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, 2017

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

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 29, 2018

OFFICE OF THE GENERAL MANAGER
RECEIVED
29 JUNE 2018
DATE
BY
NATIONAL DEVELOPMENT COMPANY

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

Dear Ms. Rebueno:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the 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, 2017.

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

The following are the significant audit observations and recommendations:

1. The Company failed to achieve its targets/commitments for the years 2016 and 2017, as contained in the NDC Performance Agreements with the Governance Commission for GOCCs (GCG), obtaining a rating of 62.78 per cent and 52 per cent, respectively.

   We recommended that Management:

   a) Initiate necessary actions to improve its performance in succeeding years;

   b) Exert efforts to look for proponents of viable investments in priority areas to fulfill its mandate; and

   c) Develop or devise strategies that would expedite processes from investments/projects proposal evaluation up to implementation.

2. The payment of P25,000 each or a total of P575,000 to NDC officers and employees representing the Collective Negotiation Agreement (CNA) Incentive for CY 2016 is not in accordance with the conditions for the grant specified under Department of Budget and Management (DBM) Budget Circular No. 2016-7 dated December 1, 2016.

   Considering NDC's failure to meet the minimum required rating in their Performance Scorecard, which is one of the conditions for the grant of CNA incentive, we are constrained to issue a disallowance on the amounts paid therefor. Henceforth, we recommended that Management refrain from granting CNA incentive without fully complying the conditions set by DBM for the grant of the same.

3. Several other land assets are idle/vacant and some are occupied by illegal occupants for residential, commercial and personal purposes, depriving NDC of potential income from the use of such assets.

We recommended that Management:

a) Intensify marketing efforts to maximize the use of idle lots and exercise extra efforts to clear the areas of unauthorized settlers in coordination with government agencies;

b) Find alternative uses of those vacant properties not suitable for commercial purposes or project development or dispose them thru sale;

c) Expedite the process of the Community Mortgage Program for those properties with organized informal settlers to ultimately dispose such properties;

d) Make representations with the New San Jose Builders, Inc. to collect rental from the lease of the portion of the property by the jeepney operators' association and from the security agency that occupies the property without authority;

e) Make representations with the lessee and the Dolores Homesite & Extension Homeowner's Association, Inc. for properties in Meycauayan, Bulacan and Bo. Dolores, San Fernando, Pampanga, respectively, to collect rental from them;

f) Demand the occupant of the Talakag, Bukidnon property to vacate the same; and

g) Engage the services of a Geodetic Engineer to conduct relocation survey of the properties in Hermosa, Bataan.

4. Non-operational NDC subsidiaries continue to exist.

We recommended that Management:

a) Require Manila Gas Corporation to identify its creditors and settle obligations due to them amounting to P498,305. If this is not possible after exerting due effort, consider the pronouncement under PD 1445, Section 98 - Reversion of unliquidated balances of accounts payable;

b) Require Inter-Island Gas Services, Inc. to expedite the possible foreclosure of a 314 sq. m. property located in Alabang, Muntinlupa registered in the name of Lamberto and Marina Montalbo containing a 1988 annotation on the original Transfer Certificate of Title (TCT) of mortgage to MGC for P800,000;

c) Make representation with GCG on the dispositive action on NPIC and the approval of the dissolution of FCIE;

d) Prepare and implement plan of actions with timelines relative to the disposition of non-operational NDC subsidiaries; and

e) Expedite the dissolution of these non-performing assets once approval is secured.

5. Of the total Rental Receivable account of P64.714 million, P52.383 million or 81 per cent is considered doubtful and P12.526 million of this Receivable have been dormant for several years.

We recommended that Management:

a) Evaluate the collectability of accounts with large allowance for doubtful accounts and perform appropriate action for dormant accounts;

b) Provide explanation on the causes of dormant accounts and those with large allowance for doubtful accounts;

c) Establish an effective method of collection and enforce relevant provisions on imposition of interests, penalties and/or surcharges to defaulting lessees; and

d) Establish the exact locations and permanent addresses of the lessees for future actions.

The other audit observations, together with recommended courses of action, which were discussed with the concerned Management officials and staff during the exit conference conducted on May 22, 2018, are presented in detail in Part II of the report.

We request that appropriate actions be taken on the observations and recommendations and that we be informed on 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:

ELSIELIN C. MASANGCAY
Director IV

Copy furnished:

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 – Senate 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

EXECUTIVE SUMMARY

Introduction

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

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

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

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and

- act as a holding company to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

Scope and Objectives of Audit

The audit covered the accounts, transactions and operations of NDC for calendar years 2017 and 2016. It was aimed at expressing an opinion on the fairness of presentation of the Company's financial position, results of operations and cash flows, and at determining the Company's compliance with pertinent laws, rules and regulations, as well as the efficiency and effectiveness of operations.

Financial Highlights

Comparative Financial Position

	2017	2016 (as restated)	Increase (Decrease)
Assets	17,864,639,143	16,276,995,897	1,587,643,246
Liabilities	5,475,742,462	6,017,720,163	(541,977,701)
Equity	12,388,896,681	10,259,275,734	2,129,620,947

Comparative Results of Operations

	2017	2016 (as restated)	Increase (Decrease)
Revenues	463,383,489	1,293,977,810	(830,594,321)
Expenses	120,346,875	390,028,989	(269,682,114)
Income from operations	343,036,614	903,948,821	(560,912,207)
Other income (expenses), net	2,982,330,388	2,328,445,577	653,884,811
Profit before income tax	3,325,367,002	3,232,394,398	92,972,604
Income tax expense	966,291,580	702,529,617	263,761,963
Net Profit	2,359,075,422	2,529,864,781	(170,789,359)

Independent Auditor's Report on the Financial Statements

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Company for the years 2017 and 2016.

Significant Audit Observations and Recommendations

1. The Company failed to achieve its targets/commitments for the years 2016 and 2017, as contained in the NDC Performance Agreements with the Governance Commission for GOCCs (GCG), obtaining a rating of 62.78 per cent and 52 per cent, respectively.

   We recommended that Management:

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d) Establish the exact locations and permanent addresses of the lessees for future actions.

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

As at December 31, 2017, the unsettled Notices of Disallowance amounted to P20.264 million. Of this amount, P1.717 million is with Petition for Review on Certiorari filed with the Supreme Court on May 9, 2011. The amount of P15.725 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, and P1.375 million is pending resolution by the Commission Proper pursuant to Rule V, Section 7 of the 2009 Revised Rules of Procedure of the Commission on Audit.

Status of Implementation of Prior Years' Audit Recommendations

Of the 10 audit recommendations embodied in prior years' Annual Audit Reports, six were fully implemented, one was partially implemented and three were not implemented.

PART I

AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of National Development Company (NDC), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NDC as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibility for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Government Auditors (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 33 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 modified in respect of these matters.

Responsibilities of Management and Those Charged with Governance of the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 35 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

Zvm/deVilla

ZENAIDA V. DE VILLA
OIC-Supervising Auditor

May 22, 2018

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016 (as restated)	January 1, 2016 (as restated)
ASSETS				
Current Assets				
Cash and cash equivalents	6	**1,945,258**	4,126,363	532,311,128
Short-term investments	7	**2,133,232,496**	2,012,919,450	788,407,446
Receivables, net	8	**246,720,269**	215,982,862	186,405,150
Other current assets	9	**23,386,589**	91,199,993	88,668,610
Total Current Assets		**2,405,284,612**	2,324,228,668	1,595,792,334
Non-Current Assets				
Investments	10	**1,944,141,141**	1,894,671,912	1,408,701,754
Receivables, net	8	**2,817,811,048**	4,270,990,535	6,006,780,277
Investment property	11	**10,621,823,140**	7,593,237,565	3,467,578,536
Property and equipment, net	12	**8,086,435**	15,837,466	15,949,741
Other non-current assets and deferred charges	13	**67,492,767**	178,029,751	186,558,016
Total Non-Current Assets		**15,459,354,531**	13,952,767,229	11,085,568,324
TOTAL ASSETS		**17,864,639,143**	16,276,995,897	12,681,360,658
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable	14	**14,809,390**	19,686,856	609,577,514
Interest payable	15	**386,142,647**	322,229,006	246,573,652
Loans payable	16	**2,306,824,400**	3,480,024,400	4,653,224,400
Inter-agency payables	17	**5,754,909**	24,923,146	1,561,871
Trust liabilities	18	**32,557,857**	187,824,615	23,343,950
Deferred credits/unearned income	19	**7,940,527**	14,770,485	8,666,566
Provisions	20	**160,835,102**	160,048,851	160,048,851
Total Current Liabilities		**2,914,864,832**	4,209,507,359	5,702,996,804
Non-Current Liabilities				
Deferred tax liability	27	**2,521,499,563**	1,759,175,397	1,336,193,265
Trust liabilities	18	**39,378,067**	42,154,984	34,220,791
Other payables	21	**0**	6,882,423	0
Total Non-Current Liabilities		**2,560,877,630**	1,808,212,804	1,370,414,056
Equity		**12,388,896,681**	10,259,275,734	5,607,949,798
TOTAL LIABILITIES AND EQUITY		**17,864,639,143**	16,276,995,897	12,681,360,658

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF PROFIT OR LOSS
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016 (as restated)
REVENUES			
Dividend income	22	**202,211,863**	1,084,225,147
Rent income	23	**170,797,809**	142,569,050
Interest income		**90,289,817**	67,099,613
Management fees		**84,000**	84,000
		463,383,489	1,293,977,810
OPERATING EXPENSES			
Personnel services	24	**24,912,703**	20,788,725
Maintenance and other operating expenses	25	**95,434,172**	369,240,264
		120,346,875	390,028,989
INCOME FROM OPERATIONS		**343,036,614**	903,948,821
OTHER INCOME (EXPENSES), NET	26	**2,982,330,388**	2,328,445,577
PROFIT BEFORE INCOME TAX		**3,325,367,002**	3,232,394,398
INCOME TAX EXPENSE	27		
Current tax		**226,487,937**	257,026,961
Deferred tax		**739,803,643**	445,502,656
NET PROFIT		**2,359,075,422**	2,529,864,781

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	Share Capital (Note 28)	Share in Revaluation Increments of Associates	Retained Earnings/(Deficit) (Note 29)	Total
Balances, December 31, 2015		**8,602,803,483**	**28,883,100**	**(1,804,677,787)**	**6,827,008,796**
Correction of prior years' errors	29	0	0	(1,219,058,998)	(1,219,058,998)
Restated balance, January 1, 2016		8,602,803,483	28,883,100	(3,023,736,785)	5,607,949,798
Changes in Equity for 2016					
Net profit for the year, as restated	30	0	0	2,529,864,781	2,529,864,781
Dividends		0	0	(48,566,711)	(48,566,711)
Revaluation of investment property (Cost to fair value)		0	0	1,890,887,311	1,890,887,311
Reversal of deferred income tax		0	0	279,140,555	279,140,555
Balances, December 31, 2016		**8,602,803,483**	**28,883,100**	**1,627,589,151**	**10,259,275,734**
Changes in Equity for 2017					
Net profit for the year		0	0	2,359,075,422	2,359,075,422
Dividends		0	0	(421,308,805)	(421,308,805)
Reversal of deferred tax liability from interest recievable due from NIA		0	0	140,322,321	140,322,321
Adjustment in investment in associates		0	0	56,440,117	56,440,117
Reclassification of trust liability		0	0	(4,908,108)	(4,908,108)
Balances, December 31, 2017		**8,602,803,483**	**28,883,100**	**3,757,210,098**	**12,388,896,681**

See accompanying Notes to Financial Statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(In Philippine Pesos)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends received		**217,836,906**	1,104,602,606
Collection of rentals		**168,923,045**	160,285,434
Collection of interest		**31,550,348**	22,933,855
Collection of receivables		**9,120,412**	12,141,952
Miscellaneous collections		**2,047,808**	21,748,664
Payment of taxes and licenses		**(281,128,400)**	(437,844,124)
Payment to suppliers and service providers		**(67,913,528)**	(131,889,216)
Payment of salaries and benefits to officers and employees		**(19,193,401)**	(20,614,987)
Loans granted to NDC employees		**(215,571)**	(511,455)
Net cash provided by operating activities		**61,027,619**	730,852,729
CASH FLOWS FROM INVESTING ACTIVITIES			
Return of capital		**37,666,000**	63,700,000
Collection of loans		**18,781,218**	344,752,372
Proceeds from disposal of assets		**4,720,685**	94,850,039
Gain from investment		**1,770,014**	0
Placements on short-term investments		**(27,507,850)**	(1,731,018,539)
Net cash provided by (used in) investing activities		**35,430,067**	(1,227,716,128)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends		**(102,521,228)**	(41,684,288)
Net cash used in financing activities		**(102,521,228)**	(41,684,288)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**3,882,437**	10,362,922
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,181,105)**	(528,184,765)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**4,126,363**	532,311,128
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**1,945,258**	4,126,363

See accompaying Notes to Financial Statements.

