

I. INTRODUCTION

On 20 February 2006, Senator Miriam Defensor Santiago filed P.S. Resolution No. 455 ("PSR No. 455") directing an inquiry, in aid of legislation, on alleged improprieties by the boards of directors of the Philippine Overseas Telecommunications Corporation ("POTC"), Philippine Communications Satellite Corporation ("Philcomsat") and Philcomsat Holdings Corporation ("PHC") shown to have caused anomalous losses in these corporations where the national government held a significant interest. A copy of the resolution is attached hereto as **Annex "A"**.

The resolution was initially referred to the Committee on Accountability of Public Officers and Investigations and the Committee on Public Services on the same date but, upon motion of Senator Francis N. Pangilinan on 28 March 2006, it was transferred to the Committee on Government Corporations and Public Enterprises (the "Committee").

Due to gravity of the allegations subject of the resolution and the alleged involvement of the Philippine Commission on Good Government ("PCGG"), the Committee gave priority to the issue and conducted an investigation, in aid of legislation, thereon.

The Committee conducted eleven (11) public hearings on the following dates:

1. 11 May 2006;
2. 6 September 2006;
3. 11 September 2006;
4. 14 September 2006;
5. 15 September 2006;
6. 18 September 2006;
7. 4 December 2006;
8. 14 December 2006;
9. 22 January 2007;
10. 31 January 2007; and
11. 5 February 2007.

The Committee also conducted an Executive Session on 27 March 2007.

The inquiry intended to shed light on allegations of mismanagement and anomalous transactions purportedly committed by the boards of directors of POTC, Philcomsat and PHC subject of PSR No. 455, namely:

1. The unjustified increase in operating expenses in PHC which caused the said corporation to incur enormous losses;
2. The establishment by PHC of Telecommunications Center, Inc. (TCI), a wholly owned subsidiary, wherein over P73M had been advanced without any accountability report being given to PHC and Philcomsat; and
3. The release by the Executive Committee of Philcomsat of P265M and the grant of a P125M loan to a relative of a member of the Executive Committee sometime in 2000 that resulted in an estimated interest income loss of P11.25M in 2004.

The Committee likewise noted the need to examine the role of the PCGG in the management of POTC, Philcomsat and PHC to determine whether the commission has been faithful to the performance of its mandate under Executive Order No. 1, specifically:

1. "to provisionally take over in the public interest or to prevent its disposal or dissipation of business enterprises taken over by the government of the Marcos Administration or by entities or persons close to former President Marcos, until the transactions leading to such acquisition by the latter can be disposed of by the appropriate authorities", [Section 3 (c)];
2. "to enjoin or restrain any actual or threatened commission of acts by any person or entity that may render moot and academic, or frustrate, or otherwise make ineffectual the efforts of the Commission to carry out its tasks under this order", [Section 3 (d)]; and
3. to assist the President in regard to "the adoption of safeguards to ensure that [the undesirable practices under the Marcos Administration] shall not be repeated in any manner under the new government, and the institution of adequate measures to prevent the occurrence of corruption. [Section 2(c)]"

II. SUMMARY

Based on the evidence received throughout its investigation conducted pursuant to PSR No. 455, the Committee found overwhelming mismanagement by the PCGG and its nominees over POTC, Philcomsat and PHC resulting in deterioration of the financial condition of these corporations. Most notable of which are the soaring operating expenses of PHC, the generous compensation packages for government nominees, the PHC advances to its affiliates beyond the reach of PCGG comptrollers, and the existence of suspicious bank accounts.

In numerous instances, the negligence of the PCGG in performing its mandate of preserving the interest of the national government interest is clearly so gross as to amount to bad faith.

In the course of its investigation, the Committee came across a matter of paramount public interest and concern: **the lack of transparency and accountability of the PCGG**. There is thus an urgent need to revisit the PCGG and put an end to its fraud, abuse and wastage.

III. FINDINGS

The findings of the Committee are as follows:

Brief History

Soon after it was organized in the early 1970s, Philcomsat established itself as a pioneer in the satellite telecommunications industry as a "Carrier's Carrier" with clients that included PLDT, ITT, Western Union and the U.S. Military Bases.

Despite sequestration by the PCGG of significant portions of shares in POTC soon after the EDSA Revolution of 1986, Philcomsat became a P1B revenue company in 1991 and paid dividends to the national government, through the PCGG, of around P800M from 1986 to 1996.

Changing trends in telecommunications resulted in the rapid financial decline of Philcomsat that began in 1998 when it suffered its first net operating loss after 25 years of operation.

In 1996, by way of a backdoor listing, Philcomsat acquired approximately 81% of what was then Liberty Mines, a publicly listed corporation, investing close to P1B in the said corporation and, thereafter, renaming the same "Philcomsat Holdings Corporation"¹.

¹ Testimony of Honorio Poblador, III on 14 September 2006 at 4:58 PM.

Since 1998, the national government has received nothing from this once premiere, cash-rich telecommunications company.

Since 2000, there have been 2 groups each purporting to be the rightful board of directors of POTC and Philcomsat.

Existence of Substantial Government Interest

As held by the Supreme Court in its Decision dated June 15, 2005, on the consolidated cases of “Republic of the Philippines, et. al., vs. Sandiganbayan, et. al.”, G.R. No. 141796, and “Independent Realty Corporation, et. al., vs. Sandiganbayan, et. al.”, G.R. No. 141804, and its Resolution dated September 7, 2005, denying with finality the Motions for Reconsideration filed in the same cases, the Republic of the Philippines is the owner of 4,727 shares in POTC, equivalent to 35% of the outstanding capital stock of the said corporation. The national government’s ownership of 35% of POTC entitles it to 35% of Philcomsat, its wholly-owned subsidiary.

