, OGCC filed Comment to Petition for Review. Awaiting Court's Resolution.
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 per cent interest per annum and liquidated damages of 5 per cent 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.	Next hearing is set on March 2, 2017 for initial presentation of Defense evidence.
Primo Gelacio vs. NDC-Guthrie	Reconveyance	P100,000 more or less (principal only)	On October 20, 2016, OGCC, filed a



Title of Case	Nature	Amount	Status
Plantations, Inc. & NDC Luzviminda Gelacio-Bahala vs. NDC GR No. 138736 (CA-GR CV No. 43924).			manifestation submitting for the Court's consideration the proposed computation which is compliant with the formula specified in the CA Order.
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.	On January 11, 2017, OGCC received copy of the CA's Resolution declaring the petition submitted for Resolution.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15 <sup>th</sup> Division).	Determination of just compensation	P2.737 million	Supreme Court remanded the case 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 square meter involving 80,000 sq. m. or approximately P3.2 million (principal only)	On February 13, 2017, OGCC filed its Compliance to the Court's resolution dated January 10, 2017.
NDC vs. Commissioner of Internal Revenue. (DOJ Case No. 91-06).	Refund of taxes	P0.660 million	Submitted for DOJ's resolution.
NDC vs. Hon. Jim O. Sampulna, in his capacity as Regional Executive Director of	Petition for Certiorari with TRO or Preliminary	No amount involved as the issue to be resolved in this case is ownership.	On January 7, 2014 OGCC, received a Resolution dated November 19, 2013



Title of Case	Nature	Amount	Status
Department of Environment & Natural Resources (DENR), Region XII, Koronadal City, Sps. Valencia. CA-GR SP No. 02444 [Ildefonso Tabiling (Dec) (now Enriqueta Montaño) 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]	Injunction		directing the Division Clerk of Court to issue an Entry of Judgment in this case.
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 Title 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 December 31, 2016, no further court order or any related document has been received.
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)	Action for annulment of title	- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The parties have already rested their cases and submitted their respective formal offer of evidence. The case is now submitted for decision by the court.

#### 24. GENDER AND DEVELOPMENT (GAD)

The Company allotted P250,000 for Gender and Development (GAD) program for CY 2016. 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 BIR Revenue Regulations 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	19,786,665
Mayor's permit	960,533
Community tax certificate	10,500
Annual registration-BIR	500
	<hr/>
	20,758,198

b. Withholding taxes paid:

Tax on compensation	3,151,160
Creditable withholding taxes	2,099,854
	<hr/>
	5,251,014

**PART II**

**AUDIT OBSERVATIONS AND  
RECOMMENDATIONS**



## AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The absence of a written accounting policy to serve as guide in the determination of the timing and interval in the conduct of appraisal and in the recognition of changes in fair value resulted in reporting the investment property at amounts which may not approximate their fair value at reporting dates.

Records disclosed that the Company initially recognized and measured its investment property at cost. However, starting with the CY 2012 financial statements, it opted to measure and present its investment property at fair value using as basis the third party appraisals conducted in 2010.

In 2014 and 2015, or four and five years after, certain investment property were appraised by independent appraisers. However, during those years the Company did not recognize the 2014 and 2015 increases in fair value. It was only in 2016 that these increases were recognized, together with the increase in fair value of one property appraised in 2016.

Details are as follows:

Location/Type of Investment Property	Appraisal Date	Fair Value Reported in December 31, 2016 Financial Statements
<i>Lands</i>		
Sen. Gil Puyat Ave., Makati City	January 8, 2014	335,270,000
Tordesillas, Salcedo Village, Makati City	January 15, 2014	200,400,000
Isabel, Leyte	October 1, 2014	70,520,000
Toril, Daliao, Davao City	February 27, 2015	114,750,000
Kamagong & Sampaloc Streets, Makati City	March 9, 2015	69,080,000
Lacson and Rizal Sts., Bacolod	November 13, 2015	67,620,000
Sto. Niño Boulevard, Bacolod	November 13, 2015	211,152,000
Bos. San Roque and San Rafael, Tarlac	November 15, 2015	17,325,000
Diliman, Quezon City	November 23, 2015	59,708,000
Pandacan, Manila	November 27, 2015	1,005,876,000
Dasmariñas, Cavite	December 22, 2015	899,344,000
Pasong Tamo & Dela Rosa Sts., Makati City	December 23, 2015	251,790,000
Bo. Bagong Ilog, Pasig	December 23, 2015	79,928,000
Sta. Fe, Bantayan, Cebu	December 23, 2015	26,485,000
Manolo Fortich/Libona, Bukidnon	December 28, 2015	1,398,898,565
Bugo District, Cagayan de Oro	December 28, 2015	203,779,000
Opon, Cebu	December 28, 2015	754,140,000
Aguinaldo & Luna St., Iligan City	December 28, 2015	17,556,000
Bo. Barranca, Mandaluyong	December 28, 2015	291,830,000
Macapagal Avenue, Pasay City	December 13, 2016	1,230,639,000
<i>Buildings</i>		
BOI Building- Makati City	January 8, 2014	162,300,000
NDC Building- Makati City	January 15, 2014	56,320,000
Buildings in Industrial Port Complex-Leyte	November 25, 2014	6,665,000
Warehouse in Industrial Port Complex- Leyte	November 25, 2014	53,248,000
Manila Luxury Condominium- Pasig City	December 28, 2015	8,614,000
<b>Total</b>		<b>7,593,237,565</b>

