



*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, 2015**



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

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

June 23, 2016

**Ms. MA. LOURDES F. REBUENO**  
General Manager  
National Development Company  
Makati City

**Madam:**

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 report on the results of the audit of the accounts and transactions of the National Development Company for the year ended December 31, 2015.

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 24, 2016 are presented in detail in Part II of the report.

We request that appropriate actions be taken on the observations and recommendations contained in the report and that we be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from the date of receipt.

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

*Handwritten:* 6/27/16  
1:15 PM

**Cc:**

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson - Senate Finance Committee  
The Chairperson - Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library

**NATIONAL DEVELOPMENT COMPANY**  
NDC Building, 116 Tordesillas St.,  
Salcedo Village, Makati City

**AGENCY ACTION PLAN and  
STATUS of IMPLEMENTATION**  
**Audit Observations and Recommendations**  
**For the Calendar Year 2015**  
**As of December 31, 2015**

Ref.	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/Non-Implementation, if applicable	Action Taken/Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			
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.	We recommended that Management: a) Exert effort in titling the untitled properties of NDC; and b) Cause the transfer of title of those properties not in the name of NDC.							
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.	We recommended that Management determine the cost of the Dao, Tagbilaran, Bohol property and recognize the same in the books.							
3	The Collective Negotiation Agreement Incentive granted to NDC employees exceeded the P25,000 limit set under DBM Budget Circular No. 2014-2.	We recommended that Management: a) Limit the payment of CNA Incentive to P25,000 per employee; and b) Require all concerned officials and employees to refund amounts paid for their HMO.							

Agency sign-off:

\_\_\_\_\_  
Name and Position of Agency Officer

\_\_\_\_\_  
Date



## **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 year 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

	2015	2014	Increase (Decrease)
Assets	12,625,954,964	13,206,615,303	(580,660,339)
Liabilities	5,181,870,569	9,922,855,066	(4,740,984,497)
Equity	7,444,084,395	3,283,760,237	4,160,324,158

### Comparative Results of Operations

	2015	2014	Increase (Decrease)
Income	4,684,376,719	788,341,671	3,896,035,048
Expenses	298,056,360	367,581,341	(69,524,981)
Net profit	4,386,320,359	420,760,330	3,965,560,029

## 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 2015 and 2014.

### Audit Observations and Recommendations

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.

We recommended that Management:

- 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.
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.

We recommended that Management determine the cost of the property at Dao, Tagbilaran, Bohol and recognize the same in the books.

3. The Collective Negotiation Agreement (CNA) Incentive granted to NDC employees exceeded the P25,000 limit set under DBM Budget Circular No. 2014-2.

We recommended that Management:

- a) Limit the payment of CNA Incentive to P25,000 per qualified employee; and
- b) Require all concerned officials and employees to refund the amounts paid for their HMO.

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

As at December 31, 2015, 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 19 audit recommendations embodied in prior years' Annual Audit Reports, 17 were fully implemented/reconsidered and two were partially implemented.

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**PART I**

**AUDITED FINANCIAL STATEMENTS**

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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, 2015 and 2014, 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 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, 2015 and 2014, 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 24 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 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 26 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

April 29, 2016



## 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, 2015 and 2014 and for each of the two years in the period ended December 31, 2015. 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 the 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 *ch* *je* *h*



**NATIONAL DEVELOPMENT COMPANY**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2015 and 2014  
(In Philippine Peso)

	Note	2015	2014 (as restated)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	532,311,128	67,083,023
Short-term investments	5	788,407,446	113,108,041
Receivables, net	6	127,191,039	116,132,326
Other current assets	7	88,668,610	84,017,503
Total Current Assets		1,536,578,223	380,340,893
<b>Non-Current Assets</b>			
Investments	8	1,414,408,427	1,596,103,945
Receivables, net	6	6,006,780,277	7,561,660,349
Investment property	9	3,467,578,536	3,086,352,847
Property and equipment, net	10	15,835,039	21,953,108
Other non-current assets and deferred charges	11	184,774,462	560,204,160
Total Non-Current Assets		11,089,376,741	12,826,274,409
<b>TOTAL ASSETS</b>		<b>12,625,954,964</b>	<b>13,206,615,302</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	12	460,852,991	798,946,604
Current portion of loans payable	13	4,653,224,400	6,962,260,326
Other current liabilities	14	33,572,387	31,746,059
Total Current Liabilities		5,147,649,778	7,792,952,989
<b>Non-Current Liabilities</b>			
Loans payable, net of current portion	13	0	308,098,946
Dividends payable	22	0	1,788,939,261
Other non-current liabilities	14	34,220,791	32,863,869
Total Non-Current Liabilities		34,220,791	2,129,902,076
<b>Equity</b>		<b>7,444,084,395</b>	<b>3,283,760,237</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>12,625,954,964</b>	<b>13,206,615,302</b>

See accompanying Notes to Financial Statements.