In turn, the national government’s ownership of 35% of Philcomsat gives it beneficial interest over 28% of PHC, the publicly-listed holding corporation of which approximately 81% is owned by Philcomsat.

The PCGG

As the concerned agency involved in safeguarding the government’s interest in these corporations, the PCGG was asked to attend the hearings in the investigation.

However, PCGG Chairman Camilo L. Sabio, through a letter dated 6 September 2006 addressed to Sen. Richard J. Gordon, as Chairman of the Committee, said that no one from the PCGG would attend the hearings to be conducted pursuant to PSR No. 455. A copy of the letter is attached hereto as **Annex “B”**.

The PCGG sought to limit the Committee’s power of legislative inquiry and invoked Section 4 (b) of Executive Order No. 1 exempting all PCGG members or staff from testifying in any judicial, legislative or administrative proceeding.

In his letter, Chairman Sabio also said that he would not testify or produce evidence before the Senate concerning matters within the official cognizance of the PCGG. He added that he had advised his fellow members and their government nominees to do likewise.

The Committee did not accept this position of the PCGG and, faced with the continued refusal of the concerned officials and other resource persons from the private sector to appear for the public hearings pursuant to its investigation in aid of legislation, a corresponding arrest order was duly issued. A copy of the order is attached hereto as **Annex “C”**.

The controversy reached the Supreme Court; and in the end, the Supreme Court upheld the position of the Senate and affirmed its power of inquiry on any matter needed for legislation with a direct conferral of investigatory power upon any of its committee in Sabio et al. vs. Gordon, et al., G.R. No. 174340, October 17, 2006. The Supreme Court also declared that the purported immunity of the PCGG under Section 4(b) of Executive Order No. 1 is inconsistent with Article VI, Section 21 (Congress’ power of inquiry), Article XI, Section 1 (principle of public accountability), Article II, Section 28 (policy of full disclosure) and Article III, Section 7 (right to public information). It also stated that instead of encouraging public accountability, the same provision only institutionalizes irresponsibility and non-accountability.

Gross Mismanagement by the PCGG and its Nominees

Based on the evidence received throughout its investigation conducted pursuant to PSR No. 455, the Committee found overwhelming mismanagement by the PCGG and its nominees over POTC, Philcomsat and PHC resulting in deterioration of the financial condition of these corporations.

In numerous instances, the negligence of the PCGG in performing its mandate of preserving the interest of the national government interest is clearly so gross as to amount to bad faith.

Lack of Accountability

Throughout the investigation conducted by the Committee, there had been a lot of finger pointing among the officials of the PCGG as to who would be in the best position to answer the questions being asked by the members of the Committee.

At the 4 December 2006 public hearing, PCGG Chairman Sabio said that PCGG Commissioners Ricardo Abcede and Nicasio Conti would be the members of the PCGG most competent to answer questions concerning POTC, Philcomsat and PHC as these matters were assigned to them².

Commissioner Conti then reported that a Study Group had been formed by the PCGG to examine the intra-corporate controversies between 2 groups of private shareholders – the Nieto Group and the Africa-Bildner Group – over the POTC, Philcomsat and PHC and to recommend the actions to be taken in relation to these corporations³.

Interestingly, however, at the 31 January 2007 public hearing, Commissioner Abcede said that he is not the one in charge of POTC-Philcomsat-PHC issue and had never been in charge of these corporations in spite of his position as Commissioner in Charge, Asset Management Department⁴.

It was only in the 5 February 2007 public hearing when Chairman Sabio, in the face of all the evidence that had been revealed throughout the Senate inquiry, informed the Committee that he would be calling an en banc meeting of the PCGG to tell the other commissioners that he would already be taking personal responsibility for POTC, Philcomsat and PHC⁵.

Lack of Supervision of Government Nominees

In the 14 December 2006 public hearing, PCGG Commissioner Abcede admitted that the government nominees are not required to submit regular reports to the PCGG concerning the activities of the corporations in which they sit.

Commissioner Abcede and his Toyota Camry

Under suspicious circumstances, PCGG Commissioner Ricardo Abcede personally negotiated the purchase of a brand new Toyota Camry for PHC and was allowed to use the said vehicle despite the fact that he had no legal connection with the corporation.

The Committee discovered that Commissioner Abcede had himself gone to the Toyota branch in Metropolitan Avenue, Makati City, to select the Camry⁶, and that the vehicle was delivered to his home where he personally received it⁷.

When asked if it was regular practice among commissioners of the PCGG to be provided vehicles by private corporations, PCGG Chairman Sabio said that, as far as he knew, this was the first time it happened.

² Testimony of PCGG Chairman Camilo Sabio on 4 December 2006 at 2:29 PM.

³ Testimony of PCGG Commissioner Nicasio Conti on 4 December 2006 at 2:29 PM.

⁴ Testimony of PCGG Commissioner Ricardo Abcede on 31 January 2007 at 2:26 PM.

⁵ Testimony of PCGG Chairman Camilo Sabio on 5 February 2007 at 3:14 PM.

⁶ Testimony of Josephine Timbol on 14 September 2006 at 3:38 PM.

⁷ Testimony of Eugene Villareal on 4 December 2006 at 4:19 PM.