1. CORPORATE INFORMATION

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

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

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

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

- adopt a new philosophy and strategy by sourcing and investing funds in a portfolio of socially relevant and commercially driven projects, the returns from which shall balance out the generation of income streams and ensure sustainable financial returns to uphold the government's shareholder value;

- adopt a more aggressive divestment policy and clearer exit mechanism on its equity investments which could be best handled by the private sector; and

- act as a holding company to manage its subsidiaries where government investments are placed, ensure that their growth potentials are maximized to enhance government's shareholder value and adopt control mechanisms to effectively monitor the performance of the subsidiaries.

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

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

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

The accompanying financial statements as of December 31, 2017 and 2016 were approved and authorized for issue by the Management on May 22, 2018.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board Of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation

The financial statements of the Company have been prepared using historical cost basis unless otherwise indicated. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety; which is described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the Company operates. All values represent absolute amounts except when otherwise indicated.

3. NEW AND REVISED ACCOUNTING STANDARDS

New and Amended PFRSs in Issue But Not Yet Effective

Relevant new and amended PFRSs which are not yet effective for the year ending December 31, 2017 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018 but not adopted early:

- PFRS 9, Financial Instruments - This standard will replace PAS 39, Financial Instruments: Recognition and Measurement (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting, recognition and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on the classification by reference to the business model within which these are held and its contractual cash flow characteristics.

  For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

  For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

  The derecognition provisions are carried over almost unchanged from PAS 39.

The Company has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017.

Apart from equity investments classified currently as available-for-sale and measured at fair value through other comprehensive income that should be measured at fair value through profit or loss under PFRS 9, all the other financial assets and financial liabilities should continue to be measured on the same bases as currently under PAS 39.

Concerning impairment, the Company expects to apply the simplified approach to recognize lifetime expected credit loss for the Company's trade receivables. Although the Company is currently assessing the extent of this impact, it is anticipated that the application of the expected credit loss model of PFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed. In particular, the implementation of the new expected credit loss model proves to be challenging and might involve significant modifications to the Company's credit management systems.

- Amendments to PFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and condition of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

- Amendments to PFRS 4, Insurance contracts - Applying instruments PFRS 9 Financial with PFRS 4, Insurance Contracts - The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before implementing PFRS 17, Insurance Contracts ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9, thus continuing to apply PAS 39 instead ('the deferral approach').

- PFRS 15, Revenue from Contract with - The new standard replaces PAS 11, Construction Contracts, PAS 18, Revenue and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

The Company intends to use the full retrospective method of transition to the new standard. Based on the current accounting treatment of the Company's major sources of revenue, the Company does not anticipate that the application of PFRS 15 will have a significant impact on its financial position and/or financial performance, apart from providing more extensive disclosures on the Company's revenue transactions. However, as the Company is still in the process of assessing the full impact of the application of PFRS 15 on the financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Company complete the detailed review.

- Amendment to PFRS 15, Revenue from Contract with Customers - Clarification to PFRS 15 - The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, Leases – This standard replaces PAS 17, Leases and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

- For the Company's non-cancellable operating lease commitments as at December 31, 2017, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Company will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Company's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Company complete the review.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense.

Financial Assets

Initial Recognition

Financial assets are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Company's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

Classification and Subsequent Measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments (HTM), available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

The Company classifies financial assets as at FVTPL when the financial asset is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income.

As of the reporting date, the Company does not have financial assets that are classified as fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents, short-term investments, receivables, and investments in debt instruments fall under this category.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

As of the reporting date, the Company does not have financial assets that are classified as held-to-maturity investments.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified as loans and receivables, HTM investments or financial assets at FVTPL.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

AFS assets are included in non-current assets unless the investment matures or management intends to dispose it within 12 months after the end of the reporting period.

Available for sale financial asset is disclosed in Note 10.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risk and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial Liabilities and Equity Instruments

Classification as Debt or Equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial Liabilities

Initial recognition

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Company's financial liabilities except for debt instruments classified at FVTPL. In a regular way purchase or sale, financial liabilities are recognized and derecognized, as applicable, using settlement date accounting.

Classification and Subsequent Measurement

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified at FVTPL when the financial liability is held for trading; designated upon initial recognition; either held for trading or designated upon initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the Company is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and PAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in notes.

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Accounts payable and accrued expenses, inter-agency payables and loans payable are classified as other financial liabilities.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather being contigent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Retained earnings

Retained earnings represent accumulated profit attributable to equity holders of the Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy and prior period adjustments.

Investment in Subsidiary

A subsidiary is an entity over which Company exercises control over the financial and operating policy decisions of the investee.

An investment in subsidiary is accounted for using the cost method from the date on which the investee becomes a subsidiary. Under the cost method, Investment in subsidiary is initially measured at cost and is presented in the statement of financial position at cost less any accumulated impairment in value.

Investment in subsidiary is derecognized upon disposal. Any difference between the carrying amount of the Investment in subsidiary and the net proceeds from disposal is recognized immediately in profit and loss.

Investment in Associate

An associate is an entity over which Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. Any excess of the cost of acquisition over the Company's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognized as implied goodwill, which is included within the carrying amount of the investments and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Company's share of the fair values of the identifiable net assets of the associate at the date of acquisition, i.e. discount on acquisition is immediately recognized in profit or loss in the period of acquisition.

The results of operations and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held-for-sale in which measured at lower of carrying amount and fair value less cost to sell. Under the equity method, investments in associates or joint venture are carried in the statements of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Company's share of losses of an associate exceeds the Company's interest in that associate, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Company's accounting policy for impairment of financial assets is applied to determine whether it is necessary to recognize any impairment loss with respect to its investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the Company's accounting policy on impairment of tangible and intangible assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues to use the equity method from the date the investment ceases to be an associate, or when the investment is classified as held for sale. When the Company retains interest in the former associate and the retained interest is a financial asset, the Company measured the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when the equity method is discontinued.

Investment Property

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment property are included in the income statement in the period in which they arise.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair the date of change. If owner-occupied property becomes an investment property, the Group accounts property in accordance with the policy stated under property, plant and equipment up to the date of change.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and

- the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Property and equipment are stated in the financial statements at cost less accumulated depreciation, amortization and any impairment in value.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year 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 additional costs of property and equipment. The cost of replacing a component of an item of property and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When parts of an item of property and equipment have different useful lives, these are accounted for as separate items (major components) of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the property and equipment.

Impairment of Non-financial Assets

At each reporting date, non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit and loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Derecognition of Non-financial assets

Non-financial assets are derecognized when the assets are disposed of or when no future economic benefits are expected from these assets. Any difference between the carrying value of the asset derecognized and the net proceeds from derecognition is recognized in profit or loss.

Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable services provided in the normal course of business.

Dividend Income

Dividend income is recognized when the Company's rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest Income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental Income

Rental income from cancellable lease agreements is recognized when earned in the statement of comprehensive income.

Expense Recognition

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately 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 in the statements of financial position as an asset.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the lessee.

All other leases are classified as operating leases. Rentals payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Company as Lessor

The Contract of Lease entered into by the Company does not transfer substantially all the risks and benefits of ownership of the asset. The Company is engaged in a lease with pre-termination clause of which in case the Contract of Lease is terminated by the Lessor at any time prior to its expiration, the Lessor shall refund the amount representing the unearned portion of the rental to the Lessee. On the other hand, if the Contract of Lease is terminated by the Lessee at any time prior to its expiration, the amount representing the unearned portion of the rental will be deemed forfeited in favor of the Lessor. The rent income from the Contract of Lease is recognized in the statement of comprehensive income.

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes as assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Employee Benefits

Short-term Benefits

Short term benefits include salaries, bonuses, compensated absences and other forms of employee benefits that are expected to be settled within one year from the reporting date. Short-term employee benefits are recognized as expense in the period the related services are provided.

Terminal leave benefits

Terminal leave benefits are computed based on the actual leave credits earned by employees as of the reporting date. The amount reported as liability in the statement of financial position is based on the employees' salary grade as of the reporting dates.

Income Tax

Income tax expense represents the sum of the current tax and deferred tax expense.

Current Tax

The current tax expense is the amount of tax due which is computed based on the taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and Deferred Tax for the Year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Company incurs in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated 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 consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events after Reporting Date

Subsequent events that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Subsequent events that provide additional information about conditions existing after period end (non-adjusting events) are disclosed in the notes to the financial statements.

5. JUDGMENTS AND ESTIMATES

The preparation of the financial statements in accordance with Philippine Financial Reporting Standards requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumption used in arriving at the estimates to change. The effects of changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Estimated allowance for impairment of receivables

The Company maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. This amount is evaluated based on such factors that affect the collectability of the accounts. These factors include, the age of the receivables, the length of the Company's relationship with the customer, the customer's payment behavior and known market factors. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

At the end of 2017 and 2016, the Company has recognized allowance for impairment of receivables in the amount of P18.683 million and P295.499 million, respectively.

Estimating useful lives of property and equipment

The Company estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of these assets and residual values are reviewed, and adjusted if appropriate, only if there is a significant change in the asset or how it is used.

The following estimated useful lives are used in depreciating the property and equipment:

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

6. CASH AND CASH EQUIVALENTS

This account consists of:

	2017	2016
Cash with collecting/disbursing officer	**46,869**	52,682
Cash in banks	**1,898,389**	4,073,681
	1,945,258	4,126,363

Cash in banks earn interest at the prevailing bank deposit rates. Interest earned on cash in banks amounted to P124,165 and P837,113 in 2017 and 2016, respectively.

7. SHORT-TERM INVESTMENTS

This account consists of money market placements in the Land Bank of the Philippines and the Development Bank of the Philippines in the total amount of P2.133 billion and P2.013 billion in 2017 and 2016, respectively. Interest earned on these investments amounted to P80.593 million and P55.715 million in 2017 and 2016, respectively.

8. RECEIVABLES

This account consists of:

	2017	2016 (as restated)
Current		
Loans receivable	**1,053,114,425**	1,053,114,425
Interests receivables	**88,909,628**	87,027,676
Rental receivables	**64,713,952**	69,607,030
Due from subsidiaries/associates/affiliates	**121,943,901**	121,943,901
Due from officers and employees	**5,874,307**	6,057,591
Due from National Government	**3,252,978**	3,252,978
Other receivables	**1,366,336,012**	1,314,693,454
	2,704,145,203	2,655,697,055
Allowance for impairment	**(2,457,424,934)**	(2,439,714,193)
	246,720,269	215,982,862
Non-Current		
Loans receivable	**2,009,346,369**	2,992,532,973
Interests receivables	**799,464,556**	1,267,205,538
Due from officers and employees	**9,000,123**	11,252,024
	2,817,811,048	4,270,990,535
	3,064,531,317	4,486,973,397

Interests receivables 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/associates/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 include 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 February 17, 2017, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-C-17-0001783 amounting to P1.498 billion for partial settlement of NIA's loan to NDC of P1.443 billion (principal of P975.000 million and interest of P467.741 million), of which only P325.670 million was actually received by NDC because such was used to partially settle its loans to NG amounting to P1.173 billion.

9. OTHER CURRENT ASSETS

This account consists of:

	2017	2016 (as restated)
Restricted fund (held-in-trust)	**19,498,182**	86,774,864
Deposits	**1,859,510**	1,757,555
Prepayments	**953,754**	1,655,654
Inventories held for consumption	**1,075,143**	1,011,920
	23,386,589	91,199,993

Restricted fund (held-in-trust) consists of an escrow account for the shareholders of a former affiliate.

10. INVESTMENTS

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

	2017	2016 (as restated)
Investment in subsidiaries	**402,315,129**	441,988,202
Investment in associates	**260,735,051**	185,142,285
Available for sale (AFS)	**1,281,090,961**	1,267,541,425
	1,944,141,141	1,894,671,912

Investment in Subsidiaries

This account consists of the following investment in subsidiaries which the Company exercises control over the financial and operating policy decisions of the investee.

		% of Ownership	2017	2016 (as restated)
Common Shares				
Operational				
Philippine International Trading Corp.	PITC	99.50	**199,000,000**	199,000,000
Batangas Land Company, Inc.	BLCI	60.00	**55,659,300**	55,659,300
GY 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
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**400,000,000**	400,000,000
Manila Gas Corporation	MGC	91.70	**74,616,000**	111,282,000
NDC-Philippine Infrastructure Corp.	NPIC	100.00	**80,000,000**	80,000,000
For dissolution				
Luzon Stevedoring Corporation	LSC	100.00	**330,987,000**	330,987,000
Preferred Shares				
Non-operational				
First Centennial Clark Corporation	FCCC	60.00	**500,000,000**	500,000,000
			1,672,147,167	1,708,813,167
Allowance for impairment			**(1,269,832,038)**	(1,266,824,965)
			402,315,129	441,988,202

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 Manila Gas Corporation (MGC) paid an amount of P36.666 million to NDC on December 1, 2017 representing liquidating dividend.