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

For the Years Ended December 31, 2015 and 2014  
(In Philippine Peso)

	Note	2015	2014 (as restated)
<b>OPERATING INCOME</b>			
Dividends	19	141,851,168	160,175,601
Rental and leasehold		123,838,052	95,763,431
Interest on deposits		34,823,411	29,242,046
Interest on loans		13,063,398	477,014,917
Interest on receivables		503,286	730,479
Management fees		84,000	84,000
Guarantee income		0	36,150
		<b>314,163,315</b>	<b>763,046,624</b>
<b>OPERATING EXPENSES</b>			
	20	<b>268,281,388</b>	<b>361,733,093</b>
		<b>45,881,927</b>	<b>401,313,531</b>
<b>OTHER INCOME</b>			
Gain on sale/redemption/transfer of investment	21	4,325,388,838	0
Share in net profit from associates		29,623,990	24,771,105
Gain on sale of assets		11,254,215	223,955
Foreign exchange gain		47,359	4,874
Miscellaneous income		3,899,002	295,113
		<b>4,370,213,404</b>	<b>25,295,047</b>
<b>PROFIT BEFORE INCOME TAX</b>			
		<b>4,416,095,331</b>	<b>426,608,578</b>
<b>INCOME TAX EXPENSE</b>			
	22	<b>29,774,972</b>	<b>5,848,248</b>
<b>NET PROFIT</b>			
		<b>4,386,320,359</b>	<b>420,760,330</b>

*See accompanying Notes to Financial Statements.*



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

For the Years Ended December 31, 2015 and 2014  
(In Philippine Peso)

	Note	Capital Stock	Donated Capital	Share in Revaluation Increments of Associates	Deficit	Total
<b>Balances, December 31, 2013</b>		<b>8,602,803,483</b>	<b>112,739,868</b>	<b>28,883,100</b>	<b>(4,065,219,007)</b>	<b>4,679,207,444</b>
Correction of prior years' income	17	0	0	0	205,564,236	205,564,236
Restated balance, January 1, 2014		8,602,803,483	112,739,868	28,883,100	(3,859,654,771)	4,884,771,680
<b>Changes in Equity for 2014</b>						
Net profit for the year, as restated	18	0	0	0	420,760,330	420,760,330
Dividends	19	0	0	0	(2,021,771,773)	(2,021,771,773)
<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>
<b>Changes in Equity for 2015</b>						
Net profit for the year		0	0	0	4,386,320,359	4,386,320,359
Dividends	19	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>(1,300,342,056)</b>	<b>7,444,084,395</b>

See accompanying Notes to Financial Statements.

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

For the Years Ended December 31, 2015 and 2014  
(In Philippine Peso)

	Note	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection of loans		996,549,853	0
Collection of interest		631,887,805	35,254,177
Dividends received		159,684,216	169,225,873
Collection of rentals		124,777,323	109,447,344
Collection of receivables		12,670,448	51,840,510
Miscellaneous collections		2,414,146	5,767,794
Payment of interest		0	(186,379,365)
Payment of taxes and licenses		(157,775,019)	(37,631,322)
Payment to suppliers and service providers		(70,697,208)	(56,817,324)
Payment of salaries and benefits to officers and employees		(17,829,988)	(17,861,303)
Loans granted to NDC employees		(1,066,070)	(577,956)
Net cash provided by operating activities		1,680,615,506	72,268,428
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Return of capital		161,350,000	0
Proceeds from disposal of assets		6,612,968	506,936
Investment in project		0	(45,000,000)
Net proceeds (transfer to short-term investments) from money market placements		(671,679,749)	(25,599,047)
Acquisition of assets		(76,850)	(127,293,992)
Net cash used in investing activities		(503,793,631)	(197,386,103)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from net lending		0	3,090,185,764
Payment of dividends		0	(232,832,512)
Redemption of bonds payable		0	(3,500,000,000)
Payment of loans payable		(711,635,291)	(590,376)
Net cash used in financing activities		(711,635,291)	(643,237,124)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		41,521	2,451
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		465,228,105	(768,352,348)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		67,083,023	835,435,371
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	4	532,311,128	67,083,023

See accompanying Notes to Financial Statements.

## NATIONAL DEVELOPMENT COMPANY NOTES TO FINANCIAL STATEMENTS

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### 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, 2015 and 2014 were approved and authorized for issue by the General Manager on April 13, 2016.

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## 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.

### 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 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 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 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.

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### 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:

	2015	2014
Cash in banks	4,262,774	8,342,495
Cash with collecting/disbursing officer	54,549	4,026,784
Money market placements	527,993,805	54,713,744
	<b>532,311,128</b>	<b>67,083,023</b>

Cash in banks earn interest at the prevailing bank deposit rates. Money market placements consist of placements with interest rates ranging from 1.075 per cent to 1.60 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 P788.407 million and P113.108 million in 2015 and 2014, respectively.



## 6. RECEIVABLES

This account consists of:

	2015	2014 (as restated)
Current		
Loans receivable	47,776,311	47,776,311
Accrued interests	84,755,867	79,851,939
Rental receivables	74,668,584	70,025,580
Due from subsidiaries and affiliates	300,000	300,000
Due from officers and employees	5,869,860	5,240,962
Due from National Government	3,252,978	3,252,978
Other receivables	216,769,140	240,804,702
	433,392,740	447,252,472
Allowance for impairment	(306,201,701)	(331,120,146)
	127,191,039	116,132,326
Non-Current		
Loans receivable	4,980,136,194	5,961,583,709
Accrued interests	1,734,946,610	2,282,850,321
Due from subsidiaries and affiliates	121,643,900	123,643,900
Due from officers and employees	13,526,460	14,182,953
Other receivables	1,020,331,439	1,020,331,439
	7,870,584,603	9,402,592,322
Allowance for impairment	(1,863,804,326)	(1,840,931,973)
	6,006,780,277	7,561,660,349
	6,133,971,316	7,677,792,675

*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 June 16, 2015, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-F-15-0008111 amounting to P1.589 billion, which was applied in part to the NIA loan of P1.523 billion (principal of P975.000 million and interest of P547.819 million).