Interestingly, to explain the authority given by PHC for the purchase of the said vehicle in August 2006, PHC Acting Chairman Enrique Locsin submitted minutes of an executive committee meeting of PHC dated 14 May 2002, over 4 years prior to the actual purchase. A copy of the minutes is attached hereto as **Annex “D”**.

PHC Advances to Affiliates

Throughout the hearings, it became readily apparent that the unjustified increases in operating expenses, salaries, and legal fees funded by PHC and coursed out by way of “advances to affiliates” POTC and Philcomsat from 2004 were done with the direct participation of government nominees in clear violation of O.P. Memorandum Circular No. 40 which limits the salaries of government representatives to sequestered companies to P120,000 per year with monthly allowances not to exceed P3,400 per month. A copy of the said memorandum circular is attached hereto as **Annex “E”**.

Based on documents submitted to the Committee, government nominees Enrique Locsin and Manuel Andal received total compensation in excess of P15M and P11M respectively from POTC, Philcomsat and PHC from 2003 to 2005.

In explaining reimbursements he had been receiving, Mr. Locsin said that PHC President and CEO Manuel Nieto had authorized such representation and other expenses for so long as he submitted receipts.

This would, perhaps, help explain why the audited financial statements of PHC show that it had spent almost P16M for representation and entertainment expenses in 2004 and 2005.

What renders the situation even more egregious is the fact that PHC has already been saddled by increasing net losses over the last 2 years and, as of 30 September 2006, its advances to affiliates had already reached P82M.

Ambassador Manuel Nieto

The attribution for clearance over such largesse had been laid upon PHC President and CEO Manuel Nieto who, based on medical records from the Stanford Hospital and Clinic submitted to the Committee, has been suffering from Alzheimer’s disease since 2003. A copy of the medical records is attached hereto as **Annex “F”**.

Suspicious Bank Accounts

The investigation also revealed the existence of suspicious bank accounts where multi-million peso transactions were being made with apparent regularity. Copies of the bank statements are attached hereto as **Annexes “G”** and **“H”** respectively.

Inaction of the PCGG

Confronted with these findings, the Committee sought to know if the national government, through the PCGG, was aware of the actual situation and what it intended to do to address the same.

An inescapable conclusion to be drawn from the fact that government nominees to POTC and Philcomsat occupied positions as directors and senior officers of PHC is that the PCGG should have been well aware of what was happening in PHC.

Moreover, in the 14 December 2006 public hearing, Mr. Victor Africa testified that he had been submitting detailed quarterly reports to all of the PCGG commissioners on the performance of PHC.

PCGG Study Group

It was learned that the PCGG formed a fact finding committee headed by Commissioner Conti (the "PCGG Study Group") that had a recommended plan of action in relation to the situation of POTC, Philcomsat and PHC.

This PCGG Study Group had recommended that independent audits be conducted over the allegations made by each of the conflicting groups and that the conduct of these audits be funded by the group making any such subject allegation.

The recommendations of the PCGG Study Group also included the filing of charges where such action was deemed necessary. Nevertheless, it remains unclear as to why the PCGG had not initiated the filing of charges in relation to the findings of the PCGG Study Group.

What has become apparent in the case of POTC, Philcomsat and PHC is the unwillingness of the PCGG to involve itself in the management of PHC on the oft repeated ground that PHC is not a sequestered corporation.

This line of reasoning ignores the fact that a significant portion of the assets of the corporations that are sequestered, POTC and Philcomsat, had already been infused into PHC, giving the national government a significant stake in the management of its affairs.

Soaring Operating Expenses of PHC

The audited financial statements of PHC reveal a significant increase in its operating expenses from 2003 through 2005:

Year	Operating Expenses
2003	P36,913,903
2004	P90,631,913
2005	P133,679,291

Breakdown of Expenses from 2003 to 2005

Expenses	2005	2004	2003
Cost of services	48,572,658	16,636,692	-
Salaries and wages	16,222,105	12,024,621	6,641,408
Depreciation	14,963,652	11,209,398	4,980,666
Representation and entertainment	9,304,897	6,405,617	133,504
Professional fees	8,990,901	11,537,613	1,967,667
Rental	6,521,235	5,237,366	1,063,952
Light and water	5,009,801	3,671,237	1,823,451
Security and janitorial services	3,792,392	3,065,073	1,934,055
Dues, contributions and subscription	4,569,793	4,162,810	2,015,660

Directors' fee	2,810,000	2,638,333	2,625,000
Training and seminars	2,553,573	4,005,631	-
Taxes and licenses	1,791,481	1,146,472	860,030
Employees benefits	1,675,248	1,064,089	1,505,590
Amortization of preoperating expenses	-	-	9,510,672
Others	6,901,555	7,826,961	1,852,247

When Enrique Locsin, government nominee to POTC and Philcomsat, was asked about the increase in operating expenses of PHC in the 11 May 2006 hearing, he would repeatedly claim that, as Vice Chairman of PHC, he was not involved in the day-to-day operations of the said corporation and could not answer questions concerning such matters.

Representation Expenses

When asked about the inordinate amount of PR expenses of PHC in the 14 December 2006 public hearing, Mr. Philip Brodett, the Vice-President of PHC, said that, in the course of business, it was necessary to sometimes entertain presidents of companies and officers of the SEC⁸. He added that, on occasion, they would entertain newspaper people to tell them about the position of the company.

Utilities

When Mr. Brodett was asked about the P5,009,801 spent by PHC for light and water in 2005, he initially said that the figure should be wrong⁹.

