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SECURITIES AND EXCHANGE COMMISSION

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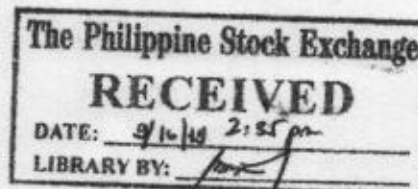
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P H I L I P P I N E N A T I O N A L
C O N S T R U C T I O N C O R P O R A T I O N

(Company's Full Name)

P N C C C O M P L E X K M 1 5 E A S T S E R V I C
E R O A D B I C U T A N P A R A N A Q U E C I T Y

(Business Address: No. Street City / Town / Province)

MARIANO JESUS S. AVERIA

Contact Person

846-2906

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

17-A

FORM TYPE

0 3

Month

Annual Meeting

4th
Tuesday
Day

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Total No. of Stockholders

Amended Articles Number / Section

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document ID

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STAMPS



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

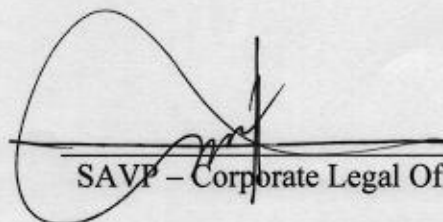
REPUBLIC OF THE PHILIPPINES)
City of ~~Paranaque~~ **Taguig City**)

TREASURER'S CERTIFICATE

I, **HENRY B. SALAZAR**, of legal age, Filipino and with office address at PNCC Complex, KM 15 East Service Road, Bicutan, Paranaque City, after being sworn to in accordance with law, hereby certify that:

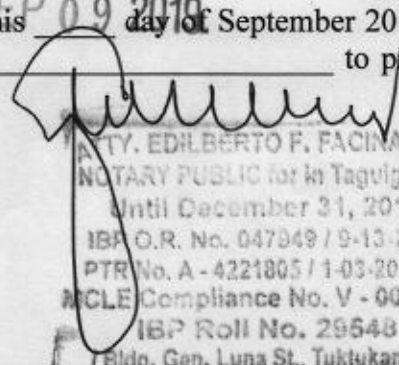
1. I was the Acting Treasurer from April 26, 2018 to May 27, 2019 of PHILIPPINE NATIONAL CONSTRUCTION CORPORATION (the "Corporation"), a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines under SEC Certificate of Registration No. 30939, with principal office address at PNCC Complex, KM 15 East Service Road, Bicutan, Paranaque City;
2. The Annual Report ("A/R") CD submitted contains the exact data stated in the hard copies of the A/R of the Corporation,
3. I am executing this certification to attest to the truth of the foregoing and in compliance with the reportorial requirements of the SEC.

IN WITNESS WHEREOF, I have hereunto set my hands this SEP 09 2019 day of September 2019 in ~~Paranaque City~~ **Taguig City**.


SAVP - Corporate Legal Officer

SUBSCRIBED AND SWORN to before me this SEP 09 2019 day of September 2019, City of ~~Paranaque~~ **Taguig City**, alicant exhibiting to me his _____ to prove his identity.

Doc. No. 471 ;
Page No. 24 ;
Book No. 647 ;
Series of 2019.


ATY. EDILBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig City
Until December 31, 2019
IBP O.R. No. 047949 / 9-13-2016
PTR No. A - 4221805 / 1-03-2019
MCLE Compliance No. V - 0024438
IBP Roll No. 29648
Bldg. Gen. Luna St., Tuktukan Taguig

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE REVISED SECURITIES ACT SECTION 141
OF CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended December 31, 2017
2. SEC Identification Number 30939
3. BIR Tax Identification No. 000-058-330-000
4. Exact name of registrant as specified in its charter
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
5. Metro Manila, Philippine
Province, Country or other jurisdiction
6. (SEC Use Only)
Industry Classification Code:
7. PNCC Complex, KM. 15, East Service Road, Bicutan, Parañaque City
8. (02) 846-3045 Fax: 846-1395
Registrant's telephone number, including area code
9. _____
Former name, former address and former year, if changed last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares</u>
Common	75,000,000
Special Common	10,000,000
Preferred	<u>10,000,000</u>
	<u>95,000,000</u>

Note:

The Philippine Construction Corporation (PNCC) has 141,519,380 shares (99,444,759 common shares and 42,074,621 preferred shares) issued without prior registration. The PNCC, however, had already filed an application for registration of the said shares on August 2000 to the Commission and had engaged the services of Feria, Feria, Lao Noche Law Offices for the purpose.

11. Are any or all of these securities listed on the Philippines Stock Exchange?

Yes ☒

No ☐

12. Check whether the registrant:

- (a) has filed all reports required to be filed by section 11 of the Revised Securities Act (RSA) and RSA Rule 11 (a) thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such report(s);

Yes ☒

No ☐

- (b) has been subject to such filing requirements for the past 90 days.

Yes ☒

No ☐

13. Aggregate market value of the stock held by non-affiliates:

PMO (Preferred D)	25,500,000
Republic of the Philippines thru PMO	79,271,024
GSIS	47,490,383
Land Bank of the Philippines	657,836
RM Cuenca & Family	2,786,248
Universal Holding Corporation	24,780,746
Independent Realty Corporation	39,605
Others	19,418,917
Total	199,944,759
Par Value	x 10.00
	<u>P 1,999,447,590</u>

EXHIBITS AND SCHEDULES

Exhibits and Reports on SEC Form 17-C

- (a) Exhibit – none
- (b) Reports on SEC Form 17 – C

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Parañaque on _____.