## 7. OTHER CURRENT ASSETS

This account consists of:

	2015	2014
Short-term investments	84,372,850	80,209,082
Deposits	2,118,319	1,757,555
Prepaid assets	1,247,367	1,292,444
Others	930,074	758,422
	<b>88,668,610</b>	<b>84,017,503</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:

	2015	2014 (as restated)
Money market placements	523,842,185	523,842,185
Investments in stocks and other securities		
Common shares	2,165,947,592	2,167,084,054
Preferred shares	1,798,617,152	1,837,467,152
Affiliates accounted under equity	247,989,839	358,698,895
Venture capital	4,000,000	4,000,000
	<b>4,216,554,583</b>	<b>4,367,250,101</b>
Allowance for impairment	<b>(3,326,563,341)</b>	<b>(3,295,563,341)</b>
	<b>889,991,242</b>	<b>1,071,686,760</b>



Other investments		
Investments in projects	62,406,520	62,406,520
Others	100,030,145	100,030,145
	<b>162,436,665</b>	<b>162,436,665</b>
Allowance for impairment	<b>(161,861,665)</b>	<b>(161,861,665)</b>
	<b>575,000</b>	<b>575,000</b>
	<b>1,414,408,427</b>	<b>1,596,103,945</b>

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

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	2015	2014
<b>Common Shares</b>				
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, Inc.	FCIEI	100.00	8,845,038	8,845,038
Kamayan 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 and Power Corporation	SMC	3.83	0	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 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>2,167,084,054</b>

			% of Ownership	2015	2014
<b>Preferred Shares</b>					
Operational					
San Carlos Bio-Energy, Inc.	SCBE	25.00	0	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	
			1,798,617,152	1,837,467,152	
<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	
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	122,500,000	245,000,000	
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	
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	
			689,875,979	812,375,979	
Accumulated equity in net earnings (losses)					
Balance at beginning of year			(388,965,063)	(404,685,896)	
Share in net income for the year			29,623,990	24,771,105	
Dividends received			(17,833,046)	(9,050,272)	
Balance at end of year			(377,174,119)	(388,965,063)	
Share in revaluation increment of an affiliate			28,883,100	28,883,100	
Share in prior period adjustment of affiliates			7,052,978	7,052,978	
			348,637,938	459,346,994	
Allowance for impairment			(100,648,099)	(100,648,099)	
			247,989,839	358,698,895	
<b>Venture Capital</b>					
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	
			4,216,554,583	4,367,250,101	

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. On November 27, 2015, all of NDC's 388,500 preferred shares at P100 per share were redeemed by SCBI.

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, 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.

#### Transfer of Semirara Mining and Power Corporation (SMPC) shares

On November 18, 2014, the Department of Finance (DOF) recommended that NDC transfer to the National Government (NG) the SMPC shares, or sell the SMPC shares, in order to settle its dividends payable and outstanding obligations to the NG and Privatization and Management Office (PMO). On December 9, 2015 NDC's Board of Directors held a special board meeting and resolved to approve the declaration and remittance of property dividends to the NG in the form of SMPC shares as well as the transfer and cession of SMPC shares to NG and PMO as settlement of NDC's outstanding obligations.

On December 23, 2015, a Memorandum of Agreement was executed by and among the DOF, PMO, Bureau of the Treasury (Btr) and NDC transferring the 34,093,974 shares sold at P135 per share, less six per cent discount, amounting to P4.327 billion. The transfer of the SMPC shares was intended to settle NDC's outstanding obligations, namely: a) payable to NG for dividends for the years 1996 to 2014 amounting to P2.015 billion, b) payable to NG for Advances on account of First Centennial Clark Corporation (FCCC) amounting to P1.866 billion inclusive of accrued interests, c) payable to BTr on account of National Steel Corporation in the amount of P35.929 million, d) guarantee fees relative to the flotation of the 4<sup>th</sup> tranche Agri-Agra bonds amounting to P39.891 million, and e) payable to Privatization and Management Office on the accounts of Eliscon Assets and NSC-Pasig Steel aggregating to P396.162 million.



## 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 an appraisal conducted in 2010. Details are as follows:

	2015	2014 (as restated)
<b>Lands</b>		
Pandacan, Manila	726,340,000	726,340,000
Lapu- lapu, Cebu	703,860,000	703,860,000
Macapagal Blvd., Pasay City	365,019,461	0
Sen. Gil Puyat, Makati City	335,270,000	335,270,000
M Fortich/Libona, Bukidnon	222,860,000	222,860,000
Tordesillas, Salcedo Vill., Makati City	200,400,000	200,400,000
Barrangca, Mandaluyong City	113,700,000	113,700,000
San. Juan St., Bacolod	98,980,000	98,980,000
P.Tamo & Dela Rosa Sts., Makati City	91,560,000	91,560,000
Bugo Dist., Cagayan De Oro	83,530,000	83,530,000
Kamagong & Sampaloc Sts., Makati City	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 City	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
Toril, Davao City	9,017,702	0
Dasmariñas, Cavite	2,681,376	0
Aguinaldo & Luna St., Iligan City	638,400	0
	<b>3,205,363,786</b>	<b>2,828,006,847</b>
<b>Buildings</b>		
Industry & Investment Building	151,600,000	151,600,000
NDC Building	56,320,000	56,320,000
Leyte Port Complex	50,426,000	50,426,000
Manila Luxury Condominium	3,868,750	0
	<b>262,214,750</b>	<b>258,346,000</b>
	<b>3,467,578,536</b>	<b>3,086,352,847</b>

Except for lands located at 1) Isabel, Leyte, 2) Sen. Gil Puyat, Makati, 3) Tordesillas, Salcedo Village, Makati, 4) Bugo Dist., Cagayan de Oro, and 5) M. Fortich/Libona, Bukidnon, the rest 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.

Properties located at Macapagal Blvd., Pasay City, Toril, Davao City, Aguinaldo, Iligan City and Dasmariñas, Cavite were reclassified as Investment Property in 2015 as these properties are used for lease, capital appreciation and project developments (Note 11).

