

THE PHILIPPINE SUGAR CORPORATION (Philsucor)

Creation

- Established on 14 November 1983 by virtue of Presidential Decree No. 1890.
- Its creation was brought about by the need to support the sugar industry at that time, it being one of the biggest and most reliable sources of foreign exchange earnings of the country.
- During that time, many of the obligations of the sugar mills, refineries and other sugar facilities acquired after the war at heavy financing cost to rehabilitate the damaged sugar industry remain unpaid and in arrears; it created an onerous burden, not only to their owners, but to the local financing institutions as well.
- Philsucor was thus, created, specially charged and empowered to design and implement a program for sugar mills, refineries and other sugar facilities.

Capitalization

- Under its charter, the authorized capital stock of the Philsucor shall be Five Billion Pesos (₱5,000,000,000.00), out of which Two Billion Pesos (₱2,000,000,000.00) was initially subscribed as follows:
 - (i) by the Philippine Sugar Commission (now the Sugar Regulatory Administration or SRA), to the extent of 65%; and
 - (ii) by the Philippine National Bank (eventually taken over by Asset Privatization Trust or APT/Privatization Management Office or PMO), to the extent of 35%.
- The initial paid-in capital of Philsucor as specified in its charter was One Hundred Twenty Five Million Pesos (₱125 Million). This consists of the contributions of the SRA (the Philippine Sugar Commission) and APT/PMO (Philippine National Bank's share transferred to APT) amounting to ₱ 82 million and ₱ 43 million, respectively.

Statutory Mandate

A. Primary Purposes:

- (i) Provide financing in the acquisition, rehabilitation and/or expansion of sugar mills, refineries, and other related facilities;

(ii) Ensure the viability and stability in the operation of the aforesaid entities;
and

(iii) Provide for the eventual redemption and/or reacquisition of the aforesaid entities by the private sector, if deemed practical.

B. Functions:

(i) Render assistance to sugar mills, refineries, and other related facilities either in the form of loans, guarantees, investment in equity, outright purchase, lease, management, including other suitable credit accommodations or arrangements;

(ii) Borrow and lend money for itself or for sugar accounts, to issue bonds and debentures, from time to time, as may be necessary and/or to guarantee obligations in line with its corporate purposes and functions;

(iii) Assist in the repayment and/or restructuring of the accounts of sugar mills, refineries, and other related facilities;

(iv) Assist in the preparation, financing and execution of sugar development or expansion programs;

(v) To acquire equipment, machinery, spare parts as may be necessary for the development, expansion, and/or rehabilitation of the sugar mills, refineries in pursuit of its mandate, during the duration of the indebtedness of the mills;

(vi) To acquire, operate, lease, or manage sugar mills, refineries, and other related facilities.

Board of Directors

The powers and functions of the Corporation is exercised by the Board of Directors, composed of eleven (11) members, all being appointed by the President of the Philippines on a regular basis.

As GOCC

As a government-owned and controlled corporation, Philsucor is under the umbrella of the Department of Agriculture.

Its financial operations and performance is subject to the audit of the Commission on Audit; and for its officers and employees, they are also subject to the Civil Service Law and related rules.

Authority To Issue Bonds

Under the operating guidelines in Philsucor's charter, it is authorized to float bonds, under such terms and conditions as may be approved under existing procedures.

Operations

In line with its mandate, Philsucor from its inception has focused on the rehabilitation and subsequent sale of at least fourteen (14) sugar mills which were indebted to Philippine National Bank (PNB) and whose accounts [indebtedness and collateral] were then initially transferred to Philsucor's books, to the extent of their pro-rata interest in the event of foreclosure by PNB pursuant to the Memorandum of Agreement dated 15 February 1984 entered into by and between Philsucor and PNB as follows:

		Account				Pro-rata Share	
		Transferred	Account Left			on Collaterals	
Sugarmill		to Philsucor	with PNB		TOTAL	Philsucor	PNB
						%	%
AIDSISA	P	253,600,000.00	P 69,891,554.13	P	323,491,554.13	78	22
BISUDECO		262,420,000.00	320,554,337.76		582,974,337.76	45	55
BUSCO		262,420,000.00	1,077,709,078.61		1,340,129,078.61	19	81
CALINOG		262,440,000.00	90,145,201.78		352,585,201.78	74	26
CASUCO		188,440,000.00	511,047,986.59		699,487,986.59	26	74
DACONGCOGON		45,840,000.00	13,489,018.87		59,329,018.87	77	23
DASUCECO		233,900,000.00	57,684,325.96		291,584,325.96	80	20
NOCOSII		262,420,000.00	691,481,256.53		953,901,256.53	27	73
OSCO		101,840,000.00	28,325,152.59		130,165,152.59	78	22
PASSI		262,440,000.00	137,244,035.73		399,684,035.73	65	35
SAGAY		229,200,000.00	31,407,514.54		260,607,514.54	87	13
SONEDCO		110,180,000.00	27,932,872.11		138,112,872.11	79	21
TOLONG		262,440,000.00	237,982,056.05		500,422,056.05	52	48
UPSUMCO		262,420,000.00	593,657,218.60		856,077,218.60	30	70
Total Average	P	3,000,000,000.00	3,888,551,609.85		6,888,551,609.85	43	57