When informed that the figure was taken from the audited financial statement of PHC for 2005, he then proffered the explanation that what the Committee was looking at was probably a consolidated financial statement that included the air conditioners at the call center running for 24 hours and the whole second floor of the Pacific Star Building.

Professional Fees

In the same public hearing, Mr. Brodett explained that professional fees for 2005 of almost P9M could be attributed to the 55 cases filed by the Africa group against the directors and officers of PHC.

Government Nominees in Absentia

When Manuel Andal, government nominee to POTC and Philcomsat, was asked about his responsibilities as PHC Chief Financial Officer and Treasurer, he said that he held these positions "in name" only.¹⁰ Mr. Andal said that, in an arrangement with Ambassador Nieto, despite his title as CFO, he would not sign checks because all the documents were not in his possession. He added that he was usually in Bicol.

During the same hearing, Mr. Julio Jalandoni, POTC and Philcomsat government nominee, admitted to being able to attend only half of the scheduled meetings for PHC¹¹. Asked about his reason for accepting the position despite his apparently busy schedule, Mr. Jalandoni explained that he could not reject the desire of the President to have him appointed.

⁸ Testimony of Philip Brodett on 14 December 2006 at 2:17 PM.

⁹ Testimony of Philip Brodett on 14 December 2006 at 3:27 PM.

¹⁰ Testimony of Manuel Andal on 14 December 2006 at 3:47 PM.

¹¹ Testimony of Julio Jalandoni on 14 December 2006 at 2:27 PM.

Liberality on Reimbursements

In explaining the amount of reimbursements he received, Mr. Locsin said that Ambassador Nieto told him since he would earn only P10,000 a month as a government nominee, he would be entitled to representation and other expenses of P60,000 to 70,000 a month for so long as he submitted the receipts¹².

Audit Working Papers of PHC External Auditor Virgilio Santos

Affidavit of Erlinda Bildner

During the 22 January 2007 hearing, Ms. Erlinda Bildner gave testimony in relation to an affidavit she had executed on the same day and submitted to the Committee concerning alleged anomalies and improprieties culled from the working papers of Virgilio R. Santos, the external auditor of PHC, which had been submitted to the Committee by the Securities and Exchange Commission ("SEC"). A copy of the affidavit is attached hereto as **Annex "I"**.

Ms. Bildner said that working papers showed questionable legal fees for 2003 to 2005 with a total amount of P19,631,860 where the largest recipients being Luis K. Lokin, Jr. – P9,316,817 and Sikini Labastilla – P3,198,500.

Based on Ms. Bildner's testimony, the government nominees to POTC and Philcomsat, and the directors and officials of PHC, received the following respective amounts:

1. Enrique Locsin – P15.3M
2. Manuel Andal – P9.9M
3. Philip Brodett – P10.6M
4. Luis Lokin – P12.3M
5. Johnny Tan – P8.8M

Ms. Bildner cited the following suspicious expenses of PHC:

1. "PR for PCGG" Check No. 345712 (11/08/04) – P150,000
2. "FILASIA Cities Trading Corp. representation to Supreme Court" (DV-2846, 9/21/05) – P206,000
3. "Cash PCGG gift, legal fees (ell vs. Africa) gift for PCGG commissioner" (DV-2970, 11/29/05) – P200,000
4. "Cash PCGG gift, legal fees" (ell vs. Africa) (DV-2970, 11/29/05) – P75,000
5. "Cash for Sandiganbayan, tro, potc-philcomsat case" – P2,000,000

Sandiganbayan TRO

Ms. Bildner, explaining the entry on the TRO, pointed to fact that Mr. Enrique Locsin and his group had gone to the Sandiganbayan to obtain a TRO and managed to get one on 23 September 2005¹³. In the same hearing, Mr. Locsin said that he was not aware of any of these transactions.

When asked about the entry "Cash for Sandiganbayan, tro, potc-philcomsat case" for P2,000,000.00, PHC AVP and Accountant Johnny Tan said that he could not remember exactly but that he gave the amount to either Mr. Brodett or Mr. Nieto¹⁴. When asked if he inquired what the amount was for, he said that he was told it was for PR.

Gifts for the PCGG

¹² Testimony of Enrique Locsin on 14 December 2006 at 2:37 PM.

¹³ Testimony of Erlinda Bildner on 22 January 2007 at 2:23 PM.

¹⁴ Testimony of Johnny Tan on 22 January 2007 at 2:23 PM.

When asked if he was aware of the PR and cash gifts for the PCGG, Chairman Sabio said that he was not but, having been made aware, would do what could be done¹⁵.

Suspicious Accounts

Ms. Bildner also revealed that PHC maintained a bank account with Export and Industry Bank (“EIB”) “c/o Cesar Munsayac” and the records showed that, on 25 June 2004, 2 deposits of P7.5M each and a withdrawal of P10M were made.

Ms. Bildner then called attention to a joint account, also in EIB, in the name of “Brodett/Nieto, Philip/Manuel” showing the following disbursements:

6/16/04	Benito Araneta	P2,200,000
7/08/04	Benito Araneta	P1,000,000

In the same hearing, Atty. Emmanuel Silva, representing EIB, confirmed that PHC is a depositor of EIB but, due to the law on secrecy on bank deposits, could not divulge any other information¹⁶.

Mr. Tan denied that PHC had any account care of Munsayac and said that their records did not contain such account¹⁷.

Asked about the disbursements from the Brodett/Nieto account made under his name, Mr. Benito Araneta said that he did not know of them¹⁸.