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 P123.84 million and P95.76 million for the years 2015 and 2014, respectively.

## 10. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture & Equipment	Total
December 31, 2015				
Cost				
At January 1, 2015	607,879,546	51,526,100	667,529,793	1,326,935,439
Additions	3,056,029	0	85,714	3,141,743
Adjustments	(126,874)	(5,848,898)	1	(5,975,771)
At December 31, 2015	610,808,701	45,677,202	667,615,508	1,324,101,411
Accumulated depreciation				
At January 1, 2015	606,763,221	36,972,621	661,246,489	1,304,982,331
Additions	116,838	3,331,412	1,493,826	4,942,076
Adjustments	11	(1,658,049)	3	(1,658,035)
At December 31, 2015	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>
December 31, 2014				
Cost	607,879,546	51,526,100	667,529,793	1,326,935,439
Accumulated Depreciation/ Adjustment	606,763,221	36,972,621	661,246,489	1,304,982,331
<b>Net carrying amount, December 31, 2014</b>	<b>1,116,325</b>	<b>14,553,479</b>	<b>6,283,304</b>	<b>21,953,108</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:

	2015	2014 (as restated)
Lands not used in operation	99,616,327	477,871,922
Others	1,042,022,025	1,033,946,866
Allowance for impairment	(963,526,665)	(958,277,405)
	178,111,687	553,541,383
Deferred charges		
Coal Operating Contract	42,000,000	42,000,000
Miscellaneous	828,305	828,308
Allowance for impairment	(42,000,000)	(42,000,000)
	828,305	828,308
Deferred tax	5,834,470	5,834,469
	6,662,775	6,662,777
	184,774,462	560,204,160

*Lands not used in operation* account balance as of December 31, 2015 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 mainly due to the reclassification made from Other Asset account to Investment Property (Lands) account of four properties located in 1) Macapagal Blvd., Pasay City, 2) Dasmariñas, Cavite, 3) Toril, Davao City, and 4) Iligan City, aggregating to P377.357 million.

*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 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 P42.000 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:

	2015	2014 (as restated)
Accounts payable for:		
Settlement of legal cases	156,876,221	156,876,221
Guarantee fees	0	39,891,506
Various service providers	57,403,118	113,932,922
	214,279,339	310,700,649
Accrued interest on:		
Net lending	242,035,492	483,707,795
Domestic loan - DOLE Phils.	4,538,160	4,538,160
	246,573,652	488,245,955
	460,852,991	798,946,604

*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.



### 13. LOANS PAYABLE

This account consists of:

	2015	2014 (as restated)
Domestic loans	4,653,224,400	7,270,359,272
Current portion	4,653,224,400	6,962,260,326
Non-current portion	0	308,098,946

*Domestic loans* includes the P1.5 billion 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. The account also includes loan payable to Privatization and Management Office (PMO) for the account of Eliscon Assets and NSC Pasig Steel amounting to P396.162 million; payable to the Bureau of Treasury (BTr) relating to NSC amounting to P36.733 million; and advances made by the NG for the payment of interest due to bondholders, as well as the principal due relative to the redemption of the fourth tranche of NDC Agri-Agra Bonds on November 26, 2014.

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 transfer of NDC's shares in Semirara Mining and Power Corporation to the NG (see Note 8) in settlement of the following:

NG Advances for the account of First Centennial Clark Corporation	1,500,000,000
Payable to Privatization and Management Office on the account of:	
Eliscon Assets	325,899,478
NSC Pasig Steel	70,262,946
Payable to the BTr relating to National Steel Corporation (partial settlement)	9,337,158
	1,905,499,582

Moreover, NDC's payable to NG amounting to P711.635 million pertaining to advances made by the latter for the payment of interest due to bondholders of NDC Agri-Agra Bonds was settled due to the issuance of SARO by the Department of Budget and Management and the adjustment made on the BTr advances in the books amounting to P0.805 million.

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**14. OTHER LIABILITIES****Current**

This account primarily consists of advance rental, trust liabilities and deferred income amounting to P33.572 million and P31.746 million in 2015 and 2014, respectively.

**Non-current**

This account represents the security deposits on the lease of the Company's properties amounting to P34.221 million and P32.864 million in 2015 and 2014, respectively.

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**15. CAPITAL STOCK**

This account represents the capital infusion of the NG from 1937 to 2002 aggregating P8.60 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.

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**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.

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**17. DEFICIT**

The deficit at January 1, 2014 was restated as follows:

As previously reported	(4,065,219,007)
Adjustments:	
Net effect of correction of inconsistent application of accounting policy (cost to FMV) valuation of investment property (buildings)	220,382,344
Adjustment of provision of previously impaired investment	38,850,000
Adjustment of provision on receivables recovered	24,872,354
Share in prior period adjustment of affiliate	7,052,978
Interest expense and financial charges	804,604
Others	37,217
Income tax from collection of interest income from NIA	(86,435,261)
	205,564,236
As restated	(3,859,654,771)

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**18. NET PROFIT**

The 2014 net profit was restated as follows:

As previously reported	414,959,919
Adjustments:	
Interest and rental income	122,216
Taxes and licenses	5,328,540
Other expenses	349,655
As restated	420,760,330

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**19. DIVIDENDS**

This account consists of dividends received from the following:

	2015	2014
Semirara Mining and Power Corporation	136,375,918	136,375,918
Batangas Land Company, Inc.	2,610,359	6,755,069
Philippine Infrastructure Corporation	1,282,452	0
Kamayan Realty Corporation	1,095,645	507,975
Pinagkaisa Realty Corporation	330,836	324,838
Philippine International Trading Corporation	155,956	733,728
Manila Gas Corporation	0	13,750,000
MBTCI Venture Capital Corporation	0	1,728,073
	141,851,166	160,175,601

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The total dividends received for the years 2015 and 2014 amounted to P159.684 million and P169.226 million, respectively, as reflected in Statement of Cash Flows.