The dividend income earned by the Company from its investment in subsidiaries amounted to P9.568 million and P23.552 for the years 2017 and 2016, respectively.

Investment in Associates

This account consists of the following investments in associates which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

		% of Ownership	2017	2016
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
Philippine Dockyard Corporation	PDC	35.00	**101,650,000**	101,650,000
Triad Asia, Ltd.	TAL	50.00	**65,435,000**	65,435,000
Manila Exposition Complex, Inc.	MECI	36.36	**60,000,000**	60,000,000
Alabang-Sto. Tomas Development, Inc.	ASDI	49.00	**58,800,000**	58,800,000
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
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
Veterans Venture Capital Corporation	VVCC	20.00	**1,000,000**	1,000,000
LIDE Management Corporation	LMC	20.00	**20,000**	20,000
San Jose Oil Company	SJOC	20.00	**1,716**	1,716
PNB Venture Capital Corporation	PVCC	20.00	**0**	1,000,000
			730,827,695	731,827,695
Accumulated equity in net earnings (losses)				
Balance at beginning of year			**(372,503,961)**	(377,174,119)
Share in net profit for the year			**35,964,596**	25,047,618
Dividends received			**(15,625,043)**	(20,377,460)
Balance at end of year			**(352,164,408)**	(372,503,961)
Share in revaluation increment of an associate			**28,883,100**	28,883,100
Share in prior period adjustment of associates			**57,675,380**	1,235,262
			465,221,767	389,442,096
Allowance for impairment			**(204,486,716)**	(204,299,811)
			260,735,051	185,142,285

Refractories Corporation of the Philippines (RCP) is a minority-owned affiliate of NDC at 33 per cent (4.328 million shares equivalent to P108.223 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. 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. The Court has not yet issued an order on the issues of the case, to date.

On August 23, 2017, NDC received an amount of P2.770 million representing liquidating dividend from PNB Venture Capital Corporation.

Available for Sale Investments

This account consists of the following:

		% of Ownership	2017	2016
Common Shares				
Operational				
Asean Bintulu Fertilizer Sdn. Bhd.	ABFSB	9.50	**158,895,989**	158,895,989
Science Park of the Philippines	SPP	5.18	**24,951,957**	24,951,957
Non-operational				
Paper Industries Corp. of the Phils.	PICOP	0.28	**15,000,000**	15,000,000
Menzi Development Corporation	MDC	5.20	**10,000,000**	10,000,000
For dissolution				
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
Preferred Shares				
Under receivership				
National Steel Corporation	NSC	12.50	**1,196,967,152**	1,196,967,152
Other Investments				
Investments in projects			**62,406,520**	62,406,520
Others			**100,030,145**	100,030,145
			2,316,536,526	2,316,536,526
Allowance for impairment			**(2,119,514,636)**	(2,117,837,286)
			197,021,890	198,699,240
Money Market Placements			**1,084,069,071**	1,068,842,185
			1,281,090,961	1,267,541,425

Update on National Steel Corporation (NSC)

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

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

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

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

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

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

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

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

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

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

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

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

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

On August 23 and 30, 2016, the City Treasurer of Iligan City caused the publication of a Notice of Real Property Tax Delinquency in the Gold Star Daily, covering all real properties declared in the name of National Steel Corporation (NSC) in Iligan City, pertaining to the period beginning on the 4th quarter of 1999 ending on the 2nd quarter of 2016. The Liquidator wrote the City Treasurer a letter to remind them that any attempt to levy on the subject properties will be in contravention of the Stay Order issued by the Securities and Exchange Commission (SEC) on November 30, 2006. SEC affirmed the continuing validity of the said Stay Order, in its letter to the Office of the City Treasurer of Iligan City dated January 5, 2016. Notwithstanding the writ of execution issued by Branch 57 of the Regional Trial Court of Makati, the City of Iligan, through the City Treasurer, proceeded with the tax sale on October 19, 2016. No bid was submitted. Pursuant to the Local Government Code, there being no bidder, the City Treasurer shall purchase the property for the local government.

While the petition for Ex-Parte motion for annotation on the titles of NSC assets regarding the omnibus order nullifying the auction sale was granted on October 19, 2016, the secured creditors are implementing the other legal remedies to secure the NSC properties which were taken over by the City of Iligan.

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

The dividend income earned by the Company from its Available for Sale Investments amounted to P192.643 million and P1.044 billion for the years 2017 and 2016, respectively.

11. INVESTMENT PROPERTY

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

	2017	2016 (as restated)
Land		
Pandacan, Manila	**2,519,531,000**	1,005,876,000
Macapagal Blvd. Pasay City	**2,106,040,000**	1,230,639,000
M Fortich/Libona, Bukidnon	**1,268,540,000**	1,398,898,565
Sen. Gil Puyat, Makati	**765,960,000**	335,270,000
Lapu-lapu, Cebu	**754,140,000**	754,140,000
Toril, Davao City	**705,000,000**	114,750,000
Dasmarinas, Cavite	**663,026,090**	899,344,000
Tordesillas, Saleedo Village, Makati	**361,720,000**	200,400,000
Barrangca, Mandaluyong	**299,410,000**	291,830,000
San. Juan St., Bacolod	**197,955,000**	211,152,000
P.Tamo & Dela Rosa Sts., Makati	**157,180,000**	251,790,000
Kamagong & Sampaloc Sts., Makati	**100,480,000**	69,080,000
Bugo Dist., Cagayan De Oro	**75,590,800**	203,779,000
Lacson & Rizal Sts, Bacolod	**88,650,000**	67,620,000
Isabel, Leyte	**81,028,235**	70,520,000
Diliman, Quezon City	**65,000,000**	59,708,000
Bagong Ilog, Pasig	**59,660,000**	79,928,000

	2017	2016 (as restated)
Sta. Fe, Bantayan, Cebu	**48,730,000**	26,485,000
Meycauyan, Bulacan	**23,540,000**	0
San Roque, Tarlac	**20,210,000**	17,325,000
Aguinaldo & Luna St. Iligan City	**16,760,000**	17,556,000
Sta. Mesa, Manila	**14,996,211**	0
Sucat, Muntinlupa	**12,911,758**	0
ICB Assets - Land	**11,055,023**	0
Philphos Assets-Lide	**935,751**	0
Baliwasan, Zamboanga City	**824,000**	0
San Andres & E. Quirino Ave. Manila	**791,000**	0
Los Baños, Laguna	**750,401**	0
Poblacion, Parang,Cotabato	**250,000**	0
San Jose, Antipolo City	**175,000**	0
Bo. San Juan & Sto Nino Pampanga	**168,000**	0
Suyong, Echangue Isabela	**63,000**	0
Sta. Rosa, Laguna	**19,323**	0
Bo. Langihan, Butuan City	**3,500**	0
Dao, Tagbilaran, Bohol	**1,048**	0
	10,421,095,140	7,306,090,565
Buildings		
Industry & Investment Building	**137,000,000**	162,300,000
NDC Building	**54,060,000**	56,320,000
Manila Luxury Condominium	**8,130,000**	8,614,000
Leyte Port Complex	**1,538,000**	59,913,000
	200,728,000	287,147,000
	10,621,823,140	7,593,237,565

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

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

The rental income earned by the Company from its investment properties under operating leases amounted to P170.798 million and P142.569 for the years 2017 and 2016, respectively.

12. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and Improvements	Buildings & Building Improvements	Furniture &Equipment	Total
December 31, 2017				
Cost				
At January 1, 2017	610,988,253	47,538,809	664,863,224	1,323,390,286
Additions	0	5,660,001	835,474	6,495,475
Adjustments	0	(47,190,711)	(2,278,343)	(49,469,054)
At December 31, 2017	610,988,253	6,008,099	663,420,355	1,280,416,707
Accumulated depreciation				
At January 1, 2017	607,071,689	41,243,329	659,147,619	1,307,462,637
Depreciation for the year	353,369	2,120,428	2,004,660	4,478,457
Adjustments	0	(37,493,658)	(2,117,164)	(39,610,822)
At December 31, 2017	607,425,058	5,870,099	659,035,115	1,272,330,272
Net carrying amount, December 31, 2017	**3,563,195**	**138,000**	**4,385,240**	**8,086,435**
December 31, 2016				
Cost	610,988,253	47,538,810	664,773,040	1,323,300,103
Accumulated Depreciation/ Adjustment	(607,071,689)	(41,243,329)	(659,147,619)	(1,307,462,637)
Net carrying amount, December 31, 2016	**3,916,564**	**6,295,481**	**5,625,421**	**15,837,466**

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

13. OTHER NON-CURRENT ASSETS AND DEFERRED CHARGES

This account consists of:

	2017	2016 (as restated)
Other non-current assets		
Lands not used in operation	**0**	95,995,235
Others	**1,028,373,367**	1,044,732,876
Allowance for impairment	**(961,708,905)**	(963,526,665)
	66,664,462	177,201,446
Deferred charges		
Coal Operating Contract	**42,000,000**	42,000,000
Allowance for impairment	**(42,000,000)**	(42,000,000)
Miscellaneous	**828,305**	828,305
	828,305	828,305
	67,492,767	178,029,751

Lands not used in operation in CY 2016 were all reclassified to investment property at cost on December 31, 2017, since these are lands held for capital appreciation by the Company, except for two agricultural lands located in Don Carlos, Bukidnon and Cuevas, Trento, Agusan del Sur. The two properties were covered by the Comprehensive Agrarian Reform Program (CARP) of the Department of Agrarian Reform (DAR) in 1989 and 1994, respectively. In CY 2017 the subject properties were derecognized in the books and the corresponding receivable was setup against DAR.

Others principally includes assets acquired from the former International Corporate Bank (ICB) amounting to P962.11 million through a Deed of Assignment dated September 16, 1983. ICB sold these assets to NDC as a means of rehabilitating the former pursuant to a Memorandum of Agreement executed by and among NDC, the then Central Bank of the Philippines, the Development Bank of the Philippines and ICB.

Deferred charges - Coal Operating Contract pertains to the project for the exploration, development, exploitation, production and utilization of the country's coal resources pursuant to the Coal Development Program under Presidential Decree No. 972 (Coal Development Act of 1976). NDC acquired the rights, titles and interest to the Coal Operating Project from Vulcan Industrial and Mining Corporation (VIMC). The project, however, did not commence commercial operations and the account had been outstanding since 1980. The amount of the project, which was provided with a full allowance for non-recovery, is part of the accounts requested for write-off from the Commission on Audit. Under COA Decision No. 2015-297, dated November 24, 2015, COA denied NDC's request to write-off the account in the amount of P42 million.

14. ACCOUNTS PAYABLE

This account consists of various expenditures already incurred but remained unpaid as of statement of financial position date in the total amount of P14.809 million and P19.687 million in 2017 and 2016, respectively.

15. INTEREST PAYABLE

This account consists of interest on the following BTr advances and domestic loans:

	2017	2016
Net lending	**381,604,487**	317,690,846
Domestic loan - DOLE Phils.	**4,538,160**	4,538,160
	386,142,647	322,229,006

16. LOANS PAYABLE

This account consists of domestic loans. It includes the P2.276 billion advances granted by the National Government (NG) under the net lending program of the Department of Finance (DOF) for the payment of interest due to bondholders. The amount also includes non-interest bearing loan amounting to P26.591 million payable to the Bureau of the Treasury relating to the National Steel Corporation accounts.

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

The decrease in the account was due to the settlement made by NDC to NG amounting to P1.173 billion pertaining to advances made by the latter for payment of interest due to bondholders of NDC Agri-Agra Bonds, thru the issuance of SARO by the Department of Budget and Management (Note 8).

17. INTER-AGENCY PAYABLES

This account consists of:

	2017	2016 (as restated)
Income tax payable	**3,253,447**	23,107,380
Withholding taxes	**1,928,478**	1,346,680
Due to GSIS	**504,774**	409,079
Due to Pag-IBIG	**45,547**	39,190
Due to Philhealth	**22,663**	20,817
	5,754,909	24,923,146

This account includes income tax payable, taxes withheld from officers and employees, premium payments and other payables for remittance to GSIS, Pag-IBIG and Philhealth.

18. TRUST LIABILITIES

This account consists of:

	2017	2016 (as restated)
Current	**32,557,857**	187,824,615
Non-current	**39,378,067**	42,154,984
	71,935,924	229,979,599

Current account refers to an escrow account for the shareholders of a former affiliate, bid bonds and performance security received from bidders and suppliers.

Non-current account refers to security deposits received from various lessees under long-term lease.

19. DEFERRED CREDITS/UNEARNED INCOME

This account pertains mainly to advance rental received from various lessees amounting to P7.941 million and P14.770 million in 2017 and 2016, respectively.