SEC Report

During the 31 January 2007 public hearing, Atty. Shiela C. Paloma and Ms. Cita Correa of the SEC testified concerning their findings on the audit working papers of Virgilio R. Santos, the external auditor of PHC, for the years 2003 to 2005 and submitted a report on their findings on the financial statements of PHC (the “SEC Report”). A copy of the SEC Report is attached hereto as **Annex “J”**.

The SEC Report cited the following notable entries taken from the PHC audit working paper of Mr. Santos:

As of 31 December 2005

Advances to Affiliates

- Unpaid Philcomsat salary of Philip G. Brodett – PhP1,224,000.00 (PhP102,000 x 12)
- POTC and Philcomsat allowances in the amount of PhP332,640.00 (PhP27,720.00 x 12) for each of the following: Enrique L. Locsin, Manuel D. Andal and Guy de Leon
- POTC and Philcomsat allowances in the amount of PhP128,640.00 (PhP10,720.00 x 12) for Julio J. Jalandoni
- Travel Allowances in the aggregate amount of PhP2,750,000.00 or PhP550,000.00/USD10,000.00 for each of the following: Manuel H. Nieto, Philip G. Brodett, Enrique L. Locsin, Manuel D. Andal, and Benito R. Araneta
- 01/20/05 Cash – advance to affiliates (ell) personal loan – P2,500,00.00
- 01/28/05 Cash – advance to affiliates – P4,000,000.00 was debited without particulars but in a separate schedule (D-13a), same amount was described as cash – press relation for PHILCOMSAT

¹⁵ Testimony of PCGG Chairman Camilo Sabio on 22 January 2007 at 2:43 PM.

¹⁶ Testimony of Emmanuel Silva on 22 January 2007 at 3:13 PM.

¹⁷ Testimony of Johnny Tan on 22 January 2007 at 3:13 PM.

¹⁸ Testimony of Benito Araneta on 22 January 2007 at 3:13PM.

- Payment of legal fees to Luis K. Lokin on 08/04/05 and 08/19/05 for a total amount of P3,273,964.12
- 09/23/05 Cash – for Sandiganbayan TRO POTC-Philcomsat case – P2,000,000.00

Representation and Entertainment

Date	Particulars	Amount
03/31/05	Representation (bir transactions)	2,952,050.00
09/21/05	FILASIA Cities Trading Corp. (with note Representation to Supreme Court)	206,000.00
10/25/05	Cash – pr, media	1,000,000.00
11/29/05	Cash – pcgg gift, legal fees (ell vs. africa)	200,000.00
11/29/05	Cash – pcgg gift, legal fees (ell vs. africa)	75,000.00

As of 31 December 2004

Checks Payable to Cash

Date	Particulars	Amount
03/03/04	Printing 5,000 t-shirts for GMA	260,000.00
04/28/04	For PR	50,000.00
04/29/04	For PR	100,000.00
06/02/04	For PR	50,000.00
06/03/04	For PR	200,000.00
06/24/04	For PR	1,000,000.00
09/13/04	PR-media	250,000.00
10/25/04	PR	500,000.00
11/08/04	PR for PCGG	150,000.00
11/11/04	PR Media	500,000.00
Various dates	Honorarium (ELL & MDA) (160,000 x 4)	640,000.00
Various dates	CA for MDA	600,000.00
Various dates	c/o JRT	1,412,000.00

Advances to Officers and Employees

Date	Particulars	Amount
06/16/04	Benito Araneta	2,200,000.00
07/08/04	Benito Araneta	1,000,000.00
06/16/04	Cash	300,000.00
08/04/04	Johnny Tan	100,000.00

As of 31 December 2003

Advances to Affiliates

Date	Particulars	Amount
11/10/03 – DV 1639	Enrique L. Locsin – various reimbursements	72,525.07
11/21/03	Enrique L. Locsin – various reimbursements	57,499.98
12/05/03 – DV 1684	Enrique L. Locsin – various reimbursements	66,686.66
12/17/03 – DV 1708	Enrique L. Locsin – various reimbursements	76,277.76
07/11/03 – DV 1459	MHN, Jr. – travel allowance for POTC dir. \$10,000 x 53.00	530,000.00
DV 1460	ELL – travel allowance for POTC dir. \$10,000 x 53.00	530,000.00
DV 1461	MDA – travel allowance for POTC dir. \$10,000 x 53.00	530,000.00

In the same hearing, Ms. Correa confirmed that the report of Ms. Bildner in the 22 January 2007 hearing was a faithful restatement or reproduction of the audit working papers of Mr. Santos¹⁹.

Advances to Affiliates

Atty. Paloma reported that, based on the audit working papers, the advances to affiliates of PHC was: P56,891,162.89 for 2005, P33,442,054.25 for 2004 and P15,879,818.98 for 2003²⁰.

In relation to the report on the PHC advances to affiliates, Ms. Bildner stated that there is no evidence that POTC and Philcomsat received any of these funds²¹. She added that she had brought this to the attention of Mr. Gener Reyes, a PCGG comptroller, and PCGG Commissioner Ricardo Abcede. Commissioner Abcede said that, having received this information from Ms. Bildner, he took the matter up with the PHC officials Mr. Brodett and Mr. Locsin²².

Sandiganbayan TRO

In the same hearing, Atty. Paloma confirmed that there was a typewritten entry in the audit working papers of Virgilio Santos dated 23 September 2005, Disbursement Voucher 2853, with the description “Cash for Sandiganbayan, TRO-POTC, Philcomsat case”, in the amount of P2,000,000.00²³. Atty. Paloma also confirmed the typewritten entry dated 21 September 2005 for FILASIA Cities Trading Corporation with the note “Representation to Supreme Court” in the amount of P206,000.00.

