

PCGG shows deboning skill at Philcomsat

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From a profitable pioneer in the satellite telecommunications industry with clients including the Philippine Long Distance Telephone Co., the US giant Inter-

national Telephone and Telegraph, Western Union and the US military bases in the country, the Philippine Communications Satellite Corp. (Philcomsat) turned into a loss-making, mismanaged milking

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cow of government nominees with two groups claiming to be the rightful board of directors for the firm and its unit Philippine Overseas Telecommunications Corp. (POTC). The Senate committee on

government corporations and public enterprises in its report on investigations conducted on anomalies in the firm and its affiliates said despite a sequestration order by the Presidential Commission on Good Turn on page 3

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Government (PCGG) on a significant portion of shares in POTC soon after the Edsa revolt in 1986, Philcomsat reported P1 billion in revenues in 1991 and paid dividends to the national government, through the PCGG, of around P800 million in ten years to 1996.

Changing trends in telecommunications resulted in the rapid 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 backdoor listing, Philcomsat acquired approximately 81 percent of what was then publicly listed Liberty Mines, investing close to P1 billion and renaming it Philcomsat Holdings Corp. (PHC).

"Since 1998, the government has received nothing from this once premiere, cash-rich telecommunications company," according to the Senate report.

The Supreme Court, in a decision on June 15, 2005, said the government is the owner of 4,727 shares in POTC, equivalent to 35 percent of the outstanding capital stock of the corporation. "The national government's ownership of 35 percent of POTC entitles it to 35 percent of Philcomsat, its wholly-owned subsidiary," according to the tribunal.

In turn, the government's ownership of 35 percent of Philcomsat gives it beneficial interest over 28 percent of PHC; the publicly-listed holding

corporation of which Philcomsat owns approximately 81 percent. The Senate investigations found several instances where irregularities in the company and its affiliates were committed with the direct participation of government nominees. For instance, the Senate committee noted that unjustified increases in operating expenses, salaries and legal fees funded by PHC and coursed out through so-called "advances to affiliates" from 2004 were undertaken with the knowledge of the nominees. Such increases were "in clear violation of a presidential directive limiting the salaries of government representatives to sequestered companies to P120,000 per year with monthly allowances not to exceed P3,400 per month," the Senate report noted.

"Based on documents submitted to the Senate committee, government nominees Enrique Locsin and Manuel Andal received total compensation in excess of P15 million and P11 million, respectively from POTC, Philcomsat and PHC from 2003 to 2005.

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

The Senate, however, found in the course of the hearing that Nieto, based on medical records from the Stanford Hospital and Clinic submitted to the Senate committee, "has been suffering from Alzheimer's disease since 2003."

"What renders the situation even more egregious is the fact that PHC had already been saddled by increasing net losses over the last two years and as of Sept. 30, 2006 its advances to affiliates had reached P82 million," it said.

The Senate report added "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."

It mentioned the existence of suspicious bank accounts where "multi-million-peso transactions" were being made with apparent regularity.

The report also highlighted the soaring operating expenses in PHC. From P37 million in 2003, this grew to P90.6 million in 2004, and P133.7 million in 2005.

"When Enrique Locsin, government nominee to POTC and Philcomsat, was asked about the increase in operating expenses of PHC, 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."

On the inordinate amount of public relation (PR) expenses of PHC, its vice president, Philip Brodett, said in the course of business, it was necessary to sometimes entertain presidents and companies and officers of the Securities and Exchange Commission (SEC). On occasion, Brodett added, they would

entertain newspaper people to tell them of the position of the company.

The Senate investigations also found that government nominees were not performing their functions in protecting the government's interest in the firms, with most rarely physically seen in the companies at all.

"When Manuel Andal, nominee to POTC and Philcomsat, was asked about his responsibilities as PHC chief financial officer and treasurer, he said he held these positions only 'in name' and that an arrangement with Nieto, despite his title as CFO, was that he would not sign checks because all the documents were not in his possession," the report said.

It added Andal said he was usually in Bicol. Julio Jalandoni, POTC and Philcomsat government nominee, admitted to being able to attend only half of the scheduled meetings for PHC. When asked about his reason for accepting the position despite his apparently busy schedule, Jalandoni explained he could not reject the desire of President Arroyo to have him appointed.

Documents submitted to the Senate committee showed that five government nominees to POTC and Philcomsat received a total of P56.9 million, or more than P5 million a year for each, between 2003 and 2005: Enrique Locsin, P15.3 million; Luis Lokin, P12.3 million; Philip Brodett, P10.6 million; Manuel Andal, P9.9 million; and Johnny Tan, P8.8 million.