



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

ANNUAL AUDIT REPORT

on the

NATIONAL DEVELOPMENT COMPANY

For the Years Ended December 31, 2018 and 2017



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City
CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 27, 2019

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

Received
JUN 28 2019
3:30 pm
OFFICE OF THE GENERAL MANAGER
NATIONAL DEVELOPMENT COMPANY

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 National Development Company (NDC) for the years ended December 31, 2018 and 2017.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

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

The following are the significant audit observations and recommendations:

1. As at December 31, 2018, dormant/inactive receivables totaling P539.354 million which have been outstanding for more than ten (10) years and with remote possibility of collection remained in the books which is not compliant with the provisions of paragraph 5.4.4 of Philippine Financial Reporting Standard (PFRS) No. 9 and COA Circular No. 2016-005 dated December 19, 2016.

We recommended that Management:

- a. Reassess the dormant/inactive receivables and evaluate its collectability by determining the status of the debtors, among others; and
- b. Document all the efforts exerted to collect/recover the dormant/inactive accounts.

2. Of the total Rental Receivable account of P87.093 million, P57.568 million or 66 per cent is considered doubtful, P12.093 million of which has been dormant for several years.

We recommended that Management:

- a. Evaluate collectability of accounts with significant allowance for impairment losses and take appropriate action for the collection of dormant accounts; and
 - b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for authority to write-off said accounts is warranted.
3. Security deposits payable amounting to P4.428 million remained unclaimed or outstanding for two years and more, contrary to the provisions of Section 98 of Presidential Decree (PD) No. 1445 and Executive Order (EO) No. 109 dated June 10, 1999 as implemented by DBM-COA Joint Circular No. 99-6.

We recommended that adjusting entries be made to revert back to the general fund the security deposits payable pursuant to the provisions of the DBM-COA Joint Circular No. 99-6.

4. The Investment Property account includes a parcel of land located at Los Baños, Laguna valued at P6.943 million which is occupied by informal settlers and included in the scope of Presidential Proclamation 550 s. 2004 reserving the land for housing site purposes.

We recommended that Management follow up its request with Local Inter-Agency Committee to expedite the resolution of the issue and eventual exclusion of NDC's property in the proclamation.

The other audit observations, together with recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 15, 2019, are presented in detail in Part II of the report.

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

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

Very truly yours,

COMMISSION ON AUDIT

By:


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 (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 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.

The Company is governed and its activities are directed, controlled and managed by a Board of Directors, composed of nine members and a Chairman.

As of December 31, 2018, NDC has 23 permanent employees and 16 contractual employees.

FINANCIAL HIGHLIGHTS

Comparative Financial Position

| | 2018 | 2017 (as restated) | Increase (Decrease) |
|-------------|----------------|-----------------------|------------------------|
| Assets | 21,371,877,747 | 17,872,709,942 | 3,499,167,805 |
| Liabilities | 5,769,674,935 | 5,619,937,211 | 149,737,724 |
| Equity | 15,602,202,812 | 12,252,772,731 | 3,349,430,081 |

Comparative Results of Operations

| | 2018 | 2017 (as restated) | Increase (Decrease) |
|------------------------------|---------------|-----------------------|------------------------|
| Revenues | 325,751,345 | 480,091,788 | (154,340,443) |
| Expenses | 140,628,384 | 137,203,714 | 3,424,670 |
| Income from operations | 185,122,961 | 342,888,074 | (157,765,113) |
| Other income (expenses), net | 4,700,880,923 | 2,982,330,388 | 1,718,550,535 |
| Income before income tax | 4,886,003,884 | 3,325,218,462 | 1,560,785,422 |
| Income tax expense | 1,382,682,966 | 970,333,928 | 412,349,038 |
| Net Income | 3,503,320,918 | 2,354,884,534 | 1,148,436,384 |

SCOPE AND OBJECTIVES OF AUDIT

Our audit covered the examination, on a test basis, of the accounts and transactions of NDC for the period January 1 to December 31, 2018 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2018 and 2017. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an unmodified opinion on the fairness of presentation of the financial statements of the Company for the years 2018 and 2017.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. As at December 31, 2018, dormant/inactive receivables totaling P539.354 million which have been outstanding for more than ten (10) years and with remote possibility of collection remained in the books which is not compliant with the provisions of paragraph 5.4.4 of Philippine Financial Reporting Standard (PFRS) No. 9 and COA Circular No. 2016-005 dated December 19, 2016.

We recommended that Management:

- a. Reassess the dormant/inactive receivables and evaluate its collectability by determining the status of the debtors, among others; and
- b. Document all the efforts exerted to collect/recover the dormant/inactive accounts.

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We recommended that Management:

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 - b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for authority to write-off said accounts is warranted.
3. Security deposits payable amounting to P4.428 million remained unclaimed or outstanding for two years and more, contrary to the provisions of Section 98 of Presidential Decree (PD) No. 1445 and Executive Order (EO) No. 109 dated June 10, 1999 as implemented by DBM-COA Joint Circular No. 99-6.

We recommended that adjusting entries be made to revert back to the general fund the security deposits payable pursuant to the provisions of the DBM-COA Joint Circular No. 99-6.

4. The Investment Property account includes a parcel of land located at Los Baños, Laguna valued at P6.943 million which is occupied by informal settlers and included in the scope of Presidential Proclamation 550 s. 2004 reserving the land for housing site purposes.

We recommended that Management follow up its request with Local Inter-Agency Committee to expedite the resolution of the issue and eventual exclusion of NDC's property in the proclamation.

SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As at December 31, 2018, 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 million was not settled despite issuance of COA Order of Execution dated February 6, 2014, P0.725 million is with Petition for Review dated October 5, 2017 to COA Commission Proper and P2.822 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 25 audit recommendations embodied in prior years' Annual Audit Reports, 14 were fully implemented, six were partially implemented and five were not implemented. Details are presented in Part III of this Report.

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PART I
AUDITED FINANCIAL STATEMENTS

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017
(In Philippine Peso)

| | Note | 2018 | 2017 (as restated) | January 1, 2017 (as restated) |
|---|------|-----------------------|-----------------------|----------------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | 6 | 13,045,623 | 1,945,258 | 4,126,363 |
| Short-term investments | 7 | 2,346,662,392 | 2,133,232,496 | 2,012,919,450 |
| Receivables, net | 8 | 249,081,405 | 247,098,055 | 215,684,464 |
| Other current assets | 9 | 34,938,241 | 25,217,524 | 91,199,993 |
| Total Current Assets | | 2,643,727,661 | 2,407,493,333 | 2,323,930,270 |
| Non-Current Assets | | | | |
| Investments | 10 | 2,106,760,925 | 1,997,591,638 | 1,958,043,151 |
| Receivables, net | 8 | 1,362,026,164 | 2,816,772,794 | 4,270,990,535 |
| Investment property | 11 | 15,216,979,481 | 10,621,823,140 | 7,593,237,565 |
| Property and equipment, net | 12 | 13,648,887 | 8,086,435 | 15,837,466 |
| Other non-current assets and deferred charges | 13 | 28,734,629 | 20,942,602 | 178,029,751 |
| Total Non-Current Assets | | 18,728,150,086 | 15,465,216,609 | 14,016,138,468 |
| TOTAL ASSETS | | 21,371,877,747 | 17,872,709,942 | 16,340,068,738 |
| LIABILITIES AND EQUITY | | | | |
| Current Liabilities | | | | |
| Accounts payable | 14 | 25,241,919 | 14,961,791 | 19,690,717 |
| Interest payable | 15 | 430,249,563 | 386,142,647 | 322,229,006 |
| Loans payable | 16 | 1,273,624,400 | 2,446,824,400 | 3,620,024,400 |
| Inter-agency payables | 17 | 7,022,856 | 9,797,257 | 24,923,146 |
| Trust liabilities | 18 | 33,548,441 | 32,557,857 | 187,824,615 |
| Deferred credits/unearned income | 19 | 9,312,199 | 7,940,527 | 14,770,485 |
| Provisions | 20 | 161,396,656 | 160,835,102 | 160,048,851 |
| Total Current Liabilities | | 1,940,396,034 | 3,059,059,581 | 4,349,511,220 |
| Non-Current Liabilities | | | | |
| Deferred tax liability | 25 | 3,784,710,270 | 2,521,499,563 | 1,759,175,397 |
| Trust liabilities | 18 | 44,568,631 | 39,378,067 | 42,154,984 |
| Other payables | | 0 | 0 | 6,882,423 |
| Total Non-Current Liabilities | | 3,829,278,901 | 2,560,877,630 | 1,808,212,804 |
| Equity | | 15,602,202,812 | 12,252,772,731 | 10,182,344,714 |
| TOTAL LIABILITIES AND EQUITY | | 21,371,877,747 | 17,872,709,942 | 16,340,068,738 |

The notes on pages 9 to 57 form part of these statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

| | Note | 2018 | 2017 (as restated) |
|--|------|----------------------|-----------------------|
| REVENUES | | | |
| Dividend income | 21 | 17,343,534 | 202,211,863 |
| Rent income | 11 | 190,823,504 | 187,506,108 |
| Interest income | | 117,444,307 | 90,289,817 |
| Management fees | | 140,000 | 84,000 |
| | | 325,751,345 | 480,091,788 |
| OPERATING EXPENSES | | | |
| Personnel services | 22 | 28,785,859 | 24,912,703 |
| Maintenance and other operating expenses | 23 | 111,842,525 | 112,291,011 |
| | | 140,628,384 | 137,203,714 |
| INCOME FROM OPERATIONS | | 185,122,961 | 342,888,074 |
| OTHER INCOME (EXPENSES), NET | 24 | 4,700,880,923 | 2,982,330,388 |
| INCOME BEFORE INCOME TAX | | 4,886,003,884 | 3,325,218,462 |
| INCOME TAX EXPENSE | | | |
| Current tax | 25 | 119,472,259 | 230,530,285 |
| Deferred tax | | 1,263,210,707 | 739,803,643 |
| NET INCOME | | 3,503,320,918 | 2,354,884,534 |
| Other comprehensive income | 10 | 6,700,725 | 1,438,075 |
| TOTAL COMPREHENSIVE INCOME | | 3,510,021,643 | 2,356,322,609 |

The notes on pages 9 to 57 form part of these statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2018 and 2017
(In Philippine Peso)

| | Note | Share Capital (Note 26) | Share in Revaluation Increments of Associates | Retained Earnings (Note 27) | Total |
|--|------|----------------------------|--|-----------------------------------|-----------------------|
| Balances, December 31, 2016 | | 8,602,803,483 | 28,883,100 | 1,627,589,151 | 10,259,275,734 |
| Reclassification of available for sale securities to financial assets at FVOCI | 27 | 0 | 0 | 68,973,025 | 68,973,025 |
| Correction of prior years' errors | 27 | 0 | 0 | (145,904,045) | (145,904,045) |
| Restated balance, January 1, 2017 | | 8,602,803,483 | 28,883,100 | 1,550,658,131 | 10,182,344,714 |
| Changes in Equity for 2017 | | | | | |
| Net income for the year, as restated | 27 | 0 | 0 | 2,354,884,534 | 2,354,884,534 |
| Other comprehensive income for the year | | | | | |
| Unrealized gain on financial assets at FVOCI | 10 | 0 | 0 | 1,438,075 | 1,438,075 |
| Dividends | | 0 | 0 | (421,308,805) | (421,308,805) |
| Reversal of deferred tax liability from interest receivable due from NIA | | 0 | 0 | 140,322,321 | 140,322,321 |
| Reclassification of trust liability | | 0 | 0 | (4,908,108) | (4,908,108) |
| Balances, December 31, 2017 | | 8,602,803,483 | 28,883,100 | 3,621,086,148 | 12,252,772,731 |
| Changes in Equity for 2018 | | | | | |
| Net income for the year | | 0 | 0 | 3,503,320,918 | 3,503,320,918 |
| Other comprehensive income for the year | | | | | |
| Unrealized gain on financial assets at FVOCI | 10 | 0 | 0 | 6,700,725 | 6,700,725 |
| Dividends | | 0 | 0 | (160,591,562) | (160,591,562) |
| Balances, December 31, 2018 | | 8,602,803,483 | 28,883,100 | 6,970,516,229 | 15,602,202,812 |

The notes on pages 9 to 57 form part of these statements.