In relation to the leases with various tenants, advance rentals are received by the Company upon signing of the lease contracts which the lessees can apply to the last three to four months of the leases.

20. PROVISIONS

This account consists of the following:

	2017	2016 (as restated)
Settlement of legal cases	**156,876,221**	156,876,221
Leave benefits	**3,958,881**	3,172,630
	160,835,102	160,048,851

The 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 Development Bank of the Philippines' petition. NDC, through the OGCC, filed a Motion for Extension of Time to File Comment on February 21, 2012. On March 21, 2012, OGCC filed a comment with Motion to Consolidate Case.

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

Leave benefits pertains to the accrual of money value of leave credits earned by NDC employees as of December 31, 2017 and 2016, respectively.

21. OTHER PAYABLES

This account pertains to dividends payable to the National Government amounting to P6.882 million in 2016.

22. DIVIDEND INCOME

This account consists of dividends from the following:

	2017	2016
Asean-Bintulu Fertilizer Sdn. Bhd.	**192,643,574**	1,044,015,391
G.Y. Realty Estate, Inc.	**5,419,813**	0
Batangas Land Company, Inc.	**2,617,000**	11,395,142
Kamayan Realty Corporation	**1,187,670**	3,601,284
Pinagkaisa Realty Corporation	**343,806**	338,179
Science Park of the Philippines, Inc.	**0**	16,657,349
Philippine International Trading Corporation	**0**	8,217,802
	202,211,863	1,084,225,147

The total dividends received for the years 2017 and 2016 amounted to P217.837 million and P1.105 billion, respectively, as reflected in the statements of cash flows.

The difference between the dividend income and dividends received for the years 2017 and 2016 in the total amount of P15.625 million and P20.377 million, respectively, was due to the accounting treatment of dividends from associates which was accounted for as reduction to the cost of investments from associates (Note 10).

23. RENT INCOME

Rental income earned from leases amounted to P170.798 million and P142.569 million in 2017 and 2016, respectively.

24. PERSONNEL SERVICES

This account consists of the following:

	2017	2016 (as restated)
Salaries and wages	**16,597,477**	12,113,224
Other compensation	**5,008,766**	6,240,238
Personnel benefit contributions	**2,176,083**	1,623,996
Other personnel benefits	**1,130,377**	811,267
	24,912,703	20,788,725

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2017	2016 (as restated)
Impairment loss	**22,545,874**	295,499,581
Taxes, insurance premiums and other fees	**21,746,173**	22,944,957
General services	**21,684,065**	21,281,745
Professional services	**10,196,112**	8,573,228
Depreciation	**4,478,457**	4,149,341
Confidential, intelligence and extraordinary	**3,122,468**	3,033,698
Utility	**2,903,492**	2,356,410
Repairs and maintenance	**2,061,987**	4,148,871
Supplies and materials	**1,299,212**	1,322,128
Communication services	**1,213,362**	1,340,387
Training and scholarship	**1,069,428**	1,078,924
Traveling	**828,467**	794,576
Other maintenance and operating expenses	**2,285,075**	2,716,418
	95,434,172	369,240,264

26. OTHER INCOME (EXPENSES)

This consists of the following:

	2017	2016 (as restated)
Gain from changes in fair value of investment property, net	**2,949,906,272**	2,234,771,718
Gain on sale of assets	**36,525,317**	99,176,566
Share in net profit of associates	**35,964,596**	25,047,618
Gain on redemption of investment	**1,770,014**	0
Gain on foreign exchange	**758,098**	6,373,360
Miscellaneous income	**37,637,901**	38,738,601
Financial expenses	**(80,231,810)**	(75,662,286)
	2,982,330,388	2,328,455,577

Gain from changes in fair value of investment property pertains to the net increase in fair value of investment properties based on the appraisal conducted in 2016 and 2017.

Gain on sale of assets pertains mainly to the gain on sale on account of two agricultural properties located in Don Carlos, Bukidnon and Cuevas, Trento, Agusan del Sur which are covered by the CARP of the DAR.

Share in net profit of associates pertains to proportionate share in the profit or loss of investee under investment in associates.

Gain on redemption of investment pertains to the realized gain on the return of investment from PNB Venture Capital Corporation.

Gain on foreign exchange represents the foreign exchange differential arising from the translation of foreign currency denominated items.

27. INCOME TAX EXPENSE

Income tax expense for the years ended December 31 consists of:

	2017	2016 (as restated)
Current	**226,487,937**	257,026,961
Deferred	**739,803,643**	445,502,656
	966,291,580	702,529,617

Reconciliation between statutory tax and effective tax is as follows:

	2017	2016
Income tax at statutory rate	**997,610,101**	969,718,319
Non-deductible interest expense	**7,990,991**	5,598,627
Share in net profit of associates	**(43,271)**	(29,663,358)
Dividend income not subject to income tax	**(2,870,487)**	(12,062,927)
Impairment/share in net loss of affiliates	**(10,789,379)**	(7,514,285)
Income subjected to final tax	**(24,215,124)**	(16,965,537)
Other reconciling items	**(1,391,251)**	(206,581,222)
	966,291,580	702,529,617

An analysis of deferred tax asset and deferred tax liabilities follows:

	2017	2016
Deferred tax assets on:		
Allowance for impairment	**737,227,480**	731,623,190
Unrealized foreign exchange gain	**(227,429)**	(1,912,008)
Deferred tax liabilities on:		
Prepayments	**(286,126)**	(496,696)
Rental receivables	**(19,414,186)**	(20,882,109)
Interest receivables	**(265,802,104)**	(383,752,442)
Investment property	**(2,972,997,198)**	(2,083,755,332)
Net deferred tax liability	**(2,521,499,563)**	(1,759,175,397)

The net current tax payable after applicable creditable withholding taxes is as follows:

	2017	2016
Tax due	**226,487,937**	463,614,223
MCIT carry over	**0**	(4,081,773)
Creditable withholding tax	**(8,100,132)**	(38,072,045)
Income taxes paid for first three quarters	**(216,998,377)**	(342,661,802)
	1,389,428	78,798,603

The expiration date of MCIT and NOLCO follows:

Year Incurred	Date of Expiration	**2017**	2016
2013	December 31, 2016	**0**	102,209,270
2014	December 31, 2017	**0**	143,442,687
2015	December 31, 2018	**13,386,628**	0
		13,386,628	245,651,957

Deferred tax asset from MCIT, is the carry-forward benefit of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT). Excess MCIT can be used within three taxable years from the date of payment.

Deferred tax asset from NOLCO, arises from the taxable loss that can be charged against income of the next three taxable years.

28. SHARE CAPITAL

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

29. DEFICIT

The deficit at January 1, 2016 was restated as follows:

As previously reported	(1,804,677,787)
Adjustments:	
Reclassification of donated capital	112,739,868
Adjustment of provision on receivables recovered	4,195,214
Adjustment of impairment loss	1,928,803
Reversal of dormant accounts payable	1,328,310
Adjustment of depreciation expense	204,886
Recognition of semi expendable equipment expense	(90,184)
Recognition of accrued leave benefits	(3,172,630)
Recognition of deferred tax liability	(1,336,193,265)
	(1,219,058,998)
As restated	(3,023,736,785)

30. NET PROFIT

The 2016 net profit was restated as follows:

As previously reported	2,975,387,570
Adjustments:	
Reclass of various expenses	(20,133)
Recognition of deferred tax expense	(445,502,656)
As restated	2,529,864,781

31. RELATED PARTIES

Key Management Compensation

Key management includes the board of directors, all members of management and other Company officers. Key management compensation totaled P8.231 million and P6.907 million in 2017 and 2016, respectively. A breakdown of these amounts follows:

	2017	2016
Salaries and allowances	**7,769,398**	6,460,095
Other benefits	**461,877**	447,133
	8,231,275	6,907,228

32. COMPLIANCE WITH REPUBLIC ACT No. 7656

Pursuant to Republic Act No. 7656, requiring government-owned or controlled corporations (GOCCs) and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government ((NG), NDC remitted to the Bureau of the Treasury P421.309 million and P41.684 billion in CYs 2017 and 2016, respectively. Similarly, the following NDC subsidiaries remitted total dividends of P9.568 million and P40.210 million in 2017 and 2016, respectively, which represent NDC's share in the dividends, broken down as follows:

	2017	2016
GY Real Estate, Inc.	**5,419,813**	0
Batangas Land Company, Inc.	**2,617,000**	11,395,142
Kamayan Realty Corporation	**1,187,670**	3,601,284
Pinagkaisa Realty Corporation	**343,806**	338,179
Science Park of the Philippines, Inc.	**0**	16,657,349
Philippine International Trading Corporation	**0**	8,217,802
	9,568,289	40,209,756

33. 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, 2017 are as follows:

Title of Case	Nature	Amount	Status
Mero Structures, Inc. vs. Asian Construction FCCC and NDC. (Civil Case No. 02-206 RTC Makati, Branch 145).	Sum of money	P5 million	On May 23, 2016, OGCC filed Comment on the Petition for Review. Awaiting further orders from the court.
NDC vs. JAO & Company. (CA-GR CV No. 50087 Civil Case No. R-81-1226 RTC-Manila, Br. 38).	Sum of money	P7.520 million plus six per cent interest per annum and liquidated damages of five per cent for the principal obligation and interest.	Awaiting RTC's Order on NDC's Motion for the issuance of writ of execution.
Victoria Corcelles Abunda, et al. vs. NDC, et al. (DARAB Case No. X-678-SC-2000).	Reconveyance	No amount involved as the issue to be resolved 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 is ownership.	On November 16, 2017, the defendant was scheduled to present its first witness. Handling counsel attended the hearing. However, defendants counsel manifested that he can no longer locate his client. The Judge ruled that defendants waived their right to

Title of Case	Nature	Amount	Status
			present evidence and directed the parties to submit their Memorandum within 30 days from notice and thereafter the case is submitted for decision.
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)	On October 20, 2016, OGCC, filed a manifestation submitting for the Court's consideration the proposed computation which is compliant with the formula specified in the CA Order.
NDC represented by its Asst. General Manager, Esmeraldo E. Sioson vs. DAR, represented by its Provincial Agrarian Reform Officer (PARO) Pedro P. Gumbao, et al. (DARAB Case No. 10999. Reg. Case No. XI-608-SC-99).	Reconveyance	No amount involved as the issue to be resolved is ownership.	OGCC filed its Motion for Reconsideration of the Courts Decision denying the Petition. On October 9, 2017, Dolefil Agrarian Reform Beneficiaries Cooperative (DARBC) filed its Comment to the petitioner's Motion for Reconsideration. OGCC received the comment on November 21, 2017.
NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15th Division).	Determination of just compensation	P2.737 million	Supreme Court remanded the case to RTC for the determination of just compensation.
Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, OrmocCity).	Determination of just compensation	Per Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately	On May 18, 2017, OGCC received a copy of the April 24, 2017 Resolution noting that without the submission of

Title of Case	Nature	Amount	Status
		P3.2 million (principal only)	Defendant-appellee PASAR appellant's brief, declare the case submitted for decision.
NDC vs. Commissioner of Internal Revenue. (DOJ Case No. 91-06).	Refund of taxes	P0.660 million	Submitted for DOJ's resolution. OGCC has yet to receive the CIR'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 is ownership.	On January 7, 2014, OGCC received a Resolution dated November 19, 2013 directing the Division Clerk of Court to issue an Entry of Judgment in this case.
Mateo Rubio et al. vs. DOLE Phils., et al. (DARAB Case No. XII-1067-SC-2009).	For Declaration of Nullity of Transfer, Recovery of Possession Cancellation of Title of Lot No. 65 (1161) PLS 247-D	No amount involved as the issue to be resolved in this case is ownership.	Filed Answer with Compulsory Counterclaim on August 20, 2009. As of December 31, 2017, no further court order or any related document has been received.

Title of Case	Nature	Amount	Status
Teodora Denila vs. NDC/DOLE, DARBCI (RTC Br. 36, Gen San City)	Action for annulment of title	- P2.541 million as back rentals - Rental from 1996 up to the present - 20 per cent Attorney's fees	The RTC ruled in favor of the Complainant. NDC and the other defendants filed their respective Motion for Reconsideration. Awaiting the ruling of the RTC on the Motion filed by the defendants

34. GENDER AND DEVELOPMENT (GAD)

The Company allotted P230,000 for Gender and Development (GAD) program for CY 2017. 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.

35. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, hereunder are the information on taxes, duties and license fees paid during the year:

a. Taxes and licenses (National and Local):

Real estate tax	18,331,761
Mayor's permit	1,101,016
Community tax certificate	10,500
Annual registration-BIR	500
	19,443,777

b. Withholding taxes paid:

Tax on compensation	3,690,939
Creditable withholding taxes	2,238,737
	5,929,676

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **The Company failed to achieve its targets/commitments for the years 2016 and 2017, as contained in the NDC Performance Agreements with the Governance Commission for GOCCs (GCG), obtaining a rating of 62.78 per cent and 52 per cent, respectively.**

   The National Development Company (NDC) was established as a semi-private corporation on March 10, 1919 through Legislative Act No. 1248. It became a public corporation through Commonwealth Act No. 182 on November 30, 1936. Presidential Decree No. 1648 issued on October 5, 1979 revised the NDC Charter and reorganized NDC to be restructured and strengthened in order to give necessary impetus to national economic development. Further, Executive Order No. 184 dated March 10, 2003 was issued reorganizing and streamlining NDC to redirect and refocus its thrusts and priorities to position the country's competitive advantage in the international environment by assisting in the efforts to market it as a premier investment site and to synchronize its tasks with the Department of Trade and Industry's concerns and policies.

   The Company's mandate is to undertake vital projects when necessary or when the private sector is not willing or able to undertake such projects due to high risks or to lack of funds/resources, on its own or in joint venture with the private sector.

   To set the objectives clearly and measure NDC's performance, the Company negotiated a Performance Agreement for 2017 with GCG. Result of the negotiation between NDC and GCG disclosed that the NDC charter statements were maintained as follows:

   Mission Statements:

   a. NDC invests in select strategic areas where supply chain gaps exist.
   b. NDC manages a financially sustainable investment portfolio responsive to public interest and priorities.
   c. NDC undertakes joint venture agreements to promote and enhance the competitiveness in the industry and agriculture sectors.

   Vision Statement:

   By 2019, NDC will be the preferred government investment arm, serving as an effective catalyst for inclusive growth.

   Core Values:

   Passion, Integrity, Commitment, Excellence, and Financial Prudence

   Moreover, NDC negotiated with GCG the following strategic objectives, strategic measures and targets to be accomplished in CY 2017 with a target weighted-average score of at least 90 per cent. For comparison purposes, the data for actual accomplishments and the actual rating obtained as validated by the Audit Team were provided. Details in the next page:

Perspective	Strategic Objectives (SO)	Strategic Measure (SM)	Weight	Target	Actual Accomplish-ment	Rating
Social Impact	SO1- Increase Value of Investments in Priority Sectors	SM1- Increase of investment funds in priority areas (agriculture and renewable energy)	20%	75%	0	0
Financials	SO2- Sustain Profitability	SM2- Net Profit Margin	15%	45%	92%	15%
	SO3- Generate Funds from Asset Management	SM3- Sales proceeds for the year	5%	P8.7 M	P 4.704 M	2.70%
		SM4- Lease income	5%	P150 M	P165.80 M	5%
	SO4- Optimize the Economic Value of Portfolio Investments	SM5- Return on Investments	10%	33%	29%	9%
Internal Process	SO5- Enhance Investment Opportunities of Stakeholders	SM6- Percent of Stakeholders who rated NDC as good or better	5%	100%	100%	5%
	SO6- Strengthen Investment Management Capacity	SM7- Increase the utilization rate of budgeted investment funds for Board-approved projects	15%	100%	0	0
	SO7- Forge Partnerships with Foreign and Local Groups for Various Investments	SM8- Percentage of agreements signed after compliance with all the legal requirements of both parties within the applicable time	10%	100%	0	0
		Learning and Growth	SO8- Build a High Performing Team Culture	100% of deliverables	Passed	5%
		SM10- Establishment of a Competency Model	5%	Established Baseline	Passed	5%
	SO9- Institutionalize the Quality Management System	SM11- ISO 2015 Certification	5%	70%	Passed	5%
Total			**100%**			**52%**

Based on the foregoing table, NDC has obtained a rating of 52 per cent only, which is way below the 90 per cent target weighted-average rating negotiated with GCG. The reasons for NDC's unsatisfactory performance and achievement of such rating were attributed to the following:

a. No investments were made in priority areas (agriculture and renewable energy) since no investments were approved by the NDC Board of Directors as indicated in SO1;
b. There was no increase in the utilization rate of budgeted investment funds since no funds were released or utilized for Board-approved projects as shown in SO6; and
c. There were no partnership agreements signed or entered by NDC for various investments as depicted in SO7.

In all the three cited Strategic Objectives (SOs), NDC obtained zero ratings which adversely affected its overall rating considering that the said SOs have bigger weights. We noted that in the 2016 NDC Performance Scorecard, where NDC obtained a rating of 62.78 percent as validated by GCG, NDC also got zero ratings in the said three SOs.

We recognized that Management had presented to the Board of Directors (BOD), in its meeting on January 6, 2017, the proposed 3.0 megawatt mini-hydropower project in Siaton, Negros Oriental, which is said to be a project in its priority area of investment. However, after careful evaluation by the members of the BOD, the said project was disapproved because the proponent has no power-related projects or has no experience in the said industry.

The absence of investments in priority areas which should have been made by NDC showed that it may not have been performing its mandate as an investment arm of the government. If this deficiency will continue and will not improve, NDC may lose its relevance since it was not able to invest in projects that would be responsive to public interests and priorities as mandated for the last two years.

The table also shows that NDC failed to meet its target of P8.7 million proceeds from sale of assets being short by P3.996 million, while its return on investment is only 29 per cent, compared to the 33 per cent target for the year.

On the other hand, we commend Management for attaining a substantially high net profit margin of 92 per cent and lease income of P165.800 million which both exceeded the targets of 45 per cent and P150.000 million, respectively. During the year, NDC was also able to implement a Knowledge Management Information System, established a Competency Model Framework in its human resource system and passed the ISO 2015 certification audit.

In view of the foregoing, we recommended that Management:

a) Initiate necessary actions to improve its performance in succeeding years;

b) Exert efforts to look for proponents of viable investments in priority areas to fulfill its mandate; and

c) Develop or devise strategies that would expedite processes from investments/projects proposal evaluation up to implementation.

Management comment

Management commented that NDC had investment undertakings/activities and exerted efforts in the pursuit of its mandate. There were just project constraints beyond NDC's control that derail the full cycle of investments, from planning to implementation. Nonetheless, NDC continues to explore for additional investment opportunities within its mandate.

Our rejoinder

While we take cognizance of Management's explanations and efforts exerted to achieve its targets/commitments for CY 2017, those efforts may not be enough as evidenced by its rating of only 52 per cent. We maintain our recommendation to take necessary actions to improve its performance and at the same time, remain to be relevant as an investment arm of the government.

2. **The payment of P25,000 each or a total of P575,000 to NDC officers and employees representing the Collective Negotiation Agreement (CNA) Incentive for CY 2016 is not in accordance with the conditions for the grant specified under Department of Budget and Management (DBM) Budget Circular No. 2016-7 dated December 1, 2016.**

DBM Budget Circular No. 2016-7 re: Guidelines on the Grant of Collective Negotiation Agreement (CNA) Incentive for FY 2016 provides the conditions for the grant of the CNA Incentive. It reads as follows:

> 4.0 Policy Guidelines
>
> 4.1 Conditions for the Grant of the CNA Incentive
>
> 4.1.1 Existence of a CNA – xxx
>
> 4.1.2 Accomplishment of Targets – (a) xxx
>
> (b) GOCCs covered by RA No. 10149 should have accomplished, by October 31, 2016, **at least an average of 70 per cent** of all the targets under their respective Performance Scorecard as agreed upon between the Governance Commission for GOCCs (GCG) and the GOCC pursuant to GCG Memorandum Circular No. 2013-02 (Re-issued) dated June 24, 2014. Xxx
>
> 4.1.3 Submission of Accountability Reports – xxx

One of the conditions set by the DBM for the grant of CNA Incentive is the accomplishment of targets. For GOCCs, this means an accomplishment of at least an average of 70 per cent in all the targets under their respective Performance Scorecard as of October 31, 2016 as agreed upon between GCG and the GOCC.

NDC granted CNA Incentive amounting to P575,000 for CY 2016 under the following check/journal vouchers:

- CV 101-17-03-20 and 21 dated March 3, 2017 amounting to P12,500 paid to two separated employees;
- JV 03-04-2017 dated March 10, 2017 amounting to P537,500 credited to the LBP payroll accounts of NDC officers and employees; and
- JV 03-20-2017 dated March 24, 2017 amounting to P25,000 included in the last pay of a transferred employee from the Legal Department.

Based on the supporting documents attached to JV 03-04-2017, NDC had accomplished an average of 71 per cent and 77 per cent as of October 31, 2016 and December 31, 2016, respectively. There was also another attachment which presented a detailed computation of ratings on accomplishments showing an average of 74 per cent as of October 31, 2016. Whichever of the two documents is to be used, it reflected that NDC met the condition of accomplishing at least 70 per cent of all the targets as of October 31, 2016.

However, on January 26, 2018, the Audit Team received a letter from GCG dated January 17, 2018 re: Validation Result of CY 2016 Performance Scorecard of NDC presenting the validation result of NDC's CY 2016 Performance Scorecard. Based on the validation dated May 29, 2017, NDC gained an over-all score of 62.78 per cent. The validated result which is lower than NDC's basis in granting the CNA Incentive for CY 2016 prompted the Audit Team to review the computation made by NDC against the validated result of GCG. The result of the comparison is as follows:

Objectives/Measures		Weight	NDC Rating October 31, 2016	GCG Rating December 31, 2016
SM1	Increase in investment funds in priority areas, such as power and logistics per annum	15%	15%	0
SM2	Cumulative total value of projects preferably in Priority Areas	15%	9.70%	6.63%
SM3	Net Profit Margin	10%	10%	10%
SM4	Sales Proceeds for the year	5%	5%	5%
SM5	Lease Income	5%	4.24%	4.87%
SM6	Return on Investments	10%	10%	10%
SM7	Percentage of JV partners/proponents who rated NDC good or better as partner	5%	0	5%
SM8	Increase the utilization rate of budgeted investment funds for Board-approved projects (Removed in the validation of GCG)	10%	10%	0
SM9	Average TAT for JV or partnership agreements for signing after approval of the Board	10%	0	0
SM10	PGS Certification	5%	5%	5%
SM11	Establishment of a Competency Model	5%	0	5%
SM12	ISO Certification for all process	5%	5%	5%
		100%	73.94%	56.50% out of 90%
	Validated Rating			**62.78%**

The major difference between the two ratings was the rating for SM1 - Increase in investment funds in priority areas, such as power and logistics per annum, where NDC rated itself a perfect point of 15 per cent while GCG gave zero rating because NDC had no investment in priority areas that was approved by the BOD. Therefore, there is no way that NDC could have passed the minimum condition of 70 per cent accomplishment for granting CNA Incentive. Even if the 5 per cent points each for SM7 and SM11 would be considered, NDC's recomputed rating of 68.94 per cent still falls short of the requirement.

It bears attention to note that the 10 per cent weight allocation for SM8 was removed in the validation of GCG, thus the adjusted total weight was 90 per cent. To reflect this on the recomputed rating of 68.94 per cent above, the 10 per cent score must first be subtracted and the difference should be divided by 90 per cent to get the adjusted rating which is now at 65.49 per cent [(68.94-10)/90 per cent].

Putting it differently, if the overall accomplishment of targets for the year is at 62.78 per cent, it is impossible to have an accomplishment higher than that in any given period during the year. Additionally, the validated rating of GCG is more compelling being an independent body and has no conflicting interest to the grant of CNA Incentive. Finally, this rating is the official basis for the measurement of NDC's performance.

Considering NDC's failure to meet the minimum required rating in their Performance Scorecard, which is one of the conditions for the grant of CNA incentive, we are constrained to issue a disallowance on the amounts paid therefor. Henceforth, we recommended that Management refrain from granting CNA incentive without fully complying the conditions set by DBM for the grant of the same.

Management's comments

NDC averred that it had diligently adhered to its execution plan with the year-end targets in mind. This adherence is monitored during all work groups' monthly operational and quarterly strategy reviews. Based on their monitoring tools, NDC has a computed rating of 74 percent as of October 2016. The said rating is above the 70 per cent of all the targets under the performance scorecard required to grant the CNA incentives by which the COA takes note of. The discrepancy between NDC and COA's computation of the 70 per cent was based on the GCG's validation of NDC's performance scorecard.

The Company stated that GCG failed to consider the following:

- Board approval of the Daram Aqua-Culture Project under SM1, which is the increase in investment funds per annum (15 per cent). GCG did not consider it as an investment since it fell under Corporate Social Responsibility (CSR). However, the NDC Chairperson's directive to NDC in the implementation of the CSR was that it should not be a philanthropic but be treated as a usual investment with minimal returns to NDC investments;

- The operative word of "cumulative" for SM2 should be taken into consideration (9.51 percent); and

- The finalized MOA between NDC and PNOC RC (10 per cent).

NDC will file an appeal with GCG for its re-consideration of the above-mentioned items as soon as the completion of additional supporting documents are in order.

Our rejoinder

We maintain our observation that the grant of CNA Incentive is not in accordance with the conditions for the grant specified under DBM Budget Circular No. 2016-7 dated December 1, 2016.