- In exchange for PNB accounts of the sugar mills, thirty-year (30) bonds amounting to Three Billion Pesos (P3 Billion) at the rate of 4% were issued by Philsucor for the past due promissory notes held by the PNB.
- Eventually, the portions of the accounts that were retained by PNB were transferred to APT/PMO which undertook the foreclosure and sale of the collaterals put up by nine (9) of the concerned sugar mills including CASUCO.
- Three (3) sugar mill accounts, **Passi (Iloilo)Sugar Cenral, Inc., Davao Sugar Cenral, Inc.** and **Southern Negros Development Corporation**, were fully paid on 31 January 2007, 5 February 2010 and 31 December 2011, respectively.

- One (1) sugar mill account was retrieved by PNB.

Under the Memorandum of Agreement dated 7 August 1992 executed between PNB and Philsucor, PNB retrieved and reacquired from Philsucor the loan account of **Sagay Central, Inc.** in exchange for Philsucor bonds held by PNB.

For the remaining accrued interest on the Service Fee in the amount of ₱ 24,812,966.79, PNB agrees to pay Philsucor a non-interest bearing lump sum of ₱ 24,812,966.79 to be taken or deducted from the redemption proceeds of the remaining Sugar Bonds held by PNB upon maturity thereof in 2014 as per Memorandum of Agreement between PNB and Philsucor dated 23 November 2004.

- To date, there are two (2) sugar mill accounts remaining as follows:
 1. Past Due Account:
 - Cagayan Sugar Corporation (CASUCO)

This account which was transferred to Philsucor was the subject of a *Dacion-en Pago* with Lease and Right to Repurchase Agreement executed in 1979 between PNB and CASUCO. The mortgaged property of CASUCO was already sold by APT on 20 September 1990. Philsucor has no share in the net proceeds from the sale of the mortgaged property since the account, which was erroneously transferred by PNB to Philsucor in 1984, was a deficiency claim of PNB against CASUCO and not a regular receivable from sugar mill that could be transferred.

Principal as of 31 December 2010	₱ 188,440,000.00
Interest as of 20 Sept. 1990 (net of payment of ₱ 1 million received on 3 May 1984)	<u>92,239,079.45</u>
	<u>₱ 280,679,079.45</u>
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2. Account Under Litigation:
 - Ormoc Sugar Company, Inc. (OSCO)

This account consists of receivable from OSCO representing Philsucor's grant of a 25-year loan @ 7.50% interests per annum; transferred account from APT/PMO for seven (7) years with interest based on PNB prime rate at the end of each quarter plus 1%; and accrued interest on transferred account restructured at 4% interest per annum. These accounts are already past due. Details are as follows:

		Principal As of 12-31-2010		Interest	Interest computed up to
25-year loan to OSCO	₱	98,731,370.29	₱	67,975,809.89	31 Dec. 1998

Transferred account From APT		55,756,212.12		17,067,596.04	31 Dec. 1992
Accrued interest on Transferred account		20,893,091.72		1,158,405.88	31 Dec. 1992
TOTAL	₱	175,380,674.13	₱	86,201,811.81	

Redemption of bonds

- The ₱3-billion bonds issued by Philsucor to PNB will mature on 15 February 2014.
- In connection with the bonds issued by Philsucor, an irrevocable sinking fund was set up for their redemption pursuant to the Trust Agreement dated 05 December 1991, entered into by and between PNB and Philsucor.
- Under the said Agreement, the initial deposit of ₱220 Million on 19 December 1991 and its earnings also form part of the fund and no disbursements may be made until all sugar bonds have been retired and all related liabilities have been settled.
- As of December 31, 2011, the fund amounting to ₱ 4,863 million is kept intact in a Philsucor account with PNB that is not withdrawable until the maturity of the bonds.

Other Operations

- From the year 2000 onwards, Philsucor explored other avenues for assisting the sugar industry, including among others, the following:
 - (i) It funded studies and researches which were made available to stakeholders;
 - (ii) It undertook strategic computerization study for the Sugar Regulatory Administration in May 2005;
 - (iii) It undertook strategic assessments of the global sugar situation, together with the potential competitor product (HCFS) in November 2003 and January 2005, for reference and guidance of the industry;
 - (iv) It extended loans to assist the sugar industry, such as for purposes of bulk purchases, through importation or local purchases of fertilizer, to make it more affordable to the planters and to stabilize the local prices (Confed-Coop - importation while VMC, NFSP & JSPAI - domestic) ;

- (v) It extended loans for the improvement of sugar mills in financial distress or simply those, which needed additional capital with still viable operations (CAT and FFHC -Cogeneration Power Plant).
- (vi) It extended loans for the farm mechanization, particularly the purchase of backhoe and an attachment equipment to convert it to a cane loader (BISPMPC).
- In its more than 29 years of existence, Philsucor has relied exclusively on internally generated funds to finance its activities without any financial infusion from the national government.

- Thank you -