NATIONAL DEVELOPMENT COMPANY
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017
(In Philippine Pesos)

| | Note | 2018 | 2017 |
|---|------|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Collection of rentals | | 128,541,730 | 168,923,045 |
| Dividends received | | 35,343,534 | 217,836,906 |
| Collection of interest | | 27,823,505 | 31,550,348 |
| Collection of receivables | | 17,413,882 | 9,120,412 |
| Miscellaneous collections | | 6,987,244 | 2,047,808 |
| Payment of taxes and licenses | | (168,172,467) | (281,128,400) |
| Payment to suppliers and service providers | | (63,850,736) | (67,913,528) |
| Payment of salaries and benefits to officers and employees | | (22,522,139) | (19,193,401) |
| Loans granted to NDC employees | | 0 | (215,571) |
| Net cash provided by (used in) operating activities | | (38,435,447) | 61,027,619 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds/placements on investments | | 1,273,774,179 | (27,507,850) |
| Proceeds from disposal of assets | | 91,532,481 | 4,720,685 |
| Collection of loans | | 18,002,882 | 18,781,218 |
| Return of capital | | 0 | 37,666,000 |
| Gain from investment | | 0 | 1,770,014 |
| Net cash provided by investing activities | | 1,383,309,542 | 35,430,067 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payment of loans | | (1,173,200,000) | 0 |
| Payment of dividends | | (160,591,562) | (102,521,228) |
| Net cash used in financing activities | | (1,333,791,562) | (102,521,228) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | |
| | | 17,832 | 3,882,437 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 11,100,365 | (2,181,105) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 1,945,258 | 4,126,363 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 6 | 13,045,623 | 1,945,258 |

The notes on pages 9 to 57 form part of these statements.

PART II
OBSERVATIONS AND RECOMMENDATIONS

**NATIONAL DEVELOPMENT COMPANY
NOTES TO FINANCIAL STATEMENTS**

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

hired to work and implement the mandate of NDC as the government's investment arm.

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

The accompanying financial statements as of December 31, 2018 and 2017 were approved and authorized for issue by the Management on May 15, 2019.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Company were 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 were 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

Adoption of New and Amended PFRSs

a. *Effective in 2018 that are relevant to the Company*

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRSs which the Company adopted effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard replaces PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and 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 their 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.

Based on the Company's analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at December 31, 2018, the Company has concluded that all of its financial assets and liabilities shall continue to be measured on the same basis as under PAS 39 (or shall be classified under the new classification categories of PFRS 9).

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Company's financial assets as at January 1, 2018:

| | Classification under PAS 39 | Classification under PFRS 9 | Carrying Amount under PAS 39 | Carrying Amount under PFRS 9 |
|--------------------------------------|-----------------------------------|---|------------------------------------|------------------------------------|
| Cash and cash equivalents | Loans and receivables | Financial assets at amortized cost | 1,945,258 | 1,945,258 |
| Short term investments | Held to maturity | Financial assets at amortized cost | 2,133,232,496 | 2,133,232,496 |
| Receivables | Loans and receivables | Financial assets at amortized cost | 3,063,870,849 | 3,063,870,849 |
| Investments in retail treasury bonds | Held to maturity | Financial assets at amortized cost | 1,084,069,071 | 1,084,069,071 |
| Investments | Available for sale | Financial assets at fair value through other comprehensive income (FVOCI) | 71,067,400 | 71,067,400 |

The Company assessed that the adoption of PFRS 9, specifically on determining impairment loss using simplified approach (or general approach, as applicable), has no impact on the carrying amounts of the Company's financial assets carried at amortized cost (and/or other comprehensive income).

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and their 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.).

Based on the Company's assessment, all of the Company's contracts with customers generally undertake to provide single performance obligation at a fixed price which is mainly the delivery of goods (or rendering of services). Thus, the allocation of transaction price to the single performance obligation is not applicable. The Company recognizes revenue as the goods are transferred to the customer at the point of delivery (or as the services are rendered over time). Accordingly, the adoption of PFRS 15 has no impact in the timing of the Company's revenue recognition.

- Amendments 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.
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The amendments clarify that transfers to, or from, investment property (including assets under construction and development) should be made when, and only when, there is evidence that a change in use of a property has occurred.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

b. Effective in 2018 that are not relevant to the Company

- 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 conditions 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 PFRS 9, Financial Instruments 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, *Financial Instruments* 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, *Financial Instruments: Recognition and Measurement* instead ('the deferral approach').
- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E37 of PFRS 1, because it has now served its intended purpose.

The adoption of the foregoing new and amended PFRSs did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

c. New and amended PFRSs issued but not yet effective

Relevant new and amended PFRSs which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements are summarized below.

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

- PFRS 16, *Leases* – This standard will replace 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.
- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure

particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9, *Financial Instruments* for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments clarify that long-term interests in an associate or joint venture that, in substance, form part of the entity's net investment but to which the equity method is not applied, are accounted for using PFRS 9, *Financial Instruments*.
- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.
- Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously Held Interest in a Joint Operation* – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle. The amendment to PFRS 3, *Business Combinations* clarifies that when an entity obtains control of a business that is a joint operation, the acquirer applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the joint operation at its acquisition-date fair value. The amendment to PFRS 11, *Joint Arrangements* clarifies that when an entity obtains joint control of a business that is a joint operation, the previously held interests in that business are not remeasured.
- Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments are part of the Annual Improvements to PFRS 2015-2017 Cycle and clarify that income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners and thus, should be recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
- Amendments to PAS 23, *Borrowing Costs - Borrowing Costs Eligible for Capitalization* – The amendments are part of the Annual Improvements to PFRS 2015-2017 and clarify that in calculating the capitalization rate on general borrowings, if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally.

d. *Effective for annual periods beginning on or after January 1, 2021:*

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts*. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

e. *Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were 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, financial assets at fair value through other comprehensive income (FVOCI) and at amortized cost. The classification is generally based on the business model which a financial asset is managed and its contractual cash flow characteristics. 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.

Financial assets at Amortized Cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVTPL, impaired or derecognized, as well as through the amortization process.

Cash and cash equivalents, short-term investments, investments in retail treasury bonds and receivables fall under this category.

Financial assets at FVOCI

For debt instruments that meet the contractual cash flow characteristic and are not designated at FVTPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- it is held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Company may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position.

These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

Financial assets at FVOCI-equity instruments are disclosed in Note 10.

Impairment of financial assets- starting January 1, 2018

The Company applies an "expected credit loss" (ECL) model to its financial assets measured at amortized cost and debt investment at FVOCI, but not to investment in equity instruments.

Loss allowances are measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company has elected to measure loss allowances for receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, informed credit assessment including current conditions and forecast of future economic conditions.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than two years past due.

The Company considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- The financial asset is more than two years past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Impairment of financial assets- before January 1, 2018

Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables or when investment can no longer be recovered.

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 contingent 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 Joint Venture

A joint venture (JV) is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control.

Where a group of companies undertakes its activities under JV arrangements directly, the group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognized in the financial statements of the venturers and classified according to their nature.

Liabilities and expenses incurred directly in respect of interests in jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the group's share of the output of jointly-controlled assets, and its share of JV expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to/from the group and their amount can be measured reliably.

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 value at 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. Rental 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 an 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 financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- a. Foreign currency monetary items are translated using the closing rate;
- b. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in surplus or deficit in the period in which they arise.

Changes in accounting policies and estimates

The effects of changes in accounting policies are recognized retrospectively. The effects of changes in accounting policy were applied prospectively if retrospective application is impracticable.

The effects of changes in accounting estimates are recognized prospectively by including in profit or loss.

The material prior period errors are corrected retrospectively in the first set of financial statements authorized for issue after their discovery by:

- Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

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 2018 and 2017, the Company has recognized allowance for impairment of receivables in the amount of P14.033 million and P17.711 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:

| | 2018 | 2017 |
|---|-------------------|------------------|
| Cash with collecting/disbursing officer | 33,892 | 46,869 |
| Cash in banks | 13,011,731 | 1,898,389 |
| | 13,045,623 | 1,945,258 |

Cash in banks earn interest at the prevailing bank deposit rates. Interest earned on cash in banks amounted to P58,434 and P124,165 in 2018 and 2017, 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 P2.347 billion and P2.133 billion in 2018 and 2017, respectively. Interest earned on these investments amounted to P106.892 million and P80.593 million in 2018 and 2017, respectively.

8. RECEIVABLES

This account consists of:

| | 2018 | 2017 (as restated) |
|---|------------------------|------------------------|
| Current | | |
| Loans receivable | 1,055,322,609 | 1,054,152,679 |
| Interest receivables | 102,212,670 | 88,909,628 |
| Rental receivables | 87,748,498 | 64,415,554 |
| Due from subsidiaries/associates/affiliates | 1,143,744,206 | 1,142,275,339 |
| Due from officers and employees | 6,107,762 | 5,937,127 |
| Due from National Government | 3,252,978 | 3,252,978 |
| Other receivables | 321,671,313 | 345,579,684 |
| | 2,720,060,036 | 2,704,522,989 |
| Allowance for impairment losses | (2,470,978,631) | (2,457,424,934) |
| | 249,081,405 | 247,098,055 |
| Non-Current | | |
| Loans receivable | 1,022,913,326 | 2,008,308,115 |
| Interest receivables | 331,723,574 | 799,464,556 |
| Due from officers and employees | 7,389,264 | 9,000,123 |
| | 1,362,026,164 | 2,816,772,794 |
| | 1,611,107,569 | 3,063,870,849 |

Interest 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 (Notes 11 and 19).

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 Philippine Pharma Procurement, Inc. On January 26, 2018, the Department of Budget and Management issued Special Allotment Release Order No. SARO-BMB-C-18-0000389 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.