As shown in the preceding table, the fair value of investment property as of December 31, 2016 was based on appraisals conducted mostly in January 2014 and November and December 2015, except for the property located in Macapagal Ave., Pasay City, the fair value of which was based on December 13, 2016 appraisal. This being so, it is possible that the reported fair value of investment property of P7.593 billion as of December 31, 2016 does not approximate the correct fair value as of that date.

Paragraphs 38 and 39 of PAS 40, *Investment Property*, provide that:

*38 The fair value of investment property shall reflect market conditions at the end of the reporting period.*

*39 Fair value is time-specific as of a given date. Because market conditions may change, the amount reported as fair value may be incorrect or inappropriate if estimated as of another time. Xxx*

We recommended and Management agreed to formulate an accounting policy on the timing and interval in obtaining fair value of investment property and in reporting in the financial statements, taking into consideration the requirements of PAS 40.

2. **Several land assets are vacant and some are occupied by illegal occupants either for residential, commercial or personal purposes, depriving NDC of potential income from the use of such assets.**

We conducted an ocular inspection of selected land assets of the Company included in the Schedule of Lands and International Corporate Bank (ICB) Acquired Assets submitted by the Asset Management Group. The properties inspected were as follows:

Location	Land Use	Area in sq. m.	Book Value
Bongabon, Nueva Ecija	Residential	8,952	28,210
Calatagan, Batangas	Residential	1,131	16,000
Lapu-lapu City, Cebu	Commercial	50,276	703,860,000
Sta. Fe, Bantayan, Cebu	Commercial	5,297	10,590,000
Sambag District, Cebu	Residential	613	463,338
Guadalupe, Cebu	Road lot	232	40,170
Bugo District, Cagayan de Oro	Commercial	13,719	83,530,000
Puerto, Cagayan de Oro	Residential	3,352	30,000
Iponan, Cagayan de Oro	Residential	502	20,000
Macasandig, Cagayan de Oro	Residential	669	13,713
Manolo Fortich/Libona, Bukidnon	Commercial	9,511,239	222,860,000
Aguinaldo & Luna Sts., Iligan City	Commercial	798	638,400
<b>Total</b>		<b>9,596,780</b>	<b>1,022,089,831</b>



Our inspection revealed that, except for some properties which are covered by lease contracts, the other lands are either vacant, used for personal purpose or with illegal structures used for residential or commercial purposes by the occupants, as follows:

Location	Condition
Bongabon, Nueva Ecija	This property is vacant but has been used for planting rice. Rice straws were noted in the area.
Calatagan, Batangas	The property consists of two parcels of lot planted with "palay" by two individuals.
Sta. Fe, Bantayan, Cebu	The property is vacant and although enclosed with a cyclone wire fence, a portion is used/as a stockyard by the owner of the adjacent beach resort.
Sambag District, Cebu City	The property located along the main road is occupied by informal settlers using them for residential and commercial purposes. Erected on the property is an old house/building with bakery and small store in the ground floor.
Guadalupe, Cebu City	The property is a small vacant road lot.
Puerto, Cagayan de Oro	The property is fully occupied as residence by illegal settlers. Several houses built are made of concrete and/or light materials.
Iponan, Cagayan de Oro	The property is a vacant residential lot, but it is encroached by the occupant of the adjacent lot, who uses it for his piggery.
Macasandig, Cagayan de Oro	The property is a vacant residential lot.

The above idle lands, with some illegally being occupied or used, could have provided earnings to the Company had these been put to productive use. The earnings would be more than enough to pay for the real property taxes and other maintenance expenses.

We recommended that Management:

- a) Collect rental from unauthorized users/occupants; and
- b) Dispose the vacant lots and those occupied by illegal settlers.