The difference between the dividend income and dividends received for the years 2015 and 2014 in the total amount of P17.833 million and P9.050 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:

	2015	2014 (as restated)
Personal services		
Salaries and wages	14,354,050	15,529,573
Bonus and incentives	4,145,170	3,369,110
Social security benefits	1,805,017	1,947,010
Non-commutable allowances	469,602	390,000
Other benefits	1,507,631	1,773,398
	22,281,470	23,009,091
Maintenance and other operating expenses		
Interest expense and financial charges	124,825,955	227,622,641
Impairment loss	36,249,260	36,570,330
Other services and legal fees	35,557,469	25,642,499
Taxes and licenses	18,273,349	16,163,146
Depreciation	4,942,076	11,431,116
Repairs and maintenance	4,024,844	414,453
Auditing services	3,803,885	3,927,747
Consultancy fees	2,910,606	2,365,297
Light and water	2,827,162	3,129,583
Meeting/planning and conference	1,696,528	2,520,749
Rentals	1,420,482	1,423,434
Communication services	1,384,927	1,218,319
Training and personal development	1,175,932	1,204,624
Traveling	746,654	1,460,111
Supplies and materials	580,315	656,951
Miscellaneous	5,580,474	2,973,002
	245,999,918	338,724,002
	268,281,388	361,733,093



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## 21. GAIN ON SALE/REDEMPTION/TRANSFER OF INVESTMENT

A Memorandum of Agreement was signed on December 23, 2015 among the DOF, Bureau of the Treasury (BTr), PMO and NDC embodying the transfer of the 34,093,974 SMPC shares to NG and PMO and the settlement of NDC's obligations (see Note 8).

Such transfer has resulted in gain computed as follows:

Transfer price (34,093,974 shares x P126.90), net	4,326,525,300
Less: Cost of investment	1,136,462
	<u>4,325,388,838</u>

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## 22. INCOME TAX EXPENSE

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

	2015	2014
Tax at statutory tax rate	1,324,828,599	126,242,451
Additions/deductions to income resulting from:		
Income tax (tax benefit)	46,437,197	41,529,354
Income subjected to final tax	(10,447,024)	(2,924,366)
Dividend income not subject to income tax	(42,555,350)	(47,534,259)
Impairment/share in net loss (income) of affiliates	1,987,581	3,539,768
Others-net	(1,290,476,031)	(115,004,700)
	<u>29,774,972</u>	<u>5,848,248</u>

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 2012, 2013 and 2014 are P39.331 million, P102.209 million and P143.442 million, respectively.

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## 23. 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 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 valued at P4.327 billion and remitted P233 million in 2014. Similarly, the following NDC subsidiaries remitted total dividends of

P4.04 million and P21.34 million in CYs 2015 and 2014, respectively, which represent NDC's share in the dividends, broken down as follows:

	2015	2014
Batangas Land Company, Inc.	2,610,359	6,755,070
Kamayan Realty Corporation	1,095,645	507,975
Pinagkaisa Realty Corporation	330,836	324,838
Manila Gas Corporation	0	13,750,000
	<b>4,036,840</b>	<b>21,337,883</b>

On December 9, 2015, the Company's Board of Directors approved the recognition and payment schedule of dividends amounting to P225 million due to the NG for 2014 net earnings which was included in the total dividends paid thru the transfer of SMPC shares to NG.

## 24. 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, 2015 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 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.

<b>Title of Case</b>	<b>Nature</b>	<b>Amount</b>	<b>Status</b>
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 case is still on trial. Plaintiff intervenor, DARBCI, is presenting its evidence.
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 <sup>th</sup> 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	OGCC sent to Branch Clerk of Court, RTC Ormoc City blue print copy of the amended plan of Leyte Sub. A



Title of Case	Nature	Amount million (principal only)	Status Basin Development Authority as Exhibit I as per Court's notice.
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 O. 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 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]	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	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,
	Cancellation of Titles of Lot No. 65 (1161) PLS 247-D		No further court order or any related document has been received.



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**25. GENDER AND DEVELOPMENT (GAD)**

The Company allotted P1.080 million for Gender and Development (GAD) program for CY 2015. 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.

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**26. SUPPLEMENTARY INFORMATION ON TAXES**

In compliance with the requirements set forth by BIR 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	16,976,062
Mayor's permit	748,083
Community tax certificate	10,500
Annual registration-BIR	500
	<hr/>
	17,735,145

b. Withholding taxes paid:

Tax on compensation	3,093,807
Creditable withholding taxes	1,798,456
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	4,892,263

**PART II**

**AUDIT OBSERVATIONS AND  
RECOMMENDATIONS**

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## AUDIT OBSERVATIONS AND RECOMMENDATIONS

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.**

*(This is a reiteration of prior years' observation)*

Inspection and inventory count of Transfer Certificate of Tittles (TCTs) of Company's landholdings revealed that some of the lands recorded in the books of accounts are still not covered by TCTs and/or the TCTs are not yet transferred to NDC's name. Details are as follows:

Location of Property	Area in Sq. M	Book Value	Registered Owner
Manolo Fortich/Libona, Bukidnon	9,377,499	P 219,726,307.70	No TCT
Meycauyan, Bulacan	5,231	23,540,000.00	Crowntex Realty Corporation
Bo. Langihan District, Butuan City	25,074	3,500.00	Covered by Tax Declaration only
<b>International Corporate Bank (ICB) Acquired Land Assets</b>			
San Jose del Monte, Bulacan	88,064	582,222.40	Genoveva Ignacio et. al.
Cagayan de Oro City (Puerto)	3,352	30,000.00	Covered by Tax Declaration only
Bonot, Legazpi City	400	18,121.24	Continental Bank
Calatagan, Batangas	1,131	16,000.00	Willen Kho
Talakag, Bukidnon	450	15,277.43	ICB
Porac, Pampanga	480	13,069.42	ICB
San Isidro, Antipolo	1,266	7,758.98	ICB
<b>Total</b>	<b>9,502,947</b>	<b>P 243,952,257.17</b>	

We recommended that Management:

- 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.