A reconciliation of the allowance for impairment losses at the beginning and end of 2018 and 2017 is shown below:

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Beginning balance | 2,457,424,934 | 2,439,714,193 |
| Impairment loss during the year-rental receivables | 14,033,472 | 17,710,741 |
| Allowance for impairment-rental receivables (reversal) | (479,775) | 0 |
| | 2,470,978,631 | 2,457,424,934 |

9. OTHER CURRENT ASSETS

This account consists of:

| | 2018 | 2017 (as restated) |
|----------------------------------|-------------------|-----------------------|
| Restricted fund (held-in-trust) | 21,648,179 | 19,498,182 |
| Prepayments | 9,514,725 | 2,784,689 |
| Deposits | 2,502,111 | 1,859,510 |
| Inventories held for consumption | 1,273,226 | 1,075,143 |
| | 34,938,241 | 25,217,524 |

Restricted fund (held-in-trust) refers to Mintex escrow fund. The distribution of the fund is governed by a deed of undertaking among Human Settlements Development Corporation, Southern Philippines Development Authority and NDC. The purpose of the fund includes the full settlement and liquidation of liabilities which were assumed by the shareholders of the old Mintex and eventual distribution of the remaining trust assets.

10. INVESTMENTS

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

| | 2018 | 2017 (as restated) |
|--|----------------------|-----------------------|
| Investment in subsidiaries | 402,315,129 | 402,315,129 |
| Investment in joint venture | 45,000,000 | 45,000,000 |
| Investment in associates | 228,661,709 | 198,693,148 |
| Investment in stocks | 196,446,890 | 196,446,890 |
| Financial assets at amortized cost | 1,156,569,072 | 1,084,069,071 |
| Financial assets at fair value through other comprehensive income | 77,768,125 | 71,067,400 |
| | 2,106,760,925 | 1,997,591,638 |

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 | 2018 | 2017 |
|--|-------|-------------------|-------------|-------------|
| 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 |
| Kamayay 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 | 74,616,000 |
| 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 |

| | | % of Ownership | 2018 | 2017 |
|------------------------------------|------|-------------------|--------------------|--------------------|
| Preferred Shares | | | | |
| Non-operational | | | | |
| First Centennial Clark Corporation | FCCC | 60.00 | 500,000,000 | 500,000,000 |
| | | | 1,672,147,167 | 1,672,147,167 |
| Allowance for impairment losses | | | (1,269,832,038) | (1,269,832,038) |
| | | | 402,315,129 | 402,315,129 |

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 dividend income earned by the Company from its investment in subsidiaries amounted to P15.920 million and P9.568 million for the years 2018 and 2017, respectively.

Investment in Joint Venture

This account pertains to hydropower project with Philippine National Oil Company-Renewables Corporation (PNOC-RC) amounting to P 45 million. On July 1, 2014, PNOC-RC and NDC entered into a Memorandum of Agreement for the development, commercialization, operation and maintenance of PRIS MC Hydroelectric Power Project (Rizal Hydropower Project) for energy commercialization. On September 4, 2014, the Department of Energy confirms the declaration of commerciality and approved the conversion of the Rizal Hydropower Service Contract from pre-development to development/commercial stage. This commences the development and utilization of the Rizal Hydropower plant facility with capacity of 1 MW. The plant started commercial operation on July 1, 2016.

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 | 2018 | 2017 (as restated) |
|--|-------|-------------------|----------------------|-----------------------|
| 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 | 58,432,010 | 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 |
| | | | 730,459,705 | 730,827,695 |
| Accumulated equity in net earnings (losses) | | | | |
| Balance at beginning of year | | | (352,164,408) | (372,503,961) |
| Share in net profit for the year | | | 48,336,551 | 35,964,596 |
| Dividends received | | | (18,000,000) | (15,625,043) |
| Balance at end of year | | | (321,827,857) | (352,164,408) |
| Share in revaluation increment of an associate | | | 28,883,100 | 28,883,100 |
| Share in prior period adjustment of associates | | | (4,366,523) | (4,366,523) |
| | | | 433,148,425 | 403,179,864 |
| Allowance for impairment losses | | | (204,486,716) | (204,486,716) |
| | | | 228,661,709 | 198,693,148 |

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.

Investment in Stocks

This account consists of the following:

| | | % of Ownership | 2018 | 2017 |
|--------------------------------------|-------|-------------------|-----------------|-----------------|
| 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 project (NDC Rattan) | | | 62,406,520 | 62,406,520 |
| Others | | | 99,455,145 | 99,455,145 |
| | | | 2,315,961,526 | 2,315,961,526 |
| Allowance for impairment losses | | | (2,119,514,636) | (2,119,514,636) |
| | | | 196,446,890 | 196,446,890 |

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 due to 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.

The dividend income earned by the Company from its investment in stocks amounted to P1.424 million and P192.643 million for the years 2018 and 2017, respectively.

Financial assets at amortized cost

This account consists of long-term investments in retail treasury bonds purchased by NDC from the Land Bank of the Philippines with an interest rate ranging from 3.125 per cent to 4.875 per cent. Placement made amounted to P1.157 billion and P1.084 billion in 2018 and 2017, respectively.

Interest earned on these investments amounted to P39.632 million and P39.524 million in 2018 and 2017, respectively.

Financial assets at fair value through other comprehensive income

This account consists of the following:

| | 2018 | 2017 (as restated) |
|--|-------------------|-----------------------|
| Manila Golf and Country Club | 52,000,000 | 52,000,000 |
| Philippine Long Distance Telephone Company | 18,507,400 | 17,069,325 |
| Makati Sports Club | 480,000 | 480,000 |
| Philippine Columbian Association | 80,000 | 80,000 |
| | 71,067,400 | 69,629,325 |
| Market adjustment | 6,700,725 | 1,438,075 |
| | 77,768,125 | 71,067,400 |

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 2018. Details are as follows:

| | 2018 | 2017 |
|---|---------------|---------------|
| Land | | |
| Macapagal Blvd., Pasay City | 4,186,710,000 | 2,106,040,000 |
| M Fortich/Libona, Bukidnon | 1,579,651,000 | 1,268,540,000 |
| Pandacan, Manila | 1,235,064,000 | 2,519,531,000 |
| Sucal, Muntinlupa | 1,195,530,000 | 12,911,758 |
| Philphos Assets-LIDE | 1,167,491,200 | 935,751 |
| Sen. Gil Puyat, Makati City | 773,700,000 | 765,960,000 |
| Lapu-Lapu City, Cebu | 754,140,000 | 754,140,000 |
| Toril, Davao City | 748,785,000 | 705,000,000 |
| Dasmarinas, Cavite | 720,678,250 | 663,026,090 |
| Tordesillas St., Salcedo Village, Makati City | 380,760,000 | 361,720,000 |
| Barangka, Mandaluyong City | 379,000,000 | 299,410,000 |
| P.Tamo & Dela Rosa Sts., Makati City | 288,871,000 | 157,180,000 |
| Isabel, Leyte | 258,826,000 | 81,028,235 |
| San. Juan St., Bacolod City | 197,955,000 | 197,955,000 |
| Kamagong & Sampaloc Sts., Makati City | 182,120,000 | 100,480,000 |
| Bagong Ilog, Pasig City | 115,360,000 | 59,660,000 |
| Diliman, Quezon City | 104,287,500 | 65,000,000 |
| Lacson & Rizal Sts, Bacolod City | 90,280,000 | 88,650,000 |
| Bugo Dist., Cagayan De Oro City | 80,157,000 | 75,590,800 |
| Poblacion, Parang, Cotabato | 79,856,000 | 250,000 |
| Baliwasan, Zamboanga City | 65,940,000 | 824,000 |
| Meycauyan, Bulacan | 62,772,000 | 23,540,000 |
| Sta. Fe, Bantayan, Cebu | 48,732,000 | 48,730,000 |
| San Andres & E. Quirino Ave., Manila | 42,176,000 | 791,000 |
| Bo. San Juan & Sto. Nino, Pampanga | 38,150,000 | 168,000 |
| Hermosa, Bataan | 37,875,000 | 10,963 |
| San Dionisio, Paranaque | 37,789,000 | 1,600,201 |
| Sambag, Cebu | 25,746,000 | 463,338 |
| Aguinaldo & Luna St., Iligan City | 20,748,000 | 16,760,000 |
| San Roque, Tarlac | 20,328,000 | 20,210,000 |
| San Francisco Del Monte, Quezon City | 15,550,000 | 1,284,660 |
| Sta. Mesa, Manila | 14,996,211 | 14,996,211 |
| Dao, Tagbilaran, Bohol | 11,550,000 | 1,048 |
| Bongabon, Nueva Ecija | 9,847,000 | 28,210 |
| Bo Bia-an, Mariveles, Bataan | 9,333,000 | 30,000 |
| Mariveles, Bataan | 7,191,000 | 638,351 |
| Los Baños, Laguna | 6,943,000 | 750,401 |
| Bonot, Legaspi City | 6,000,000 | 18,121 |
| Suyong, Echangue, Isabela | 5,773,000 | 63,000 |
| Bo. Langhian, Butuan City | 4,853,000 | 3,500 |
| Calatagan, Batangas | 3,393,000 | 16,000 |
| Sta. Rosa, Laguna | 3,000,000 | 19,323 |
| Guadalupe, Cebu City | 2,784,000 | 40,170 |
| San Fernando, Pampanga | 2,400,000 | 86,879 |
| Cagayan de Oro City | 2,159,000 | 33,713 |
| Porac, Pampanga | 1,536,000 | 13,070 |
| San Isidro, Antipolo City | 1,117,000 | 7,759 |
| Tanay, Rizal | 1,028,000 | 46,372 |
| San Jose, Antipolo City | 825,000 | 175,000 |
| Talakag, Bukidnon | 236,000 | 15,278 |
| San Jose Del Monte, Bulacan | 0 | 582,222 |
| Nasugbu, Batangas | 0 | 107,835 |
| San Ildefonso, Bulacan | 0 | 6,018,566 |

| | 2018 | 2017 |
|--------------------------------|-----------------------|-----------------------|
| Balataan, Camarines Sur | 0 | 10,000 |
| Lagonoy, Camarines Sur | 0 | 3,315 |
| | 15,029,992,161 | 10,421,095,140 |
| Buildings | | |
| Industry & Investment Building | 126,328,000 | 137,000,000 |
| NDC Building | 51,061,000 | 54,060,000 |
| Manila Luxury Condominium | 8,130,000 | 8,130,000 |
| Leyte Port Complex | 1,468,320 | 1,538,000 |
| | 186,987,320 | 200,728,000 |
| | 15,216,979,481 | 10,621,823,140 |

Lands located at Barangka, 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 P190.824 million and P187.506 million for the years 2018 and 2017, respectively (Note 8).