The NDC's rating of 74 per cent as of October 2016 is based on its self-assessment only and may be impartial as it would be the basis for the grant of CNA Incentive. Interestingly, for the year ended 2016, NDC submitted to GCG a self-rating of 66.87 per cent. Based on GCG's validation result, NDC gained an over-all score of 62.78 per cent. Logically, if the validated rating for the year is 62.78 per cent, it is impossible to have a rating higher than that at any given point during the year. Granting, without conceding, that NDC has merits to appeal, the Audit Team noted that Management did not act the moment they received the validated rating by GCG on January 26, 2018, considering that GCG had conducted onsite validation on May 29, 2017 after NDC had been required to submit all the necessary documents. Our observation remains based on existing and verifiable supporting documents.

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

Ocular inspection was conducted on selected landholdings of the Company based on the Schedule of Lands and International Corporate Bank (ICB) Acquired Assets submitted by the Asset Management Group. The properties inspected are as follows:

Location	Land Use	Area (sq. m.)	Book Value
Kamagong & Sampaloc Streets, Makati City	Commercial	1,256	P 69,080,000.00
Pasong Tamo & Rosa Streets, Makati City	Commercial	1,526	251,790,000.00
Pandacan, Manila	Commercial	50,138	1,005,876,000.00
San Andres & E. Quirino Ave., Manila	Commercial	1,318	791,000.00
Diliman, Quezon City	Commercial	1,013	59,708,000.00
San Francisco del Monte, Quezon City	Residential	623	1,284,660.03
Sucat, Muntinlupa	Industrial	39,851	12,911,757.30
Mariveles, Bataan (Batangas II, Alas Asin)	Residential	17,745	638,351.09
Hermosa, Bataan	Agricultural	54,892	10,963.40
Meycauayan, Bulacan	Commercial	5,231	23,540,000.00
San Fernando, Pampanga			
San Juan	Commercial	1,526	168,000.00
Bo. Dolores	Residential	1,139	56,370.70
San Felipe	Residential	877	4,058.06
Lacson & Rizal Streets, Bacolod City	Commercial	1,583	67,620,000.00
San Juan St., Bacolod City	Commercial	13,197	211,152,000.00
Bo. Langihan, Butuan City	Agricultural	24,734	3,500.00
Talakag, Bukidnon	Residential	450	15,277.43
Total		**217,099**	**P1,704,649,938.01**

Ocular inspection revealed that, except for some properties which are covered by lease contracts, located in Pasong Tamo and Dela Rosa Sts., Makati City; Pandacan, Manila; Diliman, Quezon City; and Lacson and Rizal Sts., Bacolod City, the other lands are either vacant, used for personal purposes or with illegal structures used as residence by the occupants as follows:

Location	Condition
1. Kamagong & Sampaloc Streets, Makati City	Half of the property is still vacant while the other half is leased to PAJ Restaurant Group Corporation. The property is suitable for business, thus, the potential earning of the other half is not maximized. During the inspection, we noted the advertisement for lease posted by NDC for the subject vacant area.
2. San Andres & E. Quirino Ave., Manila	The 140-sq. meter area of the property, located in prime location, is covered by a short-term lease contract for parking purposes, while the remaining areas are held vacant. The property is ideal for business purpose. During the ocular inspection, we also noted an advertisement for lease posted in the property premises.
3. San Francisco, Del Monte, Quezon City	The whole property is fully occupied by illegal settlers whose houses are made of light materials.
4. Sucat, Muntinlupa	This is an almost four-hectare property which was developed into a housing subdivision by virtue of a Joint Venture Agreement (JVA) executed by and between NDC and New San Jose Builders, Inc. on October 23, 1993. Upon ocular inspection, we observed that a portion of the property was used as jeepney terminal. Accordingly, such area was leased by the jeepney operators' association from New San Jose Builders, Inc. A building was also constructed right behind the jeepney terminal and is being used as office of a security agency which is not associated with New San Jose Builders, Inc. Scrutiny of the JVA disclosed that leasing of the subject property to any party is not among the responsibilities of New San Jose Builders, Inc. Such act belongs to NDC being the owner of the property. Its responsibility is mainly to develop and construct housing units and marketing thereof.
5. Batangas II, Mariveles, Bataan	This consists of two non-adjacent parcels of land located along the Roman Highway which are both vacant.
6. Hermosa, Bataan	This is a five-hectare property retained by Comprehensive Agrarian Reform Program. The area along the barangay road was occupied by informal settlers whose houses were made of light and concrete materials. The bigger portion of the property is vacant which serves only as pasture for animals. During the ocular inspection, we noticed few houses erected at the back end portion (area not along the barangay road) of the property. However, we cannot ascertain whether such portion is still part of NDC property or not. A relocation survey should be made to determine the property boundaries and to

Location	Condition
	ascertain whether these settlers have encroached upon the property.
7. Meycauayan, Bulacan	The property, covering 2,000 square meters, is partially leased out to Mr. Felix Vaal for his junk shop business. However, upon inspection, we noted that said lessee occupied almost the whole area of the property. The subject lessee should have been charged additional rental for the other area he illegally occupied for his business.
8. San Juan, San Fernando, Pampanga	The property is located near the National Highway, thus, suitable for business. A portion covering 247.50 square meters was leased to Mr. Romeo B. Naguit, while the larger portion of the property is vacant.
9. Bo. Dolores, San Fernando, Pampanga	The property is located inside a subdivision. It is enclosed by concrete fence and serves as a recreational area of the residents, where a basketball court, stage and small multi-purpose building were constructed. Also, erected in the property is the Dolores Homesite Material Recovery Facility where recyclable waste materials were segregated. It was noted that the Dolores Homesite & Extension Homeowner's Association, Inc. does not pay rental to NDC for the use of the property.
10. San Felipe, San Fernando, Pampanga	The property is located along the San Fernando River. It is occupied by informal settlers whose houses are made mostly of concrete materials.
11. San Juan St., Bacolod City	This more than one-hectare property is vacant although security guards are posted by NDC to avoid possible entry of illegal occupants. Tall grasses have grown in the area. The property is also suited for commercial purposes since it is located near the City. Conversation with the security guard revealed that a number of persons have inquired and seemingly have manifested interests to lease portion of the property.
12. Bo. Langihan, Butuan City	The property measuring more than two hectares, consists of two non-adjacent lands. Several houses (estimated at 20-30 houses) made of light materials were erected in the property. Some of the areas were tilled by the occupants for rice production.
13. Talakag, Bukidnon	This property is a residential lot occupied by a certain Ireneo Enong, where one old house was erected.

The existence of the above-stated conditions, particularly the unauthorized use by the settlers for residential, commercial, recreational and agricultural purposes of these properties, deprived NDC of potential rental income that could have been used for its operating activities.

Moreover, the prolonged vacancy and idleness of those lands located in prime locations resulted in foregone income. This only shows that the Company has not managed these properties effectively and efficiently.

On the other hand, we commended Management for being updated in paying realty taxes in all the above stated properties. Having paid the real property taxes religiously, the Company had avoided unnecessary charges in the form of penalties.

In view of the foregoing, we recommended that Management:

a) Intensify marketing efforts to maximize the use of idle lots and exercise extra efforts to clear the areas of unauthorized settlers in coordination with government agencies;

b) Find alternative uses of those vacant properties not suitable for commercial purposes or project development or dispose them thru sale;

c) Expedite the process of the Community Mortgage Program for those properties with organized informal settlers to ultimately dispose such properties;

d) Make representations with the New San Jose Builders, Inc. to collect rental from the lease of the portion of the property by the jeepney operators' association and from the security agency that occupies the property without authority;

e) Make representations with the lessee and the Dolores Homesite & Extension Homeowner's Association, Inc. for properties in Meycauayan, Bulacan and Bo. Dolores, San Fernando, Pampanga, respectively, to collect rental from them;

f) Demand the occupant of the Talakag, Bukidnon property to vacate the same; and

g) Engage the services of a Geodetic Engineer to conduct relocation survey of the properties in Hermosa, Bataan.

Management took note of the COA observations pertaining to selected NDC properties.

4. Non-operational NDC subsidiaries continue to exist.

Section D Nos. 15.2 (d) and 16.1 of GCG Memorandum Circular No. 2012-06 dated September 2012 re Ownership and Operations Manual Governing GOCCs provide that:

"D. Role and Responsibilities of GOCCS

ART. 14. x x x

ART.15. Governing Board Primarily Responsible for Corporate Governance - The Governing Board of every GOCC shall be primarily responsible for the management and operation of the GOCC inasmuch as:

15.1. x x x

15.2. The members of the Governing Board of every GOCC have been imposed by law with the fiduciary duties to:

(a) x x x

(b) x x x

(c) x x x

(d) Hold a trustee relation with respect to the properties interests and monies of the GOCC. (emphasis supplied)

ART. 16. Particular Obligations of the Governing board. – Governing Boards, shall ensure that they perform their statutorily-defined role as the State's agents in pursuing economic growth and development within the GOCC Sector, by-

16. 1. Ensuring that government assets and resources are used efficiently and that government exposure to all forms of liabilities and subsidies is warranted and incurred through prudent means, (emphasis supplied)

Note 10 to the Financial Statements disclose Investments in Subsidiaries amounting to P1.672 billion with an allowance for impairment of P1.270 billion. We noted that among these investments in subsidiaries have been non-operational from two to 16 years. These subsidiaries were approved for dissolution/ceased operations. These are:

- Manila Gas Corporation (MGC) - non operational for 16 years
- Inter-Island Gas Services, Inc. (IIGSI) - ceased operation for 16 years
- First Cavite Industrial Estate, Inc. (FCIEI) - non operational/approved for dissolution on September 15, 2015
- NDC-Philippine Infrastructure Corporation (NPIC) - non-operational for seven years

Manila Gas Corporation (MGC)

MGC ceased its operations in dealership on December 31, 2001 and the commercial and industrial on January 31, 2002 due to continued financial losses. MGC has been winding down operations since 2002.

MGC had a 12,270.80 sq. m. real estate property in Paco, Manila recorded in the books at a fair value of P158.545 million based on an appraisal made in August 2012. The property has been a subject of dispute between MGC and Spouses Santiago and Libertad Cua where the latter filed a case against MGC for specific performance with damages and wanted to compel MGC to sell the subject property at a price of P5,176.49 per sq. m.

The Manila Regional Trial Court (RTC) in its decision on June 26, 2012 ordered MGC, among others, to comply with its obligation to sell the Paco property to the plaintiffs in accordance with the terms of their 1992 Agreement, which decision was affirmed by the Court of Appeals and later by the Supreme Court on August 24, 2015 under GR No. 214914.

On September 23, 2016, MGC received a notice of demand and writ of execution in favor of the Cuas from RTC. The same court issued a resolution on November 23, 2016, ordering the sale and conveyance of ownership of the property to Spouses Cua for a purchase price of P5,176.49 per sq. m. and directed the Registry of Deeds to register the property in the name of the plaintiffs and appointed the Sheriffs to sign the Deed of Absolute Sale in behalf of MGC. The RTC denied the Motion for Reconsideration and Stay Execution of RTC's decision which MGC filed on December 19, 2016.

In February 2017, the Spouses Cua caused the execution of the Deed of Sale and the cancellation and transfer of the Transfer Certificate of Title in their favor and took the possession of the property in March and May 2017, respectively, based on a Notice to Vacate and Writ of Possession issued by the RTC. On May 26, 2017, the OGCC filed a Petition of Certiorari with the Court of Appeals in behalf of MGC which seeks for the reversal and annulment of the sale, conveyance, delivery of ownership of the subject property to Spouses Cua at a price of P63.520 million which is less than its fair market value. The amount was deposited by Spouses Cua with the RTC Branch 39, Manila as payment for MGC's real estate property.

In 2017, MGC already disposed its remaining inventories located at the Paco property. The real estate property was derecognized in MGC's books following the court decision granting ownership and possession to Spouses Cua.

Inter-Island Gas Services, Inc. (IIGSI)

Commercial operations ceased on December 31, 2001 due to continued financial losses. Application for business termination was approved by the City Treasurer of Manila under Retirement No. 0301-6259 dated January 15, 2003. Since 2002, IIGSI has been winding down operations. Cases were filed to recover receivables from debtors but to no avail except for one where a mortgage annotation on a land title was found.

IIGSI has a remaining property located at Mandaue, Cebu with an aggregate area of 11,657 square meters. The property is for sale and has undergone three failed biddings, twice in 2005 and once in 2006. The sale of the property was deferred to take advantage of more favorable market conditions. Based on the appraisal made by the Development Bank of the Philippines in September 2013, the fair market value of the property is P18.65 million, or P1,600 per sq. m.