Management replied that the Manolo/Fortich/Libona Bukidnon properties are currently leased to Del Monte Philippines, Inc. where the area under lease is around 982.69 hectares but only 13.37 hectares have title and the rest have to be validated whether NDC owns it or not.

On the Meycauyan, Bulacan and San Jose del Monte properties, these are included in the 2016 commitment to start the process of transferring the title in NDC's name.

On the other ICB assets, NDC, as an initial step, will explore the possibility of having the Deed of Assignment annotated on the title of the involved properties.



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.**

Comparison of Company's lands based on actual count of TCTs versus those recorded in the books revealed that the Dao, Tagbilaran, Bohol property, covered by TCT No. 112-T-8619, with an area of 3,850 square meters, was not recorded in the books despite the fact that it was already registered in NDC's name. The subject property was included in the Schedule of Lands/Acquired Assets submitted by the Asset Management Group (AMG) as of December 31, 2015, but the acquisition cost was not indicated.

We recommended that Management determine the cost of the Dao, Tagbilaran, Bohol property and recognize the same in the books.

Management informed that the Dao, Tagbilaran, Bohol property was originally included in the Deed of Sale between NDC and the Department of Agrarian Reform (DAR) for the implementation of the government's Comprehensive Agrarian Reform Program. DAR, however, rejected its CARP inclusion because, upon inspection, it was determined to be a residential area. The Asset Management Group worked for its reconveyance to NDC; however, DAR could no longer locate the Owner's Duplicate Copy of Title surrendered by NDC way back in the 1990s.

The process of reconstitution of title involves judicial process and it was only in the last quarter of 2015 that the reconstituted title was secured from the Registry of Deeds, Tagbilaran City; hence its inclusion in the schedule of assets as of December 2015. The acquisition cost will be determined by the Accounting Unit based on its records.

3. **The Collective Negotiation Agreement Incentive granted to NDC employees exceeded the P25,000 limit set under DBM Budget Circular No. 2014-2.**

Administrative Order (AO) No. 135, s. 2005 re: *Authorizing the Grant of Collective Negotiation Agreement (CNA) Incentive to Employees of Government Agencies* authorizes the grant of CNA Incentive to government employees and directs the Department of Budget and Management (DBM) to issue the necessary policy and procedural guidelines to implement the said AO.

Additionally, Section 74 of the General Provisions of Republic Act No. 10651, re: *FY 2015 General Appropriations Act* authorizes the payment of CNA Incentive from the allowable Maintenance and Other Operating Expenses (MOOE) allotments generated out of the cost cutting measures, subject to the conditions and guidelines issued by the DBM.

On December 2, 2014, DBM issued Budget Circular (BC) No. 2014-2, re: *Guidelines on the Grant of Collective Negotiation Agreement (CNA) Incentive for FY 2014* providing conditions and guidelines on the payment of CNA Incentive.

Conditions for the grant of the CNA Incentive under Section 4 – *Policy Guidelines* of the Budget Circular includes, among others, (a) existence of a valid and subsisting CNA, (b) accomplishment of targets and (c) remittance of dividends equivalent to at least 50% of the annual earnings to the National Treasury. The fund sources of the CNA Incentive shall be sourced solely from the allowable allotments which includes the following items:

- a. Travelling Expenses;
- b. Communication Expenses;
- c. Repairs and Maintenance;
- d. Transportation and Delivery Expenses;
- e. Supplies and Materials; and
- f. Utility Expenses.

Section 4.2 – *Rate of Incentive* of the Budget Circular provides that the rate of CNA Incentive shall not be pre-determined in the CNA and this may be given equally to all qualified employees or at varying rates. However, paragraph 4.2.3 provides that in all instances, the CNA Incentive shall not exceed P25,000 per qualified employee.

Section 5 – *Procedural Guidelines* of the Budget Circular prescribes the following apportionment of the total amount of allowable MOOE allotments (paragraph 5.1.2):

- 50% - For the CNA Incentive
- 30% - For improvement of working conditions and other programs, and/or to be added as part of the CNA Incentive; and
- 20% - For GOCCs and GFIs, to be reverted to their corporate funds.

On March 2, 2015, NDC granted CNA Incentive amounting to P25,000 to all qualified employees for a total of P593,750. In addition, on April 13, 2015, NDC paid P541,060 to NDC-League of Employees for Excellence, Ardor, & Professionalism (NDC-LEAP), Inc. representing 30 per cent of CY 2014 CNA for employees' health cards.

When NDC paid P25,000 to each qualified NDC employees, the ceiling prescribed in item 4.2.3 of the Budget Circular has already been reached. Hence, the additional payment for the employees' health cards thru NDC-LEAP was already in excess.

Further, the use of 30 per cent of CY 2014 savings for the procurement of health care maintenance, such as Health Maintenance Organization (HMO), is in violation of COA Resolution No. 2005-001, dated February 3, 2005, which prohibits the procurement by government agencies of health insurance from private health insurance companies considering that the government has already provided for the health insurance of its personnel through the Philippine Health Insurance Corporation (PHIC).