12. PROPERTY AND EQUIPMENT

This account consists of the following:

| | Land and Improvements | Buildings & Building Improvements | Furniture & Equipment | Total |
|---|--------------------------|--------------------------------------|--------------------------|-------------------|
| December 31, 2018 | | | | |
| Cost | | | | |
| At January 1, 2018 | 610,988,253 | 6,008,099 | 663,420,355 | 1,280,416,707 |
| Additions | 29,410 | 1,871,229 | 5,651,389 | 7,552,028 |
| Disposals | 0 | 0 | (2,743,293) | (2,743,293) |
| Adjustments | (7,395) | 0 | (58,287) | (65,682) |
| At December 31, 2018 | 611,010,268 | 7,879,328 | 666,270,164 | 1,285,159,760 |
| Accumulated depreciation | | | | |
| At January 1, 2018 | 607,425,058 | 5,870,099 | 659,035,115 | 1,272,330,272 |
| Depreciation for the year | 355,941 | 0 | 1,588,559 | 1,944,500 |
| Disposals | 0 | 0 | (2,743,260) | (2,743,260) |
| Adjustments | (370) | 0 | (20,269) | (20,639) |
| At December 31, 2018 | 607,780,629 | 5,870,099 | 657,860,145 | 1,271,510,873 |
| Net carrying amount, December 31, 2018 | 3,229,639 | 2,009,229 | 8,410,019 | 13,648,887 |

| | Land and Improvements | Buildings & Building Improvements | Furniture & Equipment | Total |
|---|-----------------------|-----------------------------------|-----------------------|------------------|
| December 31, 2017 | | | | |
| Cost | 610,988,253 | 6,008,099 | 663,420,355 | 1,280,416,707 |
| Accumulated Depreciation/ Adjustment | (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 |

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:

| | 2018 | 2017 (as restated) |
|-----------------------------|-------------------|-----------------------|
| Other non-current assets | | |
| Lands not used in operation | 6,614,104 | 0 |
| Others | 983,001,125 | 981,823,202 |
| Allowance for impairment | (961,708,905) | (961,708,905) |
| | 27,906,324 | 20,114,297 |
| 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 |
| | 28,734,629 | 20,942,602 |

Lands not used in operation pertains to properties located at San Jose del Monte and San Idelfonso, Bulacan and Camarines Sur which were covered by the Comprehensive Agrarian Reform Program (CARP) of the Department of Agrarian Reform (DAR). The Landbank of the Philippines (LBP) has not yet paid for the value of these lands and NDC is still in the process of completing the necessary documents as required by the 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 December 31 in the total amount of P25.242 million and P14.962 million in 2018 and 2017, respectively.

15. INTEREST PAYABLE

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

| | 2018 | 2017 |
|-----------------------------|--------------------|--------------------|
| Net lending | 425,711,403 | 381,604,487 |
| Domestic loan - DOLE Phils. | 4,538,160 | 4,538,160 |
| | 430,249,563 | 386,142,647 |

16. LOANS PAYABLE

This account consists of domestic loans. It includes the balance of the 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 amounting to P1.103 billion and P2.276 billion as of 2018 and 2017, respectively. The amount also includes non-interest bearing loan amounting to P26.591 million payable to the Bureau of the Treasury (BTr) 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.

It also includes guarantee fees amounting to P140 million for the 2nd tranche bond floatation of NDC Agri-Agra Bonds.

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:

| | 2018 | 2017 (as restated) |
|--------------------|------------------|-----------------------|
| Income tax payable | 4,351,033 | 7,295,795 |
| Withholding taxes | 2,531,774 | 1,928,478 |
| Due to GSIS | 121,443 | 504,774 |
| Due to Pag-IBIG | 14,189 | 45,547 |
| Due to Philhealth | 4,417 | 22,663 |
| | 7,022,856 | 9,797,257 |

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:

| | 2018 | 2017 |
|-------------|-------------------|-------------------|
| Current | 33,548,441 | 32,557,857 |
| Non-current | 44,568,631 | 39,378,067 |
| | 78,117,072 | 71,935,924 |

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 P9.312 million and P7.941 million in 2018 and 2017, 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:

| | 2018 | 2017 |
|---------------------------|--------------------|--------------------|
| Settlement of legal cases | 156,876,221 | 156,876,221 |
| Leave benefits | 4,520,435 | 3,958,881 |
| | 161,396,656 | 160,835,102 |

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. On July 26, 2017, OGCC filed its Consolidated Comment with Motion to Refer Case to the Court En Banc.

Leave benefits pertains to the accrual of money value of leave credits earned by NDC employees as of December 31, 2018 and 2017, respectively.

21. DIVIDENDS

This account consists of dividends from the following:

| | 2018 | 2017 |
|--|-------------------|--------------------|
| Subsidiaries and other investments: | | |
| Kamayan Realty Corporation | 7,477,442 | 1,187,670 |
| G.Y. Realty Estate, Inc. | 5,291,909 | 5,419,813 |
| Batangas Land Company, Inc. | 2,525,138 | 2,617,000 |
| Science Park of the Philippines, Inc. | 1,423,705 | 0 |
| Pinagkaisa Realty Corporation | 352,387 | 343,806 |
| NDC -Philippines Infrastructure Corp. | 272,953 | 0 |
| Asean-Bintulu Fertilizer Sdn. Bhd. | 0 | 192,643,574 |
| | 17,343,534 | 202,211,863 |
| Associates accounted for using equity method | 18,000,000 | 15,625,043 |
| | 35,343,534 | 217,836,906 |

The total dividends received for the years 2018 and 2017 amounted to P35.343 million and P217.837 million respectively.

22. PERSONNEL SERVICES

This account consists of the following:

| | 2018 | 2017 |
|---------------------------------|-------------------|-------------------|
| Salaries and wages | 19,043,817 | 16,597,477 |
| Other compensation | 5,652,329 | 5,008,766 |
| Personnel benefit contributions | 2,508,697 | 2,176,083 |
| Other personnel benefits | 1,581,016 | 1,130,377 |
| | 28,785,859 | 24,912,703 |

23. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

| | 2018 | 2017 (as restated) |
|--|--------------------|-----------------------|
| Taxes, insurance premiums and other fees | 39,560,915 | 38,454,472 |
| General services | 24,270,396 | 21,689,122 |
| Impairment loss | 14,033,472 | 22,545,874 |
| Professional services | 13,572,266 | 10,278,908 |
| Repairs and maintenance | 6,052,906 | 2,122,674 |
| Utility | 2,976,235 | 2,903,492 |
| Confidential, intelligence and extraordinary | 2,549,956 | 3,122,468 |
| Depreciation | 1,955,163 | 4,478,457 |
| Training and scholarship | 1,326,673 | 1,069,428 |
| Communication services | 1,146,124 | 1,213,362 |
| Supplies and materials | 914,107 | 1,299,212 |
| Traveling | 829,800 | 828,467 |
| Other maintenance and operating expenses | 2,654,512 | 2,285,075 |
| | 111,842,525 | 112,291,011 |

24. OTHER INCOME (EXPENSES)

This account consists of the following:

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Gain from changes in fair market value of investment property, net | 4,598,807,365 | 2,949,906,272 |
| Gain on sale of assets, net | 68,300,169 | 36,525,317 |
| Share in net profit of associates | 48,336,551 | 35,964,596 |
| Gain on foreign exchange, net | 10,885,798 | 758,098 |
| Share in the profit of joint venture | 1,941,735 | 0 |
| Miscellaneous income | 40,687,601 | 37,637,901 |
| Gain on redemption of investment | 0 | 1,770,014 |
| Financial expenses | (68,078,296) | (80,231,810) |
| | 4,700,880,923 | 2,982,330,388 |

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 2018 and 2017.

Gain on sale of assets pertains mainly to the gain on sale of properties located in San Fernando, Pampanga and Polomolok, South Cotabato which are covered by the Comprehensive Agrarian Reform Program of the Department of Agriculture.

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

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

Share in the profit of joint venture pertains to proportionate share in the profit from Rizal Hydro Power Project of Philippine National Oil Company- Renewables Corporation and NDC.

Miscellaneous income includes income arising from excess of standard input value added tax (vat) for sales of goods and services to government over actual input vat as required by Bureau of Internal Revenue and assessment charges from lessees. The CY 2018 amount also includes a reversal of impairment losses provided for rental receivables.

25. INCOME TAX EXPENSE

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

| | 2018 | 2017 (as restated) |
|----------|----------------------|-----------------------|
| Current | 119,472,259 | 230,530,285 |
| Deferred | 1,263,210,707 | 739,803,643 |
| | 1,382,682,966 | 970,333,928 |

Reconciliation between statutory tax and effective tax is as follows:

| | 2018 | 2017 (as restated) |
|--|----------------------|-----------------------|
| Income tax at statutory rate | 1,465,801,165 | 997,554,703 |
| Non-deductible interest expense | 0 | 7,990,991 |
| Dividend income not subject to income tax | (5,203,060) | (2,870,487) |
| Impairment/share in net loss of affiliates | (14,500,965) | (10,789,379) |
| Share in net profit of associates | (20,220,318) | (43,271) |
| Income subjected to final tax | (35,233,292) | (24,215,124) |
| Other reconciling items | (7,960,564) | 2,706,495 |
| | 1,382,682,966 | 970,333,928 |

An analysis of deferred tax liability follows:

| | 2018 | 2017 (as restated) |
|----------------------------------|------------------------|------------------------|
| Allowance for impairment | 741,293,589 | 737,227,480 |
| Unrealized foreign exchange gain | (3,493,168) | (227,429) |
| Prepayments | 0 | (286,126) |
| Rental receivables | (26,324,549) | (19,414,186) |
| Interest receivables | (130,180,874) | (265,802,104) |
| Investment property | (4,366,005,268) | (2,972,997,198) |
| | (3,784,710,270) | (2,521,499,563) |

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

| | 2018 | 2017 |
|--|------------------|------------------|
| Tax due | 119,472,259 | 226,487,937 |
| Creditable withholding tax | (7,530,526) | (8,100,132) |
| Income taxes paid for first three quarters | (107,590,700) | (216,998,377) |
| | 4,351,033 | 1,389,428 |

The expiration date of minimum corporate income tax (MCIT) and net operating loss carry-over (NOLCO) follows:

| Year Incurred | Date of Expiration | MCIT | NOLCO |
|---------------|--------------------|-------------------|--------------------|
| 2014 | December 31, 2017 | 0 | 143,442,687 |
| 2015 | December 31, 2018 | 13,386,628 | 0 |
| | | 13,386,628 | 143,442,687 |

Deferred tax asset from MCIT, is the carry-forward benefit of the excess of MCIT over the regular corporate income tax. 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.

26. SHARE CAPITAL

This account represents the capital infusion of the National Government (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.