Mr. Locsin said that the P2,000,000.00 for the Sandiganbayan and P275,000.00 for the PCGG were spent for legal fees paid to Atty. Sikini Labastilla²⁴.

When asked about these entries, Mr. Virgilio Santos explained that these entries were made by the accounting people of PHC and that he merely repeated them in his audit working papers²⁵.

Executive Assistant/Errand Boy

¹⁹ Testimony of Cita Correa on 31 January 2007 at 2:06 PM.

²⁰ Testimony of Shiela Paloma on 31 January 2007 at 2:06 PM.

²¹ Testimony of Erlinda Bildner on 31 January 2007 at 2:16 PM.

²² Testimony of PCGG Commissioner Ricardo Abcede on 31 January 2007 at 2:16 PM.

²³ Testimony of Shiela Paloma on 31 January 2007 at 2:26 PM.

²⁴ Testimony of Enrique Locsin on 31 January 2007 at 2:36 PM.

²⁵ Testimony of Virgilio Santos on 31 January 2007 at 2:36 PM.

Atty. Paloma confirmed the entry on the unpaid salary of Philip Brodett from Philcomsat²⁶.

When asked about his responsibilities as executive assistant to the President in Philcomsat, Mr. Brodett stated in the 31 January 2007 that he was practically a mere errand boy of PHC President and Chief Executive Officer Manuel Nieto²⁷. For such services, Mr. Brodett confirmed that he earned P102,000.00/month.

BIR Representation

Mr. Brodett was, however, unable explain the entry dated 31 March 2005, Representation (bir transactions) for the amount of P2,952,050.00 citing that, while it appeared as a single entry in a journal voucher in the working papers, there was no number and the journal vouchers of PHC are pre-numbered.

SC Representation

In relation to the entry with the note "Representation to Supreme Court", Mr. Brodett said that he believed FILASIA Cities Trading Corporation was a company from which they bought corporate giveaways, adding that he did not know why the Supreme Court was written there and that it was probably an error on the part of a junior accountant of Virgilio Santos or the accounting department.

Legal Fees

Mr. Brodett also explained that legal fees are usually coursed through Atty. Lokin while PR expenses, such as those paid to press relations officer Melvin Martin, are coursed through the president, Mr. Nieto.

Atty. Lokin confirmed that his role when it came to the legal fees of PHC was just recommendatory²⁸. He also added that PHC had a legal committee, where Attys. Roberto San Jose and Delfin Angcao also sat as members, which handled such concerns.

Investment in TCI

TCI is a wholly owned subsidiary of PHC engaged in the operation of a 120-seat call center in SM Manila which has been in operation since June 2004.

Mr. Brodett explained that the equity of PHC in TCI was P25,000,000.00 with P70,000,000.00 in advances and that the board of directors for TCI was the same as that of PHC with no additional salaries and allowances being paid out²⁹.

The audited financial statements of TCI showed huge losses from operations of P30,418,681 in 2004 and P30,218,183 for 2005. A copy of the pertinent portion of the Statement of Loss of TCI for 2004 and 2005 is attached hereto as **Annex "K"**.

While Mr. Brodett attributed the operating losses to its being a start up, he maintained that, at present, TCI is no longer losing money and projects that it will make a profit in 2006.

P390M Ansear-Araneta Deal

²⁶ Testimony of Shiela Paloma on 31 January 2007 at 2:46 PM.

²⁷ Testimony of Philip Brodett on 31 January 2007 at 2:46 PM.

²⁸ Testimony of Luis Lokin on 31 January 2007 at 3:06 PM.

²⁹ Testimony of Philip Brodett on 31 January 2007 at 3:46 PM.

In August 2000, Philcomsat and PHC disbursed the amounts of P265,000,000.00 and P125,000,000.00 respectively, for a total amount of P390,000,000.00, to Antonio Araneta, the first cousin of Benito Araneta who was then the government nominee to POTC and Philcomsat and Chairman of PHC. The P390,000,000.00 was part of a Memorandum of Agreement (“MOA”) for the merger between Philcomsat and Ansear, a corporation of Antonio Araneta.

A copy of the Philcomsat check dated 22 August 2000, in the amount of P265,000,000.00, payable to Antonio S. Araneta is attached hereto as **Annex “L”**.

At the time of its execution, the MOA had not been approved by the PHC board of directors and, for purposes of securing the P125,000,000.00 to be loaned to Antonio Araneta with interest at 9%/annum, PHC had to terminate a placement with EIB earning 9.25%/annum.

In a written statement dated 15 January 2007 and submitted to the Committee, Mr. Benito Araneta defended the deal explaining that the deal would actually have allowed Philcomsat to acquire a multi-billion peso property at a fraction of its cost with minimal cash outlay. Mr. Araneta emphasized that it was done by the PHC Executive Committee in the exercise of its business judgment. A copy of Mr. Araneta’s Statement is attached hereto as **Annex “M”**.

Mr. Araneta further said that there is no such thing as “interest income loss” in the determination of Net Loss Accounting.

Mr. Araneta explained that, although documented as a loan, it was not really a loan and its purpose was to allow Mr. Antonio Araneta to increase the capital of Ansear pursuant to the intended merger³⁰. This position is, however, apparently not shared by PHC Vice President Philip Brodett³¹ and PCGG Commissioner Tereso Javier³² who, on record, both refer to the Ansear transaction as a loan.