Management commented, as follows:

Property	Management Comments
Bongabon, Nueva Ecija property	Thru the assistance of the LGU-Bongabon, farmers tilling the land had already agreed to vacate the property after cropping in April 2017. Thereafter, NDC will conduct a relocation survey and install a fence to secure the property. NDC is also looking for possible use of the property either for commercial purpose or site for research and development.



Property	Management Comments
Calatagan, Batangas property	NDC will coordinate with the LGU-Calatagan for assistance in convincing the farmers to vacate the property or convince them to pay rental to NDC for their occupancy of the area.
Sta. Fe, Bantayan, Cebu, property	NDC is marketing the property for lease or project development.
Sambag District, Cebu City property	NDC has coordinated with the owner of the bakeshop in the past to pay rentals for the use of the portion of the property. A draft contract was sent to them but no action on their part. With their inaction on the demand of NDC, the Legal Department was instructed to take appropriate action on the unauthorized occupation of the property.
Guadalupe, Cebu property	The property is for disposal as previously approved by the Board. It was previously leased-out as parking area of the adjacent lot owner who had also signified interest to buy the vacant area. Hence, disposal shall be scheduled once confirmation of disposal is cleared by the Board.
Iponan and Macasandig, Cagayan de Oro properties	The properties are slated for disposal once the road map of properties is approved by the NDC Board.
Puerto property	This property shall be covered by the Community Mortgage Program (CMP) of the Social Housing Finance Corporation (SHFC). The informal settlers already organized themselves as a requirement of the CMP. However, NDC is yet to title this property in its name which is a requirement by SHFC for the property to be covered by CMP.

3. **Payment of premiums for the personal accident insurance of NDC's officers and employees in the total amount of P21,160 is contrary to the provisions of RA 6758 as embodied in EO 184 and DBM-CCC No. 10.**

On March 10, 2003, Executive Order (EO) No. 184 was issued directing the reorganization and streamlining of the NDC, Section 5 of the said EO provides that:

*"Section 5. Compensation- In line with Section 11 of PD 1648, NDC's Revised Charter, the salaries, allowances and fringe benefits of NDC officials and employees shall be in accordance with RA 6758 and other existing laws, rules and regulations on compensation."*

Section 12 of RA 6758, entitled An Act Prescribing a Revised Compensation and Position Classification System in the Government and for Other Purposes states that:

*"Section 12. Consolidation of All Allowances and Compensation- All allowances, except for representation and transportation allowances; clothing and laundry allowances; subsistence allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay; allowances of foreign service personnel stationed abroad; and such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates herein prescribed. Such other additional compensation, whether in cash or in kind, being received by incumbents only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized xxx"*

To implement RA 6758, the Department of Budget and Management (DBM) issued Corporate Compensation Circular No. 10 (DBM-CCC No. 10). Paragraph 5.6 of DBM-CCC No. 10 provides:

*"5.6 Payment of other allowances/fringe benefits and all other forms of compensation granted on top of basic salary, whether in cash or in kind, not mentioned in Sub-Paragraphs 5.4 and 5.5 above shall continue to be not authorized. Payment made for such unauthorized allowance/fringe benefits shall be considered as illegal disbursement of public funds."*

Examination of check disbursements and journal vouchers disclosed that NDC paid the personal accident insurance premiums of all NDC officers and employees covering December 3, 2015 to December 3, 2016 in the amount of P21,160.

Personal accident insurance premiums is not included in Sub-paragraphs 5.4 and 5.5 of the DBM Circular, hence, payment for such expense lacks authority or basis.

We recommended that Management:

- a) Stop disbursing funds for payment of personal accident insurance premiums; and
- b) Strictly comply with the provisions of RA 6758 as embodied in EO 184 and DBM-CCC No. 10.

Management commented that personal accident insurance is covered by Civil Service Commission Memorandum Circular No. 33, s. 1997 which directs all government offices to provide accident/risk insurance to officials and employees.

Although the payment of accident insurance is covered by the CSC Memorandum Circular, such regulation was superseded by the creation of the Government Commission on GOCCs which is tasked to determine and recommend to the President additional incentives that can be granted to GOCCs.



**4. The grant of interest-free loans amounting to P1.100 million to officers and employees is contrary to condition no. 2 of the DBM approved budget.**

NDC granted Multi-purpose and Educational loan packages to its officers and employees amounting to P1.100 million without interest payable in three years. The Multi-Purpose and Educational Loan were part of NDC's enhanced benefit package approved through Board Resolution No. 08-05-76 dated August 22, 2005.