27. RESTATEMENT OF ACCOUNTS

The 2017 financial statements were restated to reflect the following transactions/adjustments:

CY 2016 errors discovered in 2017 and 2018

| | December 31, 2016 (As previously restated) | Restatements/ Adjustments | January 1, 2017 (As restated) |
|---|---|------------------------------|-------------------------------------|
| STATEMENT OF FINANCIAL POSITION | | | |
| Receivables, net-current | 215,982,862 | (298,398) | 215,684,464 |
| <i>Over and under accrual of rental receivables</i> | | <i>(298,398)</i> | |
| Investments | 1,894,671,912 | 63,371,239 | 1,958,043,151 |
| <i>Reclassification of AFS to FVOCI</i> | | <i>68,973,025</i> | |
| <i>Adjustment on investments related to equity share under investment in associates</i> | | <i>(5,601,786)</i> | |
| Restatement on total assets- net increase | | 63,072,841 | |
| Accounts payable | 19,686,856 | 3,861 | 19,690,717 |
| <i>Under accrual of general services expense</i> | | <i>3,861</i> | |
| Loans payable | 3,480,024,400 | 140,000,000 | 3,620,024,400 |
| <i>Recognition of guarantee fees of NDC Agri-Agra bonds</i> | | <i>140,000,000</i> | |
| Add: Restatement on total liabilities- increase | | 140,003,861 | |
| Restatement on statement of financial position- net decrease | | (76,931,020) | |

CY 2017 errors discovered in 2018

| | December 31, 2017 (As previously reported) | Restatements/ Adjustments | December 31, 2017 (As restated) |
|---|---|------------------------------|---------------------------------------|
| STATEMENT OF FINANCIAL POSITION | | | |
| Receivables, net- current | 246,720,269 | 377,786 | 247,098,055 |
| <i>Over and under accrual of rental receivables</i> | | <i>(298,398)</i> | |
| <i>Reclassification of other receivable account to prepayments</i> | | <i>(1,830,935)</i> | |
| <i>Recognition of current portion of loans receivable</i> | | <i>1,038,254</i> | |
| <i>Reclassification of other noncurrent asset to due from subsidiaries/associates/ affiliates</i> | | <i>1,468,865</i> | |
| Other current assets | 23,386,589 | 1,830,935 | 25,217,524 |
| <i>Reclassification of other receivable account to prepayments</i> | | <i>1,830,935</i> | |
| Investments | 1,944,141,141 | 53,450,497 | 1,997,591,638 |
| <i>Reclassification of AFS to FVOCI</i> | | <i>70,411,100</i> | |
| <i>Adjustment on investments related to equity share under investment in associates</i> | | <i>(62,041,903)</i> | |

| | December 31, 2017 (As previously reported) | Restatements/ Adjustments | December 31, 2017 (As restated) |
|---|---|------------------------------|---------------------------------------|
| <i>Reclassification of joint venture (JV) project to investment in JV account</i> | | 45,000,000 | |
| <i>Reclassification of PLDT shares to investment in stocks account</i> | | 81,300 | |
| Receivables, net- non current | 2,817,811,048 | (1,038,254) | 2,816,772,794 |
| <i>Reclassification of current portion of loans receivable</i> | | (1,038,254) | |
| Other non-current assets and deferred charges | 67,492,767 | (46,550,165) | 20,942,602 |
| <i>Reclassification of joint venture (JV) project to investment in JV account</i> | | (45,000,000) | |
| <i>Reclassification of other noncurrent asset to due from subsidiaries/associates/ affiliates</i> | | (1,468,865) | |
| <i>Reclassification of PLDT shares to investment account</i> | | (81,300) | |
| Restatement on total assets- net increase | | 8,070,799 | |
| Accounts payable | 14,809,390 | 152,401 | 14,961,791 |
| <i>Under accrual of various maintenance and other operating expenses</i> | | 152,401 | |
| Loans payable | 2,306,824,400 | 140,000,000 | 2,446,824,400 |
| <i>Recognition of guarantee fees of NDC Agri-Agra bonds</i> | | 140,000,000 | |
| Inter-agency payable | 5,754,909 | 4,042,348 | 9,797,257 |
| <i>Under accrual of general services expense</i> | | 4,042,348 | |
| Add: Restatement on total liabilities- net increase | | 144,194,749 | |
| Restatement on statement of financial position- net decrease | | (136,123,950) | |
| STATEMENT OF COMPREHENSIVE INCOME | | | |
| Rent Income | 170,797,809 | 16,708,299 | 187,506,108 |
| <i>Recognition of real property tax payment by lessees as part of income</i> | | 16,708,299 | |
| Maintenance and other operating expenses | 95,434,172 | 16,856,839 | 112,291,011 |
| <i>Under accrual of various maintenance and other operating expenses</i> | | 148,540 | |
| <i>Non recognition of real property tax payment by lessees</i> | | 16,708,299 | |
| Income tax expense-current | 226,487,937 | 4,042,348 | 230,530,285 |
| <i>Increase in income tax expense based on final financial statements</i> | | 4,042,348 | |
| Restatement on net income- net decrease | | (4,190,888) | |
| Other comprehensive income | 0 | 1,438,075 | 1,438,075 |
| <i>Recognition of unrealized gain on financial asset at FVOCI</i> | | 1,438,075 | |
| Add: Restatement on other comprehensive income- net decrease | | 1,438,075 | |
| Restatement on statement of comprehensive income- net decrease | | (2,752,813) | |
| Total restatement on 2017 financial statements | | (138,876,763) | |

The Company presented three Statements of Financial Position in compliance with the requirements of PAS 1, *Presentation of Financial Statements*, to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

28. RELATED PARTIES

Key Management Compensation

Key management includes the board of directors, all members of management and other Company officers. Key management compensation totaled P9.964 million and P8.231 million in 2018 and 2017, respectively. A breakdown of these amounts follows:

| | 2018 | 2017 |
|-------------------------|------------------|------------------|
| Salaries and allowances | 8,063,937 | 7,769,398 |
| Other benefits | 1,900,560 | 461,877 |
| | 9,964,497 | 8,231,275 |

29. COMPLIANCE WITH REPUBLIC ACT No. 7656

Pursuant to Republic Act No. 7656, requiring government-owned or controlled corporations and their subsidiaries to declare dividends under certain conditions and remit the same to the National Government, NDC remitted to the Bureau of the Treasury P160.592 million and P421.309 million in CYs 2018 and 2017, respectively. Similarly, the following NDC subsidiaries remitted total dividends of P15.920 million and P9.568 million in 2018 and 2017, respectively, which represent NDC's share in the dividends, broken down as follows:

| | 2018 | 2017 |
|--|-------------------|------------------|
| Kamayan Realty Corporation | 7,477,442 | 1,187,670 |
| GY Real Estate, Inc. | 5,291,909 | 5,419,813 |
| Batangas Land Company, Inc. | 2,525,138 | 2,617,000 |
| Pinagkaisa Realty Corporation | 352,387 | 343,806 |
| Philippine International Trading Corporation | 272,953 | 0 |
| | 15,919,829 | 9,568,289 |

30. 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, 2018 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. | The court granted NDC's Motion for Execution on September 22, 2014. To date, the court has not issued the 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. As of December 2018, no other related documents have been received. |
| 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). | Annulment of deed of sale, reconveyance of real properties, damages with prayer for preliminary | No amount involved as the issue to be resolved is ownership. | On February 16, 2018, OGCC filed its Memorandum. On March 20, 2018, OGCC received copy of the Plaintiff- |

| Title of Case | Nature | Amount | Status |
|---|--|--|---|
| | mandatory injunction | | Intervenor's Memorandum |
| Primo Gelacio vs. NDC-Guthrie Plantations, Inc. & NDC Luzviminda Gelacio-Bahala vs. NDC GR No. 138736 (CA-GR CV No. 43924). | For recovery of possession with damages and attorney's fees. | P100,000 more or less (principal only) | On November 10, 2018, the Court issued Writ of Execution, copy of which was received by NDC on December 11, 2018. To date, no other related documents have been received. |
| 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. | On October 20, 2018, OGCC filed its Motion for Reconsideration of the July 11, 2018 Resolution denying the Petition for Review. |
| NDC vs. DAR & LBP. (Civil Case No. 7172 RTC-Branch I, Balanga, Bataan) LBP vs. NDC. (CA-GR-SP No. 99765 15 th Division). | Determination of just compensation | P2.737 million | Supreme Court remanded the case to RTC for the determination of just compensation. |
| Heirs of Pacabis vs. NDC. (Civil Case No. 3442-0 Br. 35, Ormoc City). | Determination of just compensation | Per Commissioner's Report, P40 per square meter involving 80,000 sq. m. or approximately P3.2 million (principal only) | On October 31, 2018, OGCC filed the petition for Review on Certiorari. |
| 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. |

| Title of Case | Nature | Amount | Status |
|--|--|---|--|
| 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 Montaña) s. Pascual Boada, NDC represented by its GR or President and DOLE Phils.). RED CLAIM NO. 038-2003 CENRO CLAIM NO. 84 LOT NO. 13-Gss-390] | Petition for Certiorari with TRO or Preliminary Injunction | No amount involved as the issue to be resolved 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. |
| 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 denied the Motion for Reconsideration filed by NDC. A notice of appeal was filed by NDC to CA on March 2018. |
| Philippine Associated Smelting and Refining Corp. (PASAR) v. NDC Case No. R-ORM-09-00009-CV RTC-Br. 35 Ormoc City CC R-ORM-15-00078-CV | For quieting of title with prayer for temporary restraining order and/or writ of preliminary injunction | No amount involved as the issue to be resolved is ownership. | On November 19, 2018, OGCC filed a Manifestation that due to a threat of heavy rain of tropical depression "Samuel" in the Visayas and |

| Title of Case | Nature | Amount | Status |
|---------------|--------|--------|---|
| | | | Mindanao Region, NDC's intended witness cancelled her flight for safety and security reasons and prays to the Court that the November 20, 2018 scheduled hearing be cancelled and be re-set preferably on January 30, 2019. |

31. GENDER AND DEVELOPMENT

The Company allotted P0.625 million for Gender and Development (GAD) program for CY 2018. 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.

32. 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 | 36,504,019 |
| Mayor's permit | 1,210,326 |
| Community tax certificate | 10,500 |
| Annual registration-BIR | 500 |
| | <u>37,725,345</u> |

b. Withholding taxes paid:

| | |
|------------------------------|------------------|
| Tax on compensation | 3,894,769 |
| Creditable withholding taxes | 2,650,877 |
| | <u>6,545,646</u> |

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL AUDIT

1. As at December 31, 2018, dormant/inactive receivables totaling P539.354 million which have been outstanding for more than ten (10) years and with remote possibility of collection remained in the books which is not compliant with the provisions of paragraph 5.4.4 of Philippine Financial Reporting Standard (PFRS) No. 9 and COA Circular No. 2016-005 dated December 19, 2016.

- 1.1 Paragraph 5.4.4 of PFRS 9 provides that:

“An entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.”

- 1.2 On the other hand, Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016 states that:

“All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable xxx”

- 1.3 Dormant receivables as defined under the same Circular are accounts with balances that remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.