The NDC Board, in its meeting on December 10, 2013, approved to sell the property at a minimum price of P56.20 million based on its zonal value. Relative to this, IIGSI has sought the guidance of the Privatization Council (PrC) on the latter's policy on the adoption of the zonal value as the minimum price for the sale of the IIGSI property considering the disparity between the fair market value and zonal value. PrC indicated that pricing may be based on two or three comparative appraisals. The property was correspondingly appraised for P19.80 million and P43.13 million in October 2014 by two independent appraisers. In May 2017, the property's fair market value based on an updated valuation conducted by two independent appraisal companies is P58.28 million and P78.11 million.

In December 2015, the Corporation sought the opinion of the Securities and Exchange Commission (SEC) on how MGC, as stockholder and creditor of IIGSI, may effect the liquidation or sale of the property since the corporate life of both Corporations have already expired. On April 20, 2016, the SEC opined that the respective BOD of MGC and IIGSI at the time of dissolution may act as trustees in liquidation or may appoint a trustee for the purpose of liquidating its assets. In the event that the Board of MGC and IIGSI are unable to perform their duties as trustees in liquidation, MGC as stockholder may file a petition for the appointment of a liquidator with the courts.

Since the IIGSI Board at the time of IIGSI's dissolution is no longer connected with MGC, OGCC's opinion was sought on November 2, 2016 if the current MGC Board of Trustees may legally pursue the sale of the Cebu property. The OGCC recommended that MGC, being the sole owner of IIGSI, may elect members of the IIGSI Board of Trustees for the purpose of winding up its affairs and to complete the liquidation of its assets. In February 2018, NDC Board approved the appointment of IIGSI Trustees.

First Cavite Industrial Estate, Inc. (FCIEI)

The Company's sole industrial estate project was completed and sold out in 1995. Since there were no expansion and new development plans, the stockholders decided to downsize and wind up the Company's operations.

In December 2000, the NDC Board approved the development of NDC's 19.2 hectares of land located at Humayao, Dasmariñas, Cavite, (the Project) as an expansion of FCIE. In its March 2002 meeting, the NDC Board, approved to defer the dissolution of FCIEI, considering that FCIEI is the most logical corporate vehicle to undertake the development of said NDC property.

On October 25, 2013, the FCIEI BOD approved the Memorandum of Agreement (MOA) between NDC and FCIEI for the implementation of the Project. On the same date, the FCIEI held a Stockholders' meeting approving the increase in the Company's authorized capital stock from P10 million to P200 million for GCG's endorsement for the SEC's approval.

NDC requested the GCG's endorsement to the SEC for the increase in the authorized capital stock of FCIEI; however, the GCG informed NDC that, with respect to FCIEI, the Commission has recommended to the Office of the President its abolition and the disposition of its assets by NDC.

In a meeting in Malacañang on January 23, 2015, where the GCG presented to President Benigno Simeon Aquino III its recommendation on NDC subsidiaries, the President approved in principle the dissolution of the FCIEI, subject to the proper settlement of its outstanding liabilities to PEZA. The approvals on the dispositive action on the NDC subsidiaries shall be issued by the GCG.

On June 4, 2015, the FCIEI Board approved the dissolution of the Company. The NDC Board also approved its dissolution on September 30, 2015.

The Office of the Deputy Executive Secretary and GCG called for meetings to find ways to settle FCIEI's liabilities. These liabilities represent PEZA administrative fees and the accrued interest charges of P15 million as of May 31, 2015. FCIEI does not have enough money to settle its liabilities. The GCG recommended that a MOA be executed between

PEZA and FCIEI for the settlement of liabilities. The MOA had been given due course by the Office of the Government Corporate Counsel (OGCC) under its Contract Review No. 213, series 2015, dated July 13, 2015. Based on the MOA, dated March 7, 2016, FCIEI shall make a partial payment of P3 million to PEZA to stop the incurrence of interest charges. (Earlier, on November 23, 2015, FCIEI paid P3 million to PEZA.) The remaining balance of the liability to PEZA amounting to P12.672 million shall be addressed by the Technical Working Group which will convene once the President formally approves FCIEI's dissolution.

Inquiry from Management disclosed that it has made several verbal follow-ups from GCG on the formal approval of the President on the dissolution of the Company.

NDC-Philippine Infrastructure Corporation (NPIC)

On November 14, 2007, the NDC Board resolved to dissolve NPIC. Relative to this, the then newly-nominated members of the BOD of NPIC, in its meeting on May 9, 2008, resolved to shorten its corporate life up to December 31, 2008. NPIC personnel were terminated effective August 8, 2008. However, on August 28, 2008, the BOD of NPIC resolved to hold in abeyance the implementation of the resolution shortening the corporate life of the Corporation until further notice. Finally, at the regular meeting of the NPIC Board and at the special meeting of the stockholders, both held on May 13, 2009, it was resolved that the term for which the Corporation is to exist be until July 31, 2009.

In relation hereto, NPIC applied for the cancellation of its Tax Identification Number (TIN) in 2009 and later was approved by the Bureau of Internal Revenue. Moreover, it did not renew its business permit anymore.

When the Public Private Partnership (PPP) program became a priority agenda of the Aquino Administration, the then NDC Chairman decided to put on hold the dissolution of NPIC as the same could be a vehicle in the implementation of the PPP program of the government.

However, in 2013, the GCG submitted its recommendation to the Office of the President (OP) to dissolve NPIC. Relative thereto, on June 26, 2013, the NDC Chairman requested for GCG's consideration on the continuance of NPIC's existence, as NDC envisioned NPIC to take an active role in the implementation of the programs of NDC and the government primarily in joint venture undertakings with the private sector in areas related to industry and infrastructure.

On February 12, 2014 and on September 8, 2014, and as requested by the OP, NDC provided further justification for the retention of NPIC.

On January 23, 2015, a meeting was held in Malacañang, where the GCG presented to then President Benigno Aquino III its recommendation on NDC subsidiaries. In said meeting, then President Aquino recognized the need to retain NPIC. The approval on the dispositive action on the NDC subsidiaries shall be officially issued by the GCG but documentation of said action was not received. Management disclosed that they have made several verbal follow-ups with GCG in 2017.

On January 5, 2018, during the initial conference of the Audit Team for the audit of subsidiaries, we reminded that they should not rely only on verbal follow-ups. They must send a follow-up letter to the GCG. With the change in the Administration, the President might have different directives.

On January 18, 2018, Management of FCIE and NPIC made a written follow-up to GCG. Both corporations are still awaiting approval on the dispositive action from the GCG.

The above subsidiaries are among the assets of NDC under Investment in Subsidiaries account. Being the parent company, it is NDC's responsibility to protect and safeguard these investments. Hence, there is an urgent need to expedite the dissolution of these non-performing subsidiaries to avoid unnecessary expenses due to continued existence.

In view of the foregoing, we recommended that Management:

a) Require MGC to identify its creditors and settle obligations due to them amounting to P498,305. If this is not possible after exerting due effort, consider the pronouncement under PD 1445, Section 98 - Reversion of unliquidated balances of accounts payable;

b) Require IIGSI to expedite the possible foreclosure of a 314 sq. m. property located in Alabang, Muntinlupa registered in the name of Lamberto and Marina Montalbo containing a 1988 annotation on the original Transfer Certificate of Title (TCT) of mortgage to MGC for P800,000;

c) Make representation with GCG on the dispositive action on NPIC and the approval of the dissolution of FCIE;

d) Prepare and implement plan of actions with timelines relative to the disposition of non-operational NDC subsidiaries; and

e) Expedite the dissolution of these non-performing assets once approval is secured.

Management comments

- MGC's net asset value as of December 31, 2017 is greater than NDC's cost of investment, hence no allowance for impairment was provided for in NDC's books.

- NDC will coordinate with MGC and IIGSI for the write-off of fully impaired accounts receivable in accordance with the guidelines and procedures under COA Circular No. 2016-005 dated December 19, 2016 so that both companies may file the necessary request for authority to write-off dormant accounts with COA. The same goes with the fully impaired inventories of IIGSI which may be disposed/removed from the company's books.

- NDC will bring to the MGC's attention the outstanding obligations so that the same may be settled/paid, or reverted back to the Retained Earnings account, if the creditors could no longer be identified, claims have prescribed, or there exist other conditions to justify the action.

- With regard to the 324 sq. m. property owned by Sps. Montalbo, which is mortgaged to MGC, NDC will bring this to the latter's attention for it to continue to exert efforts to negotiate the settlement of Montalbo's obligation with the heirs.

- FCIE has been following up the status with GCG and was informed that the approval will be issued in May 2018.

- NPIC is awaiting the approval of the dispositive action from the Office of the President through the GCG.

5. **Of the total Rental Receivable account of P64.714 million, P52.383 million or 81 per cent is considered doubtful and P12.526 million of this Receivable have been dormant for several years.**

As of December 31, 2017, Rental Receivable had a book value of P64,713,952 with corresponding allowance for doubtful accounts of P52,383,481 or a carrying amount of P12,330,471. The Audit Team categorized the account as follows:

	Rental Receivable	Allowance for Doubtful Accounts	Carrying Amount
Dormant Accounts	12,526,477.82	12,526,477.82	0
Current Lessees - with doubtful accounts	45,892,886.83	39,857,002.79	6,035,884.04
Current Lessees	6,294,587.11	0	6,294,587.11
	64,713,951.76	52,383,480.61	12,330,471.15

The "Dormant Accounts" have shown no movement for several years. The breakdown of the dormant Rental Receivable account is shown below:

Name	Rental Receivable	Allowance for Doubtful Accounts	Years Dormant
Ecobay Property Management, Inc.	157,565.21	157,565.21	2.0
Renato V. Diaz	2,934,600.24	2,934,600.24	2.5
Globe Telecom	550.08	550.08	4.2
Al Amanah Islamic Bank of the Phils.	120,167.61	120,167.61	4.9
Sampaguita Travel Corp.	186,346.00	186,346.00	5.0
Traveltipid. Com	56,036.17	56,036.17	5.0
Panay Railways, Inc.	5,078,316.00	5,078,316.00	6.5
Manila Pest Control	520,000.00	520,000.00	8.2
Sweet Lines Inc.	3,135,000.00	3,135,000.00	>10.0
Senate of the Philippines	12,838.97	12,838.97	>10.0
Francisco, Merlando G.	106,531.38	106,531.38	>10.0
DTI/HITR	94,344.35	94,344.35	>10.0
Spectrum Engineering & Consultancy	124,181.81	124,181.81	>10.0
	12,526,477.82	12,526,477.82	

There are no apparent actions observed from NDC to collect these dormant accounts, except for Renato V. Diaz's account where partial payment was received in early 2018. Management should exhaust all possible means to collect these long overdue accounts.

The "Current Lessees - with doubtful accounts" are lessees that are currently leasing NDC's various properties, however none of them paid their rental fees for the year 2017. These are the following:

Name	Rental Receivable	Allowance for Doubtful Accounts	Carrying Amount
Bayantel	275,215.86	76,448.85	198,767.01
Phil. Assd. Smelting & Refining Corp. (PASAR)	36,404,984.70	30,567,867.67	5,837,117.03
PITC Pharma, Inc. (formerly Producers VCC	9,203,757.70	9,203,757.70	0
Bouguel's Eatery	8,928.57	8,928.57	0
	45,892,886.83	39,857,002.79	6,035,884.04

Monthly accrual for rental continues for Bayantel and PASAR while accruals for the other two lessees were stopped in 2016. It was also noted that the last payment of PASAR was in December 2014.

Based on the foregoing information, only the combined carrying amount of "Current Lessees - with doubtful accounts" and "Current Lessees" totaling P12,330,471 or 19 per cent of the total rental receivable is deemed collectible. The large amount of allowance reflects the remoteness of collection of the receivables and decrease of NDC's income. Management should have a periodic review of the qualifications of its lessees to determine their financial capacity and to avoid, or at least minimize, defaulting lessees. Proper and prompt action should be taken to collect long outstanding accounts.

Further, in the sending of confirmation letters, it was noted that the lessees do not have their permanent addresses specified in the Lease Agreement. What is represented as their addresses are the locations of the leased properties; such that when they leave the leased premises, there are no other addresses known to NDC where to reach them.

We recommended that Management:

a) Evaluate the collectability of accounts with large allowance for doubtful accounts and perform appropriate action for dormant accounts;

b) Provide explanation on the causes of dormant accounts and those with large allowance for doubtful accounts;

c) Establish an effective method of collection and enforce relevant provisions on imposition of interests, penalties and/or surcharges to defaulting lessees; and

d) Establish the exact locations and permanent addresses of the lessees for future actions.

Management took note of the above recommendations and committed to comply with the corresponding recommendations.

6. Over accrual in Rental Receivable account amounting to P60,231 was incurred due to incorrect monthly accrual for various lessees.

Through the Asset Management Group, NDC entered into various lease contracts with clients interested to lease the former's investment properties located in the different parts of the country. The lease period varies from client to client ranging from one to several years. For leases extending to several years, NDC provides escalation rate from five to 10 per cent, sometimes based on inflation rate, depending on the circumstances surrounding the subject property.