The interest free loan packages granted by NDC are considered additional benefit/incentive. Thus, grant of this benefit/incentive should comply with condition no. 2 of DBM-approved budget of NDC which requires that:

*"2. Disbursements for personnel amelioration/benefit shall be subject to the pertinent compensation laws, rules and regulations including E.O. Nos. 7 and 24 dated September 8, 2010 and February 10, 2011, respectively. Such expenditures shall also be conditioned on the relevant General Provisions of RA No. 10717, the FY 2016 General Appropriations Act, or any specific law or approval of the President of the Philippines or Secretary of Budget and Management, as the case maybe.*

However, there is no specific law, rules or regulations on which the said disbursements can be based. Even though the Multi-Purpose and Educational Loans were part of NDC's enhanced benefit package approved by the Board, the condition set is for NDC to secure the approval of the President of the Philippines, thru the Government Commission on GOCCs (GCG). The GCG is tasked to determine and recommend to the President additional incentives that can be granted by GOCCs to its officers and employees.

We recommended that Management:

- a) Stop disbursing funds for the grant of interest-free loan packages; and
- b) Strictly comply with condition no. 2 of the DBM approved budget.

Management stated that the grant of interest-free loans had been stopped but they appealed to be allowed to continue the loan packages subject to the approval of the Board wherein interest will be imposed at rates equivalent to or higher than the current market rate.

We maintain our recommendation for Management to stop the grant of loan packages and strictly comply with the cited condition.



## 5. Unsettled audit suspensions and disallowances

As of December 31, 2016, the details of Notices of Suspension, Disallowance and Charge issued upon the effectivity of the COA Rules and Regulations on the Settlement of Accounts (RRSA) are as follows:

	Balances as of January 1, 2016	Issued during the year	Settled during the year	Balance as of December 31, 2016
Notice of Suspension	614,583	660,417	614,583	660,417
Notice of Disallowance	19,506,667	0	690,000	18,816,667
Notice of Charge	0	0	0	0
<b>Total</b>	<b>20,121,250</b>	<b>660,417</b>	<b>1,304,583</b>	<b>19,477,084</b>

The details of the NDs are shown below:

Date	ND No.	Amount	Settled	Balance
August 12, 2013	2013-001(2012)****	1,375,000	-	1,375,000
August 14, 2013	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)*	333,334	-	333,334
July 13, 2010	2010-003-101(08)*	266,667	-	266,667
July 13, 2010	2010-004-101(08)*	83,333	-	83,333
July 13, 2010	2010-005-101(08)*	233,334	-	233,334
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	0
May 20, 2003	2003-001-001**	15,000,000	-	15,000,000
		19,506,667	690,000	18,816,667

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

\*\* With COA Order of Execution dated February 6, 2014

\*\*\* Settled on July 5, 2016 per NDC OR No. 0012472

\*\*\*\* Pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the Revised Rules of Procedure of COA

**PART III**

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

# STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the six audit recommendations embodied in prior years' Annual Audit Reports, three were fully implemented/reconsidered and three were not implemented.

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2015 No. 1, page 33	1. Certain properties with an aggregate area of 9.503 million square meters, or 950.29 hectares, with corresponding book value of P243.952 million remained untitled. <i>(This is a reiteration of prior years' observation)</i>	a. Exert effort in titling the untitled properties of NDC; and  b. Cause the transfer of title of those properties not registered in the name of NDC.	Recommendation reconsidered  NDC had summarized the Tax Declarations issued for the properties in Bukidnon for confirmation of Del Monte Phil. Inc. (DMPI). To date, no feedback from DMPI.  Recommendation reconsidered  On-going updating of RPTs and processing of annotation of the Deed of Assignment on the TCTs of ICB properties at the respective Registry of Deeds prior to titling.  Deed of Assignment already annotated in one of the TCTs.
2015 No. 2, page 34	2. Property at Dao, Tagbilaran, Bohol with an area of 3,850 square meters was not recorded in the books even if it was already registered in Company's name.	Determine the cost of the Dao, Tagbilaran, Bohol property and recognize the same in the books.	Implemented  Recorded in the books the value of the subject property on October 31, 2016 per JV No. 10-56-2016.
2015 No. 3, page 34	3. The Collective Negotiation Agreement Incentive granted to NDC employees	a. Limit the payment of CNA Incentive to P25,000 per qualified employee; and	Not implemented



	exceeded the P25,000 limit set under DBM Budget Circular No. 2014-2.	b. Require all concerned officials and employees to refund the amounts paid for their HMO.	Not implemented  NDC-LEAP Council is following up with DBM the status of the request.
2008 No.4, page 36	4. Former NDC officials have not paid the full amount of their car loans aggregating P575,541.05.	Avail of legal remedies for immediate recovery of the loaned amount.	Not implemented  Concerned officials cannot be located. Substituted service being explored.