- 1.4 Verification of the account disclosed that receivables from subsidiaries/associates/affiliates and national government with an aggregate outstanding balance of P539.354 million remained dormant/non-moving for more than 10 years as of December 31, 2018, details are shown below:

| Debtors | Amount |
|--|--------------------|
| Luzon Stevedoring Corporation | 277,304,631 |
| First Centennial Clark Corporation | 146,648,481 |
| BTR – National Steel Corporation | 85,259,269 |
| National Steel Corporation | 8,550,175 |
| Jao and Company | 7,520,000 |
| Lusteveco - Unionbank | 2,942,181 |
| Asia Industries, Inc. | 2,750,005 |
| Philippine Dockyard Corporation | 2,538,432 |
| Transport Contractors, Inc. | 2,313,031 |
| Lusteveco - Socgen | 1,569,343 |
| Lusteveco - ICB Line | 1,155,932 |
| National Shipping Corporation of the Philippines | 500,699 |
| PICOP – Rattan | 300,000 |
| Negros Occidental Copperfield Mines, Inc. | 2,173 |
| Republic of the Philippines | 100 |
| | 539,354,452 |

- 1.5 Inquiry with the Accountant disclosed that these dormant accounts were advances made to subsidiaries/associates/affiliates of NDC, which are now either dissolved or inactive. The possibility of collection/settlement may be already nil/remote. Further, the enumerated dormant accounts are provided with full allowance for impairment losses.
- 1.6 **We recommended that Management:**
- a. **Reassess the dormant/inactive receivables and evaluate its collectability by determining the status of the debtors, among others; and**
 - b. **Document all the efforts exerted to collect/recover the dormant/inactive accounts.**
- 1.7 Management informed that they shall evaluate the accounts. NDC filed a request from the Securities and Exchange Commission on the status of the corporations listed in the observation. However, they request for ample time to locate the necessary documents needed to support the request for authority to write-off.
2. **Of the total Rental Receivable account of P87.493 million, P57.568 million or 66 per cent is considered doubtful, P12.093 million of which has been dormant for several years.**
- 2.1 As of December 31, 2018, Rental Receivable had a book value of P87,493,032 with corresponding allowance for impairment losses of P57,567,899 or a carrying amount of P29,925,134. The Audit Team categorized the account as follows:

| | Rental Receivable | Allowance for Impairment Losses | Carrying Amount |
|---|-------------------|---------------------------------|-------------------|
| Dormant Accounts | 12,093,442 | 12,093,442 | 0 |
| Current Lessees- with doubtful accounts | 51,414,712 | 45,474,457 | 5,940,256 |
| Current Lessees | 23,984,878 | 0 | 23,984,878 |
| | 87,493,032 | 57,567,899 | 29,925,134 |

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

| Name | Rental Receivable | Allowance for Impairment Losses | Years Dormant |
|--------------------------------------|-------------------|---------------------------------|---------------|
| Bouguel's Eatery | 8,929 | 8,929 | 2.3 |
| Ecobay Property Management, Inc. | 157,565 | 157,565 | 3.0 |
| Renato V. Diaz | 2,934,600 | 2,934,600 | 3.5 |
| Globe Telecom | 550 | 550 | 5.2 |
| Al Amanah Islamic Bank of the Phils. | 120,168 | 120,168 | 5.9 |
| Sampaguita Travel Corp. | 186,346 | 186,346 | 6.0 |
| Traveltipid. Com | 56,036 | 56,036 | 6.0 |

| Name | Rental Receivable | Allowance for Impairment Losses | Years Dormant |
|------------------------------------|-------------------|---------------------------------|---------------|
| Panay Railways, Inc. | 5,078,316 | 5,078,316 | 7.5 |
| Manila Pest Control | 520,000 | 520,000 | 9.2 |
| Sweet Lines Inc. | 2,693,036 | 2,693,036 | >10.0 |
| Senate of the Philippines | 12,839 | 12,839 | >10.0 |
| Francisco, Merlando G. | 106,531 | 106,531 | >10.0 |
| DTI/HITR | 94,344 | 94,344 | >10.0 |
| Spectrum Engineering & Consultancy | 124,182 | 124,182 | >10.0 |
| | 12,093,442 | 12,093,442 | |

This has been an observation in the previous year, however, there were no apparent actions from NDC to recover these dormant accounts. Management should exhaust all possible means to recover these long overdue accounts.

2.3 We reiterate our recommendation that Management:

- a. Evaluate collectability of accounts with significant allowance for impairment losses and take appropriate action for the collection of dormant accounts; and
- b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for authority to write-off said accounts is warranted.

2.4 Management replied that they continue to identify ways in order to recover and collect from these various accounts. These include sending monthly billing statements, demand letters and regular follow up phone calls to lessees. They also commented that most of the lessees have either transferred or closed but they shall evaluate again these accounts.

3. Security deposits payable amounting to P4.428 million remained unclaimed or outstanding for two years and more, contrary to the provisions of Section 98 of Presidential Decree (PD) No. 1445 and Executive Order (EO) No. 109 dated June 10, 1999 as implemented by DBM-COA Joint Circular No. 99-6.

3.1 Section 98 of PD No. 1445 on reversion of unliquidated balances of accounts payable provides that:

The Commission upon notice to the head of agency concerned may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished.

- 3.2 The above-stated provision was reiterated in EO No. 109 dated June 10, 1999 and implemented by DBM-COA Joint Circular No. 99-6 dated November 13, 1999 providing guidelines on the reversion of accounts payable for all National Government Agencies and Government Owned or Controlled Corporations maintaining a General Fund and Special Account in the General Fund.
- 3.3 The security deposits payable account refers to the deposits received from bidders or suppliers to assure full and faithful performance of contractor/s' work, deposits received from lessees to guarantee the fulfillment of terms of the lease agreement and other claims arising from the contract/s.
- 3.4 Verification of the account disclosed that various security deposits with an aggregate outstanding balance of P4.428 million remained unclaimed as of December 31, 2018, details as follows:

| Bidders/Suppliers/ Lessee | Particulars | Amount | Estimated No. of Years Dormant |
|---------------------------------------|-------------------------|------------------|--------------------------------|
| Firestone Ceramics | Rental security deposit | 1,351,827 | 5 & above |
| Golden Horizon Realty Company | Rental security deposit | 1,333,213 | 5 & above |
| Nava Fortune Holdings Inc. | Bid security | 875,000 | 5 & above |
| Sweet Lines Inc. | Rental security deposit | 495,000 | 5 & above |
| Government Service Insurance System | Rental security deposit | 161,421 | 5 & above |
| Miscellaneous | | 45,182 | 4 |
| Toyota Pasong Tamo, Inc. | Bid security | 40,000 | 2 |
| International Advocates | Rental security deposit | 31,945 | 5 & above |
| BNC Construction and Repair Services | Rental security deposit | 20,000 | 2 |
| Sunrise Industries, Inc. | Rental security deposit | 18,000 | 5 & above |
| Reygem Builders | Performance bond | 16,702 | 5 & above |
| Globe Telecom | Rental security deposit | 15,000 | 2 |
| Cal-Fil Appraisal & Management, Inc. | Bid security | 10,700 | 2 |
| Patient First Medical Center | Performance bond | 7,200 | 5 & above |
| Infinite Quality Designs Center, Inc. | Bid security | 5,000 | 5 & above |
| Redama Gil | Rental security deposit | 1,964 | 5 & above |
| | | 4,428,154 | |

- 3.5 While these payables represent valid claims at the time they were recorded, the lapse of time that they have been long outstanding in the books casts doubts on their validity and existence. The length of time that these accounts have remained outstanding dictates that the Company should either refund the security deposits to the suppliers, bidders and lessees after fulfillment of the purposes of the bond and lease agreements or forfeit the security deposits for failure to comply.
- 3.6 Moreover, the miscellaneous account of various dates amounting to P45,182, which were dormant for four years casts doubts on the validity and existence because there was no specific company/bidder or individual indicated for the claim and the nature of the account cannot be ascertained.
- 3.7 Further, we prepared nine confirmation letters for nine accounts from the above list of bidders/suppliers/lessee, but only six letters were sent because the other three letters were not dispatched due to non-availability of addresses. To date, of the six confirmation letters sent, three were returned to the Audit Team due to insufficient addresses while the other three confirmations have no reply.

- 3.8 The continuous recognition of these long outstanding payables in the books is contrary to the provisions of Section 98 of PD No. 1445 and EO No. 109.
- 3.9 **We recommended that adjusting entries be made to revert back to the general fund the security deposits payable pursuant to the provisions of the DBM-COA Joint Circular No. 99-6.**
- 3.10 NDC Management has identified the accounts that can be forfeited in their favor but are still verifying other accounts with concerned workgroups.

B. Compliance Audit

4. Non-settlement of the old Mintex liabilities and non-liquidation of the Mintex escrow fund for which NDC was appointed as a trustee.

- 4.1 On October 27, 1989, Human Settlements Development Corporation also known as Strategic Investment and Development Corporation (SIDCOR), Southern Philippines Development Authority (SPDA) and NDC entered into a trust and management agreement (with subsequent amendments), whereby NDC was appointed as trustee. The purpose of the trust is the full settlement and liquidation of the old Mintex liabilities which were assumed by the parties and the eventual distribution of the remaining trust assets, if any, net of liabilities.
- 4.2 The Mintex escrow fund amounting to P21.648 million as of December 31, 2018 are regularly invested in Special Savings Deposits (SSD) and Retail Treasury Bond (RTB) with terms of 180 days to 24 years and interest rates per annum ranging from 1.80 per cent to 4.00 per cent. This fund was classified as current asset in the books of NDC with a recorded counterpart in the current liabilities.
- 4.3 The Management, in its reply dated March 26, 2018 to our Audit Query Memorandum No. 2018-002 (17) dated March 7, 2018, mentioned that they will meet and discuss with representatives of the SIDCOR and SPDA or whoever succeeded the said companies for the purpose of dividing the fund since the likelihood of any contingent liabilities to be claimed against the fund is now close to impossible because of prescription of the liability as stipulated in the agreement.
- 4.4 During the exit conference for the CY 2017 audit, Management mentioned that once the representatives of SIDCOR and SPDA are determined, they will ask for respective authorized signatories necessary for the plan of actions on the settlement of contingent liabilities. To date, there is no update on the action taken on the said undertaking.
- 4.5 **We recommended that Management:**
- a. **Gather documents related to the creditors of Mintex, including but not limited to Annex A-1 of the Deed of Undertaking for the eventual settlement of liabilities; and**
 - b. **Communicate with HSDC and SPDA to discuss the disposition of the escrow fund.**