Moreover, provident fund and special hospitalization, medical and dental services are among the items considered to be not negotiable for CNA purposes as stated under the



Public Sector Labor-Management Council (PSLMC) Resolution No. 02, s. 2003, Section 10.

In COA Decision No. 2012-12, dated February 16, 2012, COA denied the petition of Dr. Josef T. Yap, President of the Philippine Institute for Development Studies (PIDS), for review of COA Adjudication and Settlement Board Decision No. 2010-046, dated April 27, 2010, sustaining Notice of Disallowance (ND) on the payment of annual membership fees of 54 PIDS employees to Philamcare Health Systems, Inc.

The petition was filed on the ground that the agreement was in accord with Section 5 of Presidential Decree No. 1597, dated June 11, 1978, as implemented by Administrative Order (AO) No. 402, dated June 2, 1998. The decision states that what is being authorized by AO 402 is the establishment of a medical check-up program for government personnel in the meantime that this benefit is not yet integrated under the National Health Insurance Program implemented by the PHIC. The benefit package it authorized is limited to diagnostic medical procedures, such as urinalysis, chest x-ray, physical examination, stool examination and complete blood count. Clearly, the AO limited its scope to a medical check-up program. It further states that there is nothing in the AO or DOH-DBM-PHIC Joint Circular No. 1 that could be construed as allowing government agencies to undertake more than just medical check-up, as the PIDS did with the said agreement.

We recommended that Management:

- a) Limit the payment of CNA Incentive to P25,000 per qualified employee; and
- b) Require all concerned officials and employees to refund the amounts paid for their HMO.

Management stated that the 30 per cent payment to NDC employees coursed through the NDC-LEAP is not violative of COA Resolution No. 2005-001 nor of CSC regulation when it was used to pay for an HMO. Unlike the PIDS case, it was not the government, or NDC for this matter, that procured the health card since the money was paid to the employee association for and in behalf of all the members. The NDC-LEAP is a private entity.

In addition, if the intention was to limit the amount of CNA Incentive up to P25,000 only, then said Budget Circular should have altogether deleted the apportionment of the remaining 50 per cent savings, specifically the phrase "and/or to be added as part of the CNA Incentive."

NDC in a letter dated January 11, 2016, requested from the DBM confirmation of its position on the implementation of Budget Circular No. 2014-2 relative to the application of items 4.2.3 (Rate of the CNA Incentive) in conjunction with item 5.1.2 (Procedural Guidelines).



The audit team does not agree with Management's contentions. Item 4.2.3 of the Budget Circular provides, *"In all instances, the CNA Incentive shall not exceed P25,000 per qualified employee."* The apportionment per item 5.21 provides that 50 per cent of the savings is for the CNA Incentive and the 30 per cent for the improvement of working conditions and other programs, and/or to be added as part of the CNA Incentive, with the 20 per cent to be reverted to the corporate funds.

The phrase "and/or to be added as part of the CNA Incentive" clearly means that the 30 per cent portion of the allowable MOOE allotment can be added to the CNA Incentive; however, under no instance shall the CNA Incentive exceed the limit. In other words, the 30 per cent portion can only be added as part of the CNA Incentive when the limit of P25,000 per employee is not yet exceeded. To interpret otherwise would make item 4.2.3 irrelevant and meaningless.

Management's contention that the prohibitions on the procurement of health care maintenance by the government were not violated since it is NDC-LEAP, a private entity, who paid for the health card is untenable. The payment was made to the NDC employees coursed through the NDC-LEAP by the NDC. The source of payment was from NDC, a GOCC.

We reiterate our recommendation for Management to limit the payment of CNA Incentive to P25,000 and require all concerned officials and employees to refund the amounts paid for their HMO for 2015; otherwise a Notice of Disallowance will be issued.

#### 4. Unsettled audit suspensions and disallowances

As of December 31, 2015, 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, 2015	Issued during the year	Settled during the year	Balance as of December 31, 2015
Notice of Suspension	614,583	0	0	614,583
Notice of Disallowance	19,506,667	0	0	19,506,667
Notice of Charge	0	0	0	0
<b>Total</b>	<b>20,121,250</b>	<b>0</b>	<b>0</b>	<b>20,121,250</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
May 20, 2003	2003-001-001**	15,000,000	-	15,000,000
		19,506,667	-	19,506,667

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

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

\*\*\* With Notice of Finality of Decision dated February 16, 2011, ASD Decision No. 2011-067 dated June 1, 2011 and COA Decision No. 2014-186 dated August 28, 2014

**PART III**

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

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## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 19 audit recommendations embodied in prior years' Annual Audit Reports, 17 were fully implemented/reconsidered and two were partially implemented.

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2014 No. 1, page 31	1. NDC's failure to fill up positions in the Internal Audit Office (IAO) resulted in the incurrence of expenses for deficiency taxes, surcharges and interests/penalties in the total amount of P3.018 million.	Exert effort to fill up the plantilla positions in the IAO pursuant to DBM Circular Letter No. 2008-5 and the DBM approved organization structure of NDC.	Implemented  The selection process has started and will be completed in 2016.
2014 No. 2, page 32	2. The activities for the Gender and Development (GAD) were not in accordance with the activities endorsed by the Philippine Commission on Women (PCW) and not in consonance with CSC Memorandum Circular No. 05, series 2014 dated February 25, 2014 on Women's Month Celebration.	a. Follow-up the Budget and Plan of GAD activities being endorsed by PCW in the earlier part of the year to avoid conducting activities that are not approved and endorsed by PCW;  b. Conduct GAD activities which will address gender issues and concerns; and  c. Provide and record GAD expenses appropriately in the GAD account classification.	Implemented      Implemented   Implemented  A GAD sub account was created to summarize all GAD related expenses for easy verification/validation.
2013 No. 2, page 33	3. Unremitted dividends to the National Government (NG) accumulated to P2.11 billion as of December 31, 2013.	Remit the dividends due to the NG.	Implemented  A total of P2.015 billion was settled in year 2015, representing dividends due from 1996 to 2014 net earnings, thru the transfer to the NG of NDC's Semirara Mining and Power Corporation shares.