When his participation in the deal involving a first cousin was questioned, Mr. Araneta said that, although he had chaired the meeting, he had inhibited himself when the deal was discussed and, eventually, approved³³.

Mr. Benito Araneta also explained that there was a prior disclosure of his relationship to Mr. Antonio Araneta, that the matter was discussed for an hour and a half, and that the PHC Executive Committee had even conducted a site visit prior to the meeting.

The minutes of the said meeting did not, however, reflect any of these facts nor indicate how long the matter was discussed. A copy of the minutes of the PHC Executive Committee Meeting dated 30 August 2000 is attached hereto as **Annex “N”**.

In the 5 February 2007 public hearing, Mr. Araneta explained that all of the cases filed questioning the Ansear deal and his participation therein had already been dismissed. The Committee, however, found that a motion for reconsideration of the dismissal by the Ombudsman of a complaint filed against Mr. Araneta remains pending.

Presentation of Enrique Locsin

In the 5 February 2007 public hearing, Acting PHC Chairman Enrique Locsin gave a presentation on alleged illegal investments made by the Africa-Bildner Group in Philcomsat. A copy of Mr. Locsin’s presentation is attached hereto as **Annex “O”**.

Real Estate Transactions

³⁰ Testimony of Antonio Araneta on 14 December 2006 at 3:07 PM.

³¹ Testimony of Philip Brodett on 14 December 2006 at 2:47 PM.

³² Testimony of PCGG Commissioner Tereso Javier on 14 December 2006 at 3:27 PM.

³³ Testimony of Antonio Araneta on 14 December 2006 at 4:17 PM.

Among the impugned transactions were: (1) the purchase of land in Cavite which purportedly cost Philcomsat P235,000,000.00, (2) investments in Montemar Beach Club; (3) real estate purchases in Bagac, Bataan, and other areas amounting to around P540,000,000.00.

As regards the Cavite land deal, Mr. Locsin explained that there was an adverse party, Pilar Development Corporation, also holding title to the property.

Mr. Locsin enumerated several other alleged bad investments of the Africa-Bildner Group: Dasmariñas Cavite, P85,000,000.00; Waterfront Project, P113,471,000.00; Pasig Property, Mercedes Avenue, P160,544,090.00; Montemar Project, P181,875,811.16; Quintero Property, P8,000,000.00.

Mr. Locsin mentioned that a report submitted by Ambassador Nieto to Senator Juan Ponce Enrile was the source of his presentation.

In his presentation, Mr. Locsin stated that the Africa-Bildner Group had not filed audited financial statements since 2000 and that this was done to hide their questionable transactions.

Mr. Locsin alleged that the Africa-Bildner Group was even operating and maintaining a bank account with BPI Family Bank in the name of PHC without authority.

Excessive Compensation

Citing income tax returns as basis, Mr. Locsin showed that Mr. Victor Africa received compensation from Philcomsat of P4,800,000.00 in 2002, and P5,600,000.00 in both 2003 and 2004. When asked for the source of the ITRs, however, Atty. Lokin, who had given the ITRs to Mr. Locsin, refused to reveal the identity of his source on record³⁴.

Sale of Aircraft

Other supposedly questionable transactions included in the presentation of Mr. Locsin were the sale of a Cessna Citation II jet for \$1,200,000.00 and a helicopter sold for P16,000,000.00.

In answer, Ms. Bildner pointed out that the sale of the Cessna aircraft in 2000 was approved by a board of directors that included Jorge Sarmiento and Carmelo Africa, Jr., both of whom were with the PCGG, while the sale of the helicopter in 2001 was approved by the board composed of PCGG nominees Pacifico Marcelo, Federico Agcaoili, Carmelo Africa, Jr., and the rest of the members from the private sector³⁵.

PCGG Comptrollers

In the same hearing, in response to the statement of Ms. Bildner that the PCGG recognized their Philcomsat board by virtue of the presence of a PCGG comptroller who should authorize and review every voucher and check they may issue, Mr. Locsin replied that their board was recognized by the PCGG since the government nominees are in their board³⁶.

When asked if they had PCGG comptrollers on their board, Mr. Locsin explained that there was no need for one when they didn't issue checks or money out.

Other Transactions

Mr. Locsin then proceeded to cite other allegedly questionable transactions of the Africa-Bildner Group: I-Freedom VOIP Contract; investments in Oriental Petroleum and Mineral Corporation, Philodrill and other

³⁴ Testimony of Luis Lokin on 5 February 2007 at 2:24 PM.

³⁵ Testimony of Erlinda Bildner on 5 February 2007 at 2:24 PM.

³⁶ Testimony of Enrique Locsin on 5 February 2007 at 2:34 PM.

corporations with losses amounting to more than P200,000,000.00 as authority to invest in shares of stock of commercial and mining companies was not to exceed P15,000,000.00.

Response to Allegations

In answer to the allegations in Mr. Locsin's presentation, Mr. Victor Africa initially called attention to the abuse of confidence in having his ITRs made public to which Senator Gordon explained that he is left to his own recourses.

Thereafter, Mr. Africa explained that the cited transactions were made from the early 1990s to the mid-1990s when there was only one POTC and Philcomsat board in which PCGG nominees were represented and that the approval of these transactions were made together with these government nominees³⁷.

Senator Enrile added that, when he was told of these transactions by Ambassador Nieto, he called for a meeting of the stockholders to thresh things out. In the meeting, it turned out that these transactions were in fact encouraged by PCGG agents and approved by PCGG board representatives.