Audit of the Rental Receivable account showed that the balance is incorrect due to errors noted in the accrual and escalation of rentals. The summary of the findings showing a total over accrual of P60,231 are presented in the following table:

Name	Voucher	Particulars	Amount	Should Be	Under (Over) Accrual
Cayetano Law Office	JV 6-43-2016	Rent accrual for June 2016	48,034.08	144,105.56	96,071.48
	JV 7-30-2016	Rent accrual for July 2016	139,261.43	144,105.56	4,844.13
Total			187,295.51	288,211.12	100,915.61
HK Imperial Award Minings (Phils) Inc.	N/A	No accrual from October 2015 to August 2016	0	480,260.00	480,260.00
	JV 4-22-2016	Reclass to proper GL/SL account and close neg bal	247,592.16	74,203.83	(173,388.33)
	JV 9-56-2016	Rent accrual for Sept 2016	535,156.00	238,687.63	(296,468.37)
	JV 10-55-2016	Rent accrual for Oct 2016	535,156.00	241,307.23	(293,848.77)
Total			1,317,904.16	1,034,458.69	(283,445.47)
Sanko Systems Services, Inc.	JV 1-49-2017	Rent accrual for Jan 2017	156,809.37	160,017.43	3,208.06
	JV 12-77-2017	Rent accrual for Dec 2017	199,571.03	169,258.48	(30,312.55)
Total			356,380.40	329,275.91	(27,104.49)
Pacita U. Juan	JV 1-49-2017	Rent accrual for Jan 2017	37,163.00	39,163.00	2,000.00
	JV 5-51-2017	Rent accrual for May 2017	43,841.57	39,163.00	(4,678.57)
	JV 12-77-2017	Rent accrual for Dec 2017	45,403.34	39,163.00	(6,240.34)
Total			126,407.91	117,489.00	(8,918.91)
Cleanaway Philippines Inc. (Cleanaway Tech)	JV 9-56-2016	Rent accrual for Sept 2016	132,778.25	127,628.16	(5,150.09)
	JV 10-55-2016	Rent accrual for Oct 2016	132,778.25	127,628.16	(5,150.09)
	JV 11-56-2016	Rent accrual for Nov 2016	132,778.25	127,628.16	(5,150.09)
	JV 5-51-2017	Rent accrual for May 2017	134,009.56	127,628.16	(6,381.40)
	JV 12-77-2017	Rent accrual for Dec 2017	103,187.36	134,009.57	30,822.21
Total			635,531.67	644,522.21	8,990.54

Name	Voucher	Particulars	Amount	Should Be	Under (Over) Accrual
Governance Commission For GOCC	JV 3-50-2017	Rent accrual for March 2017	7,123.20	6,741.60	(381.60)
	JV 4-33-2017	Rent accrual for April 2017	7,123.20	6,741.60	(381.60)
Total			14,246.40	13,483.20	(763.20)
San Miguel Yamamura Packaging Corp.	JV 11-60-2017	Rent accrual for Nov 2017	303,187.50	289,406.25	(13,781.25)
	JV 12-77-2017	Rent accrual for Dec 2017	231,525.00	289,406.25	57,881.25
Total			534,712.50	578,812.50	44,100.00
RP Mapalla Inc	JV 7-30-2016	Rent accrual for July 2016	12,843.13	11,416.20	(1,426.93)
	JV 8-50-2016	Rent accrual for August 2016	12,123.14	11,416.20	(706.94)
Total			24,966.27	22,832.40	(2,133.87)
Earth Life Store Supply, Inc.	JV 12-77-2017	Rent accrual for Dec 2017	21,116.79	42,233.43	21,116.64
Bank of the Philippine Islands (BPI)	JV 12-77-2017	Rent accrual for Dec 2017	54,670.67	109,342.74	54,672.07
Timbol, Aurora	JV 12-77-2017	Rent accrual for Dec 2017	10,503.06	15,445.68	4,942.62
Department of Trade & Industry	JV 7-30-2016	Rent accrual for July 2016	46,978.66	0	(46,978.66)
Bayantel	CY 2017	Rent accrual for CY 2017	183,477.24	188,831.50	5,354.26
Romeo B. Naguit	JV 12-60-2016	Rent accrual for Dec 2016	8,659.57	7,778.93	(880.64)
PAJ Restaurant Group Corporation	JV 12-77-2017	Rent accrual for Dec 2017	86,871.00	173,742.00	86,871.00
Fastforward MR Corporation	JV 12-77-2017	Rent accrual for Dec 2017	18,550.00	37,100.00	18,550.00
Black Pearl Media Inc	JV 5-69-2017	Additional rent accrual due to rent escalation	61,289.69	25,770.75	(35,518.94)
Total Under (Over) Accrual					**(60,231.44)**

While the net effect of the noted discrepancies to the Rental Receivable account is not significant, the accuracy of the individual accounts was greatly affected. For instance, Cayetano Law Office had a negative balance of P185,576.07 based on subsidiary ledgers as of December 31, 2017 but the recomputed amount was negative P84,660.46 thereby understating it by P100,915.61. On the other hand, accrual for HK Imperial Award Minings (Phils) Inc. is overstated by P283,445.46.

In addition, we have noted that some of the current lessees do not settle their accounts on time which sometimes would reach several months before paying their rental. There is a provision in the lease contracts which states that unpaid monthly rental shall bear an interest of one percent per month from the date when the same should have been paid until such monthly rental have been paid in full. This provision is to address delayed payments, however, NDC didn't consistently impose interests, penalties and/or surcharges to defaulting lessees as provided in the contract.

In view of the foregoing, we recommended that Management perform periodic reconciliation with lessees to ensure accuracy of records.

Management has assured that they will exert efforts to collect and reconcile the Rental Receivable accounts.

7. GAD Plan and Budget (GPB) of NDC was not approved/endorsed by the Philippine Commission on Women (PCW) GAD.

In accordance with the guidelines set under Joint Circular (JC) No. 2012-01 of the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM), PCW MC No. 2015-04 dated September 30, 2015 was issued re: Preparation and Online Submission of FY 2017 Gender and Development (GAD) Plans and Budgets and FY 2015 GAD Accomplishment Reports and other Matters. Section A of which reads as follows:

"A. Preparation and Online Submission of FY 2017 GAD Plans and Budgets (GPBs) and FY 2015 GAD Accomplishment Reports (GAD ARs)
xxx...

The submission, review and endorsement of GPBs and GAD ARs shall be coursed through the Gender Mainstreaming Monitoring System (GMMS), the PCW online system for managing GAD profiles, GPBs and GAD ARs, as well as for generating GAD-related reports.

xxx...

Timelines for the preparation and submission of GPBs and GAD ARs:

October 01-15, 2015	Line departments and central offices, upon receipt of this Joint Memorandum Circular, shall notify their attached agencies, GOCCs, bureaus and/or regional offices of the start of the preparation and the deadline of the online submission of their FY 2017 GPB and FY 2015 GAD AR to the central office.
October 16-December 31, 2015	Attached agencies, bureaus and regional offices prepare and submit their annual GPBs and GAD ARs to be reviewed by their respective line departments or central offices. Line departments and other government agencies/instrumentalities not attached to any line department or office prepare and submit their annual GPBs and GAD ARs directly to PCW.
January 1-29, 2016	Line departments or central agencies review GPBs and GAD ARs of their constituent units, transmit comments, if needed; and forward reviewed GPBs and GAD ARs to PCW.
February 1, 2016	Deadline of submission of all GPBs and GAD ARs to PCW through the GMMS.

PCW reviewed and endorsed GPBs shall be authenticated by the GMMS with a barcode. Concerned agencies shall print the endorsed GPB for signature of their agency head and submit the scanned signed copy of GPB and reviewed GAD AR in their budget proposals to DBM.
xxx..."

The GPB submitted by NDC on February 20, 2018 to our Office bears a note "Document Status: UNENDORSED" and is not signed by the General Manager of NDC. The deadline set by PCW to submit GPBs and GAD ARs to PCW through the GMMS was February 1, 2016. In a letter dated April 19, 2017, the PCW Deputy Director for Management Services denied NDC's request for further access to the GMMS to revise their FY 2017 GPB and FY 2015 GAD AR. Despite the previous extensions, there are still some entries that need enhancement, thus, submission was automatically tagged as unendorsed.

Without the endorsement of PCW, there is no benchmark upon which to gauge whether the GAD activities conducted in CY 2017 conform to the agenda of the government in addressing gender issues, plans and policies on women empowerment and gender equality. GPBs to be submitted to DBM must be PCW-endorsed as mentioned in Section 8.7 of JC No. 2012-01, stated as follows:

> "Agencies shall submit their PCW-endorsed GPB to DBM along with their annual GAD AR for the previous year in accordance with the budget call."

We recommended that Management:

a) Submit GPB within the prescribed deadlines so that the activities to be implemented will be approved/endorsed by the PCW;

b) Consult with PCW on what program/activity/project (PAP) can be implemented in accordance with NDC's mandate; and

c) Develop/improve GAD program/activity/project (PAP) in line with NDC's mandate to achieve the desired goals and objectives.

Management has duly noted the observations and shall comply with the recommendations.

8. Unsettled audit suspensions and disallowances

As of December 31, 2017, 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, 2017	Issued during the year	Settled during the year	Balance as of December 31, 2017
Notice of Suspension	660,417	0	660,417	0
Notice of Disallowance	18,816,667	1,447,085	0	20,263,752
Notice of Charge	0	0	0	0
Total	19,477,084	1,447,085	660,417	20,263,752

The details of the NDs are shown below:

Date	ND No.	Amount	Settled	Balance
August 30, 2017	2017-002(2014-2016)	1,447,085	0	1,447,085
August 12, 2013	2013-001(2012)****	1,375,000	0	1,375,000
August 14, 2013	2013-002(2012)***	725,000	0	725,000
July 7, 2010	2010-001-101(07)*	399,999	0	399,999
July 7, 2010	2010-002-101(07)*	333,334	0	333,334
July 13, 2010	2010-003-101(08)*	266,667	0	266,667
July 13, 2010	2010-004-101(08)*	83,333	0	83,333
July 13, 2010	2010-005-101(08)*	233,334	0	233,334
July 13, 2010	2010-006-101(09)*	233,333	0	233,333
July 13, 2010	2010-007-101(09)*	166,667	0	166,667
May 20, 2003	2003-001-001**	15,000,000	0	15,000,000
		20,263,752	0	20,263,752

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

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

*** With COA Order of Execution dated July 26, 2017 and with Petition for Review dated October 5, 2017

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

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 10 audit recommendations embodied in prior years' Annual Audit Reports, six were fully implemented, one was partially implemented and three were not implemented.

REF.	COMMENTS AND OBSERVATIONS	RECOMMENDATIONS	ACTIONS TAKEN
2016 No. 1, page 33	1. The absence of a written accounting policy to serve as guide in the determination of the timing and interval in the conduct of appraisal and in the recognition of changes in fair value resulted in reporting the investment property at amounts which may not approximate their fair value.	Formulate an accounting policy on the timing and interval in obtaining fair value of investment property and in reporting in the financial statements, taking into consideration the requirements of PAS 40.	Fully implemented
2016 No. 2, page 34	2. Several assets are vacant and some are occupied by illegal occupants either for residence, commercial or personal purposes, depriving NDC of potential income from the use of such assets.	a. Collect rental from unauthorized users/occupants; and b. Dispose the vacant lots and those occupied by illegal settlers:	Not implemented Partially implemented Reiterated in Observation No. 3 in this Report
2016 No. 3, page 36	3. Payment of premiums for the personal accident insurance of NDC's officers and employees in the total amount of P21,160 is contrary to the provisions of RA 6758 as embodied in EO 184 and DBM-CCC No. 10.	a. Stop disbursing funds for payment of personal accident insurance premiums; and b. Strictly comply with the provisions of RA 6758 as embodied in EO 184 and DBM-CCC No. 10.	Fully implemented Fully implemented
2016 No. 4, Page 38	4. The grant of interest-free loans amounting to P1.10 million to officers and employees is contrary to condition no. 2 of the DBM Approved Budget	a. Stop disbursing funds for interest-free loan packages; and	Fully implemented

		b. Strictly comply with condition No. 2 of the DBM approved budget.	Fully implemented
2015 No. 2, page 34	5. The Collective Negotiation Agreement Incentive granted to NDC employees exceeded the P25,000 limit set under DBM Budget Circular No. 2014-2.	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.	Fully implemented Not implemented ND No. 2017-001(2014-2016) dated August 30, 2017 was issued.
2008 No.4, page 36	6. Former NDC officials have not paid the full amount of their car loans aggregating P575,541.05.	Avail of legal remedies for immediate recovery of the loaned amount.	Not implemented Concerned officials cannot be located. Substituted service being explored.