2013 No. 3, page 35	4. Arrears in amortization of the housing loans granted to former NDC employees range from four to eleven years.	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.	<p>Implemented</p> <p>NDC has communicated to OGCC to expedite the filing of appropriate cases.</p> <p>Filed Petitions for Extrajudicial Foreclosure of Real Estate Mortgage against Brenda Bactol and Gina Villamor. Brenda Bactol invoked her right of redemption. The title of Gina Villamor's property is for consolidation in NDC's name.</p> <p>Filed collection case with prayer for Preliminary Attachment against Jaime Armonio. Case is on-going.</p>
2013 No. 5 Page 39	5. Certain deficiencies were noted relative to the Gender and Development (GAD) activities undertaken.	<p>Ensure that:</p> <p>a. GAD activities conducted are in accordance with the submitted GAD Plan and Budget;</p> <p>b. GAD activities in observance of Women's Month are aligned to the theme adopted by CSC; and</p> <p>c. All GAD-related expenses are summarized in one GAD sub account to facilitate verification/validation of GAD-related matters.</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p> <p>GAD sub account was created for proper recording of GAD related activities.</p>
2012 No. 2, page 34	6. Discrepancy between the balance per books and the balance per inventory of furniture and fixtures and office equipment was not reconciled.	Reconcile the variance of the indicated balance per books of office furniture and fixtures between Lapsing Schedule/General Ledger and Inventory Report.	<p>Implemented</p> <p>On July 8, 2013, NDC submitted reconciliation statement to COA.</p> <p>On August 15, 2014, a request for write off of the items recorded per books but cannot be located per count was</p>

			submitted to COA. Management is awaiting for COA's reply.
2012 No. 4, page 38	7. Certain properties at LIDE, Isabel, Leyte and Ormoc City were either not found/missing, idle, unserviceable and in poor condition.	Dispose the various unserviceable properties and equipment as soon as possible to avoid further losses.	Recommendation reconsidered  Management scheduled the disposal by 3 <sup>rd</sup> quarter of 2016 on the fully depreciated and unserviceable properties.
2012 No. 7, Page 45	8. 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.	Implemented  Held meetings with DTI-GAD and PCW representatives in 2015 for assistance on crafting the GAD Plan and Budget.
2011 No. 3, Page 37	9. NDC landholdings with book values of P42.14 million are not covered by Transfer Certificate of Titles (TCTs).	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 observation was first raised in CY 2008 and followed-up in CY 2011.  Reiterated in Finding No. 1 of this Report.
2010 No. 2, Page 34	10. No Real Estate Mortgage (REM) was executed by the National Irrigation Administration (NIA) for the loan granted by NDC amounting to P2 billion.	To protect the rights and interests of NDC, ensure that a REM is executed.	Implemented  The NIA Loan is proposed to be restructured in 2016 although discussions have commenced in 2015. NDC's agreement to the restructured terms and conditions of the loan will be conditioned on the execution of the REM.
2009 No. 2, Page	11. Several of NDC's landholdings are burdened with unpaid real property	a. Consider the disposal of the vacant lots and those occupied by illegal settlers	Implemented  An NDC Property Road Map is



	<p>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>	<p>concomitant expenses of maintaining the property.</p> <p>b. 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>approval. The Road Map, once approved, will be the guide in the proper action/disposition of all real properties. In September 2015, the Road Map was presented to the NDC Board of Directors, but the board deferred action. Management was further advice to coordinate with BOI to be updated on the projects. BOI had approve to see if these are NDC assets that be used on the project.</p> <p>Implemented</p> <p>Management has coordinated with LGUs offering the properties for their proposed community projects.</p> <p>The San Felipe, San Fernando, Pampanga property had signified their intention to acquire the land via Community Mortgage Program (CMP). NDC had sent letters to assist, organize and prepare the existing occupants of the property.</p> <p>The occupants are in the process of registering to HLURB to have an organized association to qualify for CMP. NDC already issued its Intent to Sell to the San Felipe Riverside Homeowners Association in July 2015.</p>
<p>2008 No. 1, Page 29</p>	<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</p>	<p>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</p>	<p>Implemented</p> <p>This is part of the NDC Property Road Map which is being prepared.</p>

	NDC of revenues because of delays in the disposal of these lands.	and penalties that may be imposed for NDC's delinquent tax payment.	
2008 No. 4, Page 36	13. 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.	Partially implemented  Accounts of two former NDC officials were referred to Legal-OGCC. Awaiting OGCC's action. The former official concerned had a meeting with NDC recently for reconciliation of accounts. He has not yet come back for further validation/reconciliation of his submitted accounting records vs. NDC entries. NDC will send him a final demand letter.
2006 No. 1, Page 20	14. 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 who could be held responsible/liable for the losses that NDC suffered under the Coal Operating Project of 1985.	Recommendation reconsidered  The request for write-off of the account was denied by COA per Decision No. 2015-297 dated November 24, 2015. Thus, the account Deferred Charges- Coal Operating Contract will remain in the books with full provision for impairment.