Concerning the Quintero deal, Mr. Honorio Poblador explained that the transaction had already been fully paid³⁸. He also explained that Montemar was already making money and that additional structures were being built from funds that were internally sourced.

Explaining the WaterPhil project, Mr. Poblador said that the Singaporean partners got nervous about policies in the Philippines when President Estrada took over and that they were now in the middle of negotiating a compromise. On the other hand, Dasmariñas was in court because of unforeseen contending parties over the property.

Ms. Bildner then explained that the reason that they were unable to get the books of POTC and Philcomsat audited was precisely because of the advances to affiliates appearing in the books and financial statements of PHC which they never received³⁹.

IV. RECOMMENDATIONS

Given the findings in the course of the investigation conducted, the Committee recommends:

1. **Removal of Jurisdiction over National Government Shares in POTC and Philcomsat from PCGG**

Since 35% of POTC and Philcomsat has already been definitively determined as belonging to the Republic of the Philippines, representation over such interest should no longer be under the PCGG.

As there is no longer a question of ownership over these shares, there should no longer be an issue of "sequestration". The Committee recommends immediate turn-over of jurisdiction over the shares of the national government in POTC and Philcomsat to the Privatization Management Office (PMO) under the Department of Finance (DOF).

2. **Replacement of Government Nominees as Directors to POTC and Philcomsat**

The investigation by the Committee has revealed that the current government nominees in POTC and Philcomsat are clearly ineffective in protecting the interests of the national government in these corporations.

³⁷ Testimony of Victor Africa on 5 February 2007 at 2:44 PM.

³⁸ Testimony of Honorio Poblador on 5 February 2007 at 3:04 PM.

³⁹ Testimony of Erlinda Bildner on 5 February 2007 at 3:04 PM.

To replace the government nominees to be removed, the President may consider the appointment of:

1. A representative from the PMO under the DOF;
2. A representative from the Department of Science and Technology or the Commission on Information and Communications Technology under the Office of the President; and
3. A representative from Land Bank (whose Trust Department is the recipient of the proceeds of privatization)

as nominees to ably and responsibly represent the government interest in POTC and Philcomsat.

In line with the need for improved accountability, all such nominees should, from the time of their appointment, be required to submit regular reports to the agencies they represent concerning the corporations to which they have been appointed.

3. Privatization of the National Government Share in POTC and Philcomsat

The prolonged sequestration proceedings have not only prevented what had once been an established leader in the satellite telecommunications industry from diversifying in line with changing times but has also seen the rapid decline in value of the shareholdings of the national government.

A fair solution for all which would extricate the national government is to privatize its 35% ownership in POTC and Philcomsat.

Under the DOF, the PMO can be mandated to negotiate a sale for the 35% block of the national government.

4. Further Investigations by the Ombudsman

The Office of the Ombudsman should study the actions of the officials of the PCGG, the government nominees to POTC and Philcomsat, as well as other private individuals in PHC to determine their culpability based on the findings of the Committee, and, wherever deemed appropriate, institute the appropriate actions.

5. Investigation by the Anti-Money Laundering Council (AMLC)

The AMLC should look into the existence of suspicious bank accounts revealed in the investigation of the Committee and the operation of these accounts to determine any culpability on the part of the POTC, Philcomsat and PHC officials, their agents, or any of the banks in which these corporations maintain accounts.

6. Investigation by the Sandiganbayan and the Supreme Court (SC)

The investigation of the Committee revealed the following accounting entries which, on their face and in the light of other prevailing circumstances, suggest that the Sandiganbayan and the SC had received huge amounts of funds from PHC:

Date	Particulars	Amount
09/21/05	FILASIA Cities Trading Corp. (with note Representation to Supreme Court)	206,000.00
09/23/05	Cash – for Sandiganbayan TRO POTC-Philcomsat case	2,000,000.00

In light of these revelations, Senator Gordon immediately called Sandiganbayan Justice Teresita de Castro to inform her of the findings of the Committee and was told that the Sandiganbayan did not receive any such funds.

To protect the integrity of our judicial institutions, the Sandiganbayan and the SC should look further into these findings and, as may be necessary, mete out punishment to anyone shown to have been involved.

7. Investigation by the Bureau of Internal Revenue (BIR)

The BIR is urged to look into circumstances behind the following entry in the audit working papers of PHC external auditor, Virgilio R. Santos, uncovered by the investigation of the Committee:

Representation and Entertainment

Date	Particulars	Amount
03/31/05	Representation (bir transactions)	2,952,050.00

8. Overhaul of the PCGG

Throughout the investigation conducted by the Committee, the PCGG, and its Asset Management Department in particular, was shown to have miserably failed in its mandate to preserve and protect the interest of the national government in POTC, Philcomsat, and PHC.

In this light, the Executive must take immediate action on the patent omission and commission by the PCGG in the management of POTC, Philcomsat and PHC.

9. Further Legislative Investigations on the PCGG

The Senate, as representatives of the people, should, in the exercise of its oversight functions, continue its investigation of the PCGG and its effectiveness in the management of the interests of the national government in other sequestered corporations with a view towards definitively resolving the need to abolish, maintain, or further strengthen, the commission.

Moreover, as the PCGG has been in existence for over 20 years, the Committee takes the position that it is time for the PCGG to be put to task and to be required to render a detailed accounting to the people concerning its accomplishments.

How many illegal and anomalous transactions had the PCGG or its nominees done hidden under the protection of its unconstitutional mantle of immunity?

From the findings of the Committee under this investigation, it is clear that there is an urgent need to revisit the PCGG and put an end to all such fraud, abuse and wastage.

end