- 4.6 Management commented that they will request for legal opinion on the distribution of the escrow fund. However, they are still locating the complete documents relating to the transactions.
- 4.7 NDC asserted that to be able to meet with SIDCOR and SPDA, it conducted a research on the status of the two companies, which is presented as follows:
- a. HSDC (SIDCOR)
 - a.1 There is a Special Order No. 1072 from the Department of Agriculture (DA) dated October 24, 2018 Reconstituting the Transition Management Committee (TMC) of the Human Settlements Development Corporation;
 - a.2 Chairman is Ferdinand F. Piñol, the Chief of Staff under the Office of the Secretary (OSEC); and
 - a.3 Members of the TMC include among others the HSDC General Manager (GM), Assistant GM and Legal Officer, and the Legal Officer of the DA, OSEC
 - b. SPDA
 - b.1 Administrator and Chief Executive Officer is Abdulghani A. Salapuddin;
 - b.2 In a memorandum dated September 14, 2018, Malacanang revoked the GCG memorandum relative to the abolition of SPDA and its subsidiary, the Marawi Resort Hotel, Inc.
- 4.8 Management further informed that they will arrange a meeting with the representatives of these companies to discuss the settlement of Mintex liabilities.
- 5. The Investment Property account includes a parcel of land located at Los Baños, Laguna valued at P6.943 million which is occupied by informal settlers and included in the scope of Presidential Proclamation 550 s. 2004 reserving the land for housing site purposes.**
- 5.1 We conducted an ocular inspection on NDC's properties located in the province of Laguna on December 4, 2018. The 8,901 square meter (sq. m.)-property in Barangay Bambang, Los Baños under Transfer Certificate Title No. T-120017 is traversed by Bambang National Highway. The lot was acquired by NDC from the Luzon Stevedoring Corporation, a wholly-owned subsidiary of NDC through a Deed of Assignment dated October 4, 1984.
 - 5.2 There were several concrete houses found erected/built on the property. According to the Municipal Assessor of Los Baños, Laguna, there were already informal settlers in the area since 1970s. Based on the tax mapping in 1994, there were 34 residential houses, including a three-door apartment and a chapel, on the land. Their latest estimate of occupants on the property is around 50 households.
 - 5.3 The then President Gloria Macapagal Arroyo issued Presidential Proclamation No. 550 s. 2004 reserving certain parcels of land located in Barangays Lalakay, Bambang and Timugan for housing site purposes and declaring the same open for

disposition. That land of NDC at Barangay Bambang was included. The Local Inter-Agency Committee (LIAC), composed of the Housing and Urban Development Coordinating Council (HUDCC) as Chair, the Local Government Unit (LGU) of Los Baños as Vice-Chairman and the Department of Environment and Natural Resources, Presidential Commission on Urban Poor and the representative of the respective homeowners' associations as members, was created to implement the proclamation. The LIAC issued Certificate of Lot Award (CeLA) to the informal settlers.

- 5.4 In 2012, the Asset Management Group (AMG) of NDC raised the issue of inclusion of the said property to the HUDCC. The matter was referred to Los Baños Mayor Anthony F. Genuino, as the Vice-Chairman of LIAC. AMG provided documents showing ownership of the property.
 - 5.5 Later in that year, NDC requested that a resolution be passed by the LIAC to exclude NDC's property and cancel the CeLA given to the informal settlers. However, the LIAC wanted to verify the authenticity of the NDC title. Based on NDC's follow-up in January 2013, there was no development on the matter. Since then, no further action was made regarding the issue of inclusion of the property. On the other hand, NDC is still the one paying for the annual real property tax (RPT) until 2017.
 - 5.6 **We recommended that Management follow up its request with LIAC to expedite the resolution of the issue and eventual exclusion of NDC's property in the proclamation.**
 - 5.7 Management will again coordinate with LIAC to follow up status of the said NDC request and/or make representation for the payment of NDC of just compensation for the property.
- 6. The exact location and boundaries of the land valued at P3.000 million located in Barangay Tagapo, Sta. Rosa, Laguna could not be ascertained.**
- 6.1 We have inspected the purported location of the property based on a Valuation Report dated December 14, 2015. The 243.95 sq. m.-vacant lot is located along the National Road, Barangay Tagapo, Sta. Rosa City beside a 7-11 Convenient Store and a Caltex gasoline station.
 - 6.2 Upon arrival at the site, we have learned however, that the said lot is being used by the 7-11 Convenient Store as its parking lot. We further noted that the supposed area doesn't seem to measure as 243.95 sq. m. Because of this, we proceeded to the Assessor's office at Sta. Rosa City Hall to determine the exact location and dimensions of NDC's property.
 - 6.3 The said property is triangular in shape with its shortest side at 16.63 meters. But from the 7-11 store to the national highway, the space is estimated to be less than 8 meters, where a van can only park with minimum allowance on its front and back.
 - 6.4 Inquiry with the personnel at the Business Permit and Licensing Office of Sta. Rosa City disclosed that the 7-11 Convenient Store leases the occupied space from Caltex (now Chevron) gas station. This may either mean that the 7-11 Convenient Store is using the area supposed to be the property of NDC as parking lot for free, unknown

and unauthorized by NDC or it could be part of the lease agreement between 7-11 Convenient Store and Caltex gas station. Either way, NDC is deprived of its rights and benefits as the owner of the said lot. For 2018, NDC paid RPT amounting to P10,993.

- 6.5 **We recommended that NDC management coordinate with Chevron and 7-11 Convenient Store managements regarding the use of the property for the latter's parking lot. Additionally, determine the exact boundaries of the land to secure NDC's ownership and rights.**
 - 6.6 Management commented that they will hire the services of a Geodetic Engineer to conduct relocation survey to determine the meters and bounds of the property and to verify the alleged encroachment/unauthorized use of 7-11 Convenient Store of the property and will undertake the appropriate action with Chevron once the survey confirmed the said COA observations.
- 7. Two parcels of land located in Dasmariñas, Cavite with a total area of 272,110 square meters remained idle and vacant.**
- 7.1 NDC owns three parcels of land located in Dasmariñas, Cavite. Two of which are vacant lots without any improvement or any type of structure built thereon while the other one with an area of 16,161.30 sq. m. is a strip of land located in front of First Cavite Industrial Estate (FCIE) park where a portion was leased by FCIE Association, Inc.
 - 7.2 One of the two vacant lots has an area of 80,337 sq. m. The 50,000 sq. m.-portion of the said lot was under a 25-year-lease contract with the LGU of Dasmariñas, Cavite with an annual rental of P1.00 which ended last December 29, 2018. The leased lot was supposed to be used as a training center for vocational and other related skills for the Barangay Langkaan farmers and their beneficiaries in preparation for the establishment of FCIE. However, the project did not materialize.
 - 7.3 We saw no improvement in the area during the inspection and there are nine informal settlers in the far side of the property.
 - 7.4 The largest of the three properties located at Humayao, Dasmariñas has an area of 191,773 sq. m. Except for the three huts in one of its corners, no other visible improvement or structure was seen during the ocular inspection. The guards stated that they are preventing other squatters to enter the properties. For CY 2018, the total real property taxes (RPTs) paid for the two vacant lots is P3.909 million. The 16,161.30 sq. m.-lot is exempted from RPT.
 - 7.5 **We recommended that Management:**
 - a. **Transform these properties into income-generating projects; and**
 - b. **Clear the area from informal settlers to avoid possible delay/dispute that may arise when project development commences.**

7.6 Management commented as follows:

a. Humayao property

a.1 The property covering an area of 191,773 sq. m. is the site of NDC Industrial Estate (NDCIE) project and PEZA has approved its registration as Special Economic Zone. The project supports the program of the government to establish more industrial hubs to create more jobs for the local communities. The bidding for the site development works for the NDCIE project was conducted on March 25, 2019 and once the project is awarded to the winning contractor, the site development works will be completed in about two years.

b. Barangay Langkaan property

b.1 The 25-year lease with the City of Dasmarinas covering the 50,000 sq. m. portion of the property covered by TCT No. 670710 already expired last December 29, 2018. Under the lease agreement, the option to renew for another 25 years was given to the City Government, however, that option was not exercised. The property has a total area of 80,337 sq. m.

b.2 Based on the 3rd party qualitative assessment of the property, it is being recommended for disposition since the property has no direct access to/from any road right-of-way. The property is only accessible through the industrial compound of the FCIE. However, Management is still evaluating whether to keep or sell the subject property.

c. Management has leased out the 1,577.75 sq. m. portion of the property to FCIE Association, Inc. as police sub-station, shuttle service terminal, forest park and such other uses in the meantime that the property is not yet being used for the purpose.

8. **NDC implemented all the planned Gender and Development (GAD)-related activities during the year.**

Comparison of the Annual GAD Plan and GAD Accomplishment Report (AR) showed that all planned activities were implemented during the year as shown in the following table:

| GAD Activity per GAD Plan | Actual Result (Outputs/Outcomes) per AR |
|---|--|
| <i>Client Focused</i> | |
| One-day Gender Sensitivity/Awareness Training (GST) for women investors, stakeholders | Conducted seminar on sexual orientation, gender identity and expression (SOGIE) on October 30, 2018 |
| Conduct survey on gender issues and needs | Gathered the sex disaggregated data of victim of typhoon Ompong in Aparri, Cagayan. Identified their need for food as a priority |

| GAD Activity per GAD Plan | Actual Result (Outputs/Outcomes) per AR |
|---------------------------|---|
|---------------------------|---|

Organization-Focused

| | |
|--|--|
| Craft guidelines on the establishment and operation of the NDC play area | Launched the play area on February 14, 2018. Children of NDC employees and contract of services use the play area |
| Conduct of two-day workshop for the members of GAD Focal Point System (GFPS) in the formulation of gender policies | Conducted a two-day workshop in the formulation of gender policies on September 24-25, 2018 |
| Attendance/participation to various GAD activities initiated by other government agencies | Participated in CSC-DBP Cluster Agencies GAD Advocacy Forum September 27-28, 2018 |
| Enhancement of the interest of NDC officers and employees to actively participate in GAD activities | NDC officers and employees distributed relief goods (food, clothing) to the victims of typhoon Ompong in Aparri, Cagayan on October 6, 2018 based on the result of the gathered sex disaggregated data |

9. For CY 2018, the appropriate premium contributions and loan amortizations were deducted from salaries of the employees of NDC. Employees' share together with the government share as well as the loan amortizations of employees were remitted to GSIS, PHIC and Pag-IBIG Fund within the prescribed period.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

10. As of December 31, 2018, 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, 2018 | Issued during the year | Settled during the year | Balances as of December 31, 2018 |
|------------------------|--------------------------------------|---------------------------|-------------------------------|--|
| Notice of Suspension | 0 | 0 | 0 | 0 |
| Notice of Disallowance | 20,263,752 | 0 | 0 | 20,263,752 |
| Notice of Charge | 0 | 0 | 0 | 0 |
| | 20,263,752 | 0 | 0 | 20,263,752 |

10.1 The details of the NDs are shown below:

| Date | ND No. | Amount | Settled | Balance |
|-----------------|-------------------------|------------|---------|------------|
| August 30, 2017 | 2017-001(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 to COA Commission Proper
- **** Pending resolution by the COA Commission Proper pursuant to Rule V, Section 7 of the Revised Rules of Procedure of COA

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 25 audit recommendations embodied in prior years' Annual Audit Reports, 14 were fully implemented/reconsidered, six were partially implemented and five were not implemented, as shown below:

| REF. | COMMENTS AND OBSERVATIONS | RECOMMENDATIONS | ACTIONS TAKEN |
|---------------------|---|---|--|
| 2017 No. 1, page 51 | 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. | <p>a. Initiate necessary actions to improve its performance in succeeding years;</p> <p>b. Exert efforts to look for proponents of viable investments in priority areas to fulfill its mandate; and</p> <p>c. Develop or devise strategies that would expedite processes from investments/ projects proposal evaluation up to implementation.</p> | <p>Implemented</p> <p>Based on NDC's Accomplishment Report for 2018, NDC achieved a 98.62 per cent weighted average in its 2018 Performance Scorecard with GCG.</p> <p>Implemented</p> <p>The project for development portfolio has been increased with the new investment concepts presented in 2017.</p> <p>Implemented</p> <p>Strategies were developed resulting to the improvement of NDC's rating.</p> |
| 2017 No. 2, page 54 | 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 DBM Budget Circular No. | Refrain from granting CNA incentive without fully complying the conditions set by DBM for the grant of the same. | <p>Reconsidered</p> <p>Although the GCG's initial validation of NDC's performance scorecard was 62.78 per cent, NDC filed an appeal to reconsider 3 measures: SM1, SM2 and SM9. GCG granted NDC's appeal only to SM1 which increased its total</p> |

| REF. | COMMENTS AND OBSERVATIONS | RECOMMENDATIONS | ACTIONS TAKEN |
|---------------------|--|---|---|
| | 2016-7 dated December 1, 2016. | | validated score from 62.78 per cent to 79.44 per cent. |
| 2017 No. 3, page 57 | 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. | <p>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;</p> <p>b. Find alternative uses of those vacant properties not suitable for commercial purposes or project development or dispose them thru sale;</p> <p>c. Expedite the process of the Community Mortgage Program (CMP) for those properties with organized informal settlers to ultimately dispose such properties;</p> | <p>Implemented</p> <p>Various lots for disposal have been advertised for bidding in the newspapers of general circulation, however there are still idle lots existing as of reporting date.</p> <p>Implemented</p> <p>Various lots for disposal have been advertised for bidding in the newspapers of general circulation.</p> <p>Partially implemented</p> <p>CMP cannot be readily made available to some NDC properties with informal settlers because of the absence of qualified Mobilizer in the area where the property is located.</p> <p>Nevertheless, NDC continues to coordinate with the informal settlers to condition them to accept the CMP of the government.</p> |

| REF. | COMMENTS AND OBSERVATIONS | RECOMMENDATIONS | ACTIONS TAKEN |
|---------------------|---|--|--|
| | | <p>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;</p> <p>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;</p> <p>f. Demand the occupant of the Talakag, Bukidnon property to vacate the same; and</p> <p>g. Engage the services of a Geodetic Engineer to conduct relocation survey of the properties in Hermosa, Bataan.</p> | <p>Not implemented</p> <p>Partially implemented Meycauayan property is partially leased out. The current lessee failed to lease the whole property. NDC is currently negotiating with one interested lessee on the property.</p> <p>Not implemented</p> <p>Not implemented</p> |
| 2017 No. 4, page 60 | 4 Non-operational NDC subsidiaries continue to exist. | 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; | Partially implemented NDC has coordinated with Manila Gas and IIGSI for the settlement of its accounts payable and to expedite the possible foreclosure or settlement of the 314 sq. m.- property, respectively. |

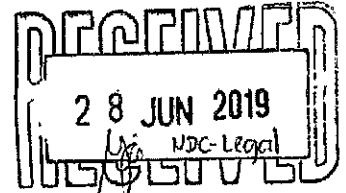
| REF. | COMMENTS AND OBSERVATIONS | RECOMMENDATIONS | ACTIONS TAKEN |
|---------------------|---|--|--|
| | | <p>b. Require Inter-Island Gas Services, Inc. to expedite the possible foreclosure of a 314 sq. m. property located in Alabang, Muntinlupa registered in the name of Lamberto and Marina Montalbo containing a 1988 annotation on the original Transfer Certificate of Title (TCT) of mortgage to MGC for P0.800 million;</p> <p>c. Make representation with GCG on the dispositive action on NPIC and the approval of the dissolution of FCIE; and</p> <p>d. Prepare and implement plan of actions with timelines relative to the disposition of non-operational NDC subsidiaries and expedite the dissolution of these non-performing assets once approval is secured.</p> | <p>Partially implemented</p> <p>Implemented</p> <p>Communications have been sent to GCG regarding dispositive action on NPIC and the approval of the dissolution of FCIE.</p> <p>Partially implemented</p> |
| 2017 No. 5, page 66 | 5 Of the total Rental Receivable account P52.385 million or 81 per cent is considered doubtful and P12.526 million of which has been dormant for several years. | <p>a. Evaluate the collectability of accounts with large allowance for doubtful accounts and perform appropriate action for dormant accounts;</p> <p>b. Provide explanation on the causes of dormant accounts and those with large allowance for doubtful accounts;</p> | <p>Not implemented</p> <p>Reiterated in Observation No. 4 in this Report</p> <p>Implemented</p> <p>These dormant accounts have been forwarded to the legal department. A large</p> |

| REF. | COMMENTS AND OBSERVATIONS | RECOMMENDATIONS | ACTIONS TAKEN |
|---------------------|---|---|---|
| | | <p>c. Establish an effective method of collection and enforce relevant provisions on imposition of interests, penalties and/or surcharges to defaulting lessees; and</p> <p>d. Establish the exact locations and permanent addresses of the lessees for future actions.</p> | <p>portion have been recovered in early 2019.</p> <p>Implemented</p> <p>Statement of accounts (SOA) were regularly sent to lessees including computation of interests, if applicable.</p> <p>Implemented</p> <p>Additional addresses for sending of SOAs were gathered, whenever necessary.</p> |
| 2017 No. 6, page 68 | 6 Over accrual in Rental Receivable account amounting to P60,231 was incurred due to incorrect monthly accrual for various lessees. | Perform periodic reconciliation with lessees to ensure accuracy of records. | <p>Implemented</p> <p>SOA were regularly sent to the lessees to update their balances,.</p> |
| 2017 No. 7, page 70 | 7 GAD Plan and Budget (GPB) of NDC was not approved/endorsed by the Philippine Commission on Women (PCW) GAD. | <p>a. Submit GPB within the prescribed deadlines so that the activities to be implemented will be approved/endorsed by the PCW;</p> <p>b. Consult with PCW on what program/activity/project (PAP) can be implemented in accordance with NDC's mandate; and</p> <p>c. Develop/improve GAD program/activity/project (PAP) in line with NDC's mandate to achieve the</p> | <p>Implemented</p> <p>GPB has been submitted within the prescribed deadlines.</p> <p>Implemented</p> <p>NDC consulted with PCW regarding its activities in accordance with NDC's mandate.</p> <p>Implemented</p> |

| REF. | COMMENTS AND OBSERVATIONS | RECOMMENDATIONS | ACTIONS TAKEN |
|---------------------|--|---|--|
| | | desired goals and objectives. | PAPs were developed to align with NDC's mandate. |
| 2015 No. 2, page 34 | 8 The Collective Negotiation Agreement Incentive granted to NDC employees exceeded the P25,000 limit set under DBM Budget Circular No. 2014-2. | Require all concerned officials and employees to refund the amounts paid for their HMO. | Not implemented ND No. 2017-001(2014-2016) dated August 30, 2017 was issued. Joint Petition for Review was submitted to COA on July 1, 2018. |
| 2008 No.4, page 36 | 9 Former NDC officials have not paid the full amount of their car loans aggregating P0.576 million. | Avail of legal remedies for immediate recovery of the loaned amount. | Partially implemented Concerned officials cannot be located. Substituted service being explored. NDC will file the complaint and serve summons for publications. |



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City
CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development



JAVA, NIKKI MARIE M.

June 27, 2019

The Board of Directors
National Development Company
Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of National Development Company (NDC) for the years ended December 31, 2018 and 2017.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations and Status of Implementation of Prior Years' Audit Recommendations.

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

The following are the significant audit observations and recommendations:

1. As at December 31, 2018, dormant/inactive receivables totaling P539.354 million which have been outstanding for more than ten (10) years and with remote possibility of collection remained in the books which is not compliant with the provisions of paragraph 5.4.4 of Philippine Financial Reporting Standard (PFRS) No. 9 and COA Circular No. 2016-005 dated December 19, 2016.

We recommended that Management:

- a. Reassess the dormant/inactive receivables and evaluate its collectability by determining the status of the debtors, among others; and
- b. Document all the efforts exerted to collect/recover the dormant/inactive accounts.

2. Of the total Rental Receivable account of P87.093 million, P57.568 million or 66 per cent is considered doubtful, P12.093 million of which has been dormant for several years.

We recommended that Management:

- a. Evaluate collectability of accounts with significant allowance for impairment losses and take appropriate action for the collection of dormant accounts; and
 - b. Document all the efforts exerted to collect/recover the dormant accounts and collate all available documents in case request for authority to write-off said accounts is warranted.
3. Security deposits payable amounting to P4.428 million remained unclaimed or outstanding for two years and more, contrary to the provisions of Section 98 of Presidential Decree (PD) No. 1445 and Executive Order (EO) No. 109 dated June 10, 1999 as implemented by DBM-COA Joint Circular No. 99-6.

We recommended that adjusting entries be made to revert back to the general fund the security deposits payable pursuant to the provisions of the DBM-COA Joint Circular No. 99-6.

4. The Investment Property account includes a parcel of land located at Los Baños, Laguna valued at P6.943 million which is occupied by informal settlers and included in the scope of Presidential Proclamation 550 s. 2004 reserving the land for housing site purposes.

We recommended that Management follow up its request with Local Inter-Agency Committee to expedite the resolution of the issue and eventual exclusion of NDC's property in the proclamation.

The other audit observations, together with the recommended courses of action, which were discussed with concerned Management officials and staff during the exit conference conducted on May 15, 2019, are presented in detail in Part II of the report.

In a letter of even date, we requested the Company's General Manager to take appropriate actions on the recommendations contained in the report and to inform this Office of the actions taken thereon 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. MASANGAY
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
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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
National Development Company
Makati City

Report on the 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, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to 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, 2018 and 2017, 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 NDC 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 30 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 NDC'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 NDC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing NDC'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 ISSAIs 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 NDC'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 NDC'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 NDC 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.

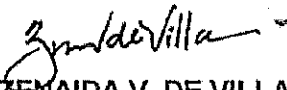
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

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 in Note 32 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


ZENAIDA V. DE VILLA
OIC-Supervising Auditor

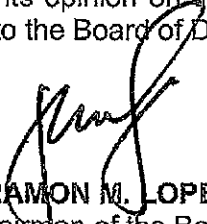
May 15, 2019

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**



The Management of the National Development Company is responsible for the preparation of the financial statements as at December 31, 2018 and 2017, including the additional components attached thereto in accordance with the prescribed financial reporting framework indicated therein. The responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements before such statements are issued to the regulators, creditors and other users.


The Commission on Audit has audited the financial statements of the National Development Company in accordance with the International Standards of Supreme Audit Institutions and has expressed its opinion on the fairness of presentation upon completion of such audit, in its report to the Board of Directors.



SEC. RAMON M. LOPEZ
NDC Chairman of the Board
May 15, 2019



JOYCE ANNE N. ALIMON
Department Manager III
Finance and Administration Department
May 15, 2019



MA. LOURDES F. REBUENA
General Manager
May 15, 2019