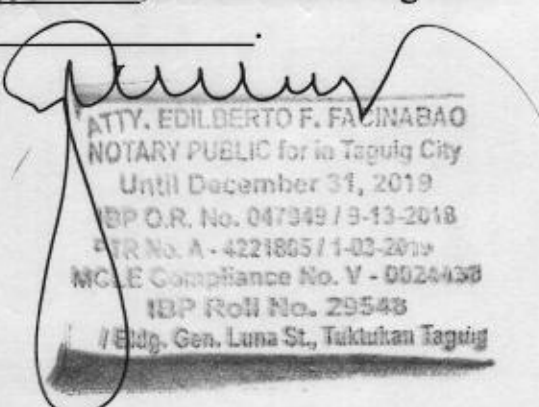
By:


HENRY B. SALAZAR

SAVP-Corporate Legal Officer

SUBSCRIBED AND SWORN to before me this SEP 09 2019 day of September 2019, in City of TAGUIG CITY, affiant exhibiting to me his Government issued I.D. _____.

Doc. No.: 472
Book No. 201976
Page No. 44
Series of 2019


ATTY. EDILBERTO F. FACINABAO
NOTARY PUBLIC for in Taguig City
Until December 31, 2019
BP O.R. No. 047949 / 9-13-2018
PTR No. A - 4221805 / 1-03-2019
MCLE Compliance No. V - 0024438
IBP Roll No. 29548
/ Eldg. Gen. Luna St., Tuktukan Taguig



2017 ANNUAL REPORT

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

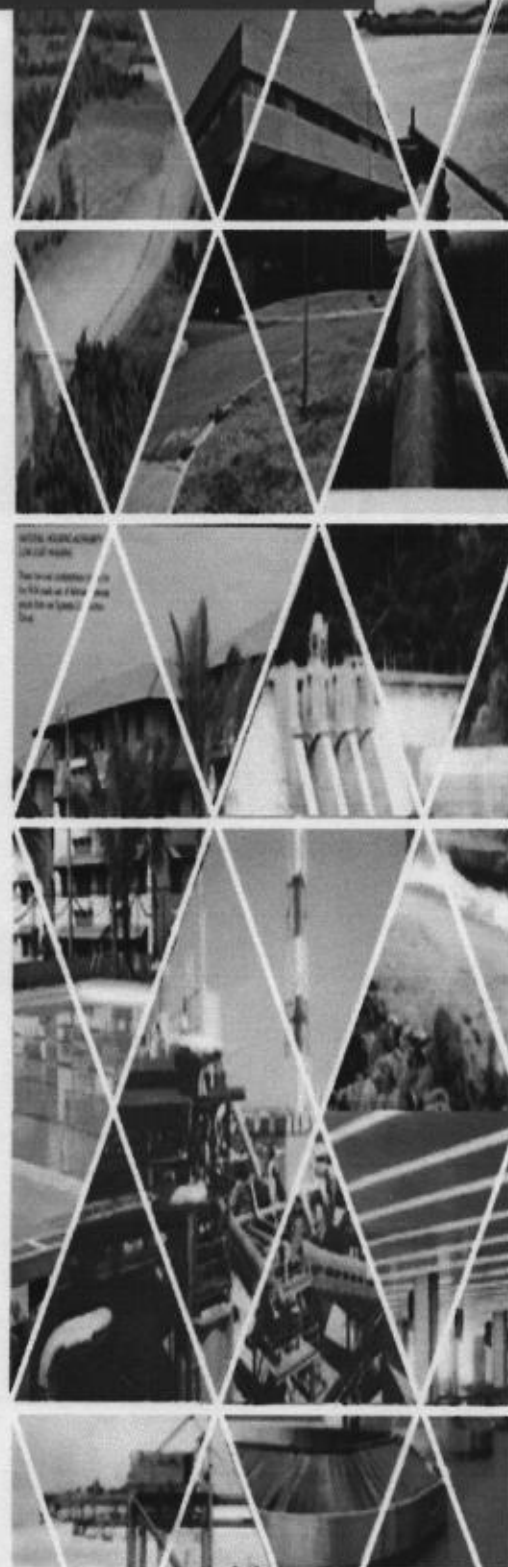


Table of Contents

Business Development	1
Organizational Set-up for 2017	5
Business Development & Description of Subsidiaries	5
Business Development of Affiliates	6
Description of Properties	9
Legal Proceedings	11
Operational and Financial Information	13
Control and Compensation Information	28
Securities of the Registrant	37
Corporate Governance	39
Statement of Management Responsibility	Annex "B"
Independent Auditor's Report	Annex "B"
Statements of Financial Position	Annex "B"
Statements of Profit or Loss	Annex "B"
Statements of Changes in Equity	Annex "B"
Statement of Cash Flows	Annex "B"
Notes to Financial Statements	Annex "B"
Financial Soundness Indicators	40
Philippine Financial Reporting Standards and Interpretations	41
Schedule of Retained Earnings (Deficit)	47
Schedules	48
Map Showing the Relationship Between and Among the Companies in the Group	52
• Annex "A" Annual Corporate Governance Report for 2017	
• Annex "B" 2017 Audited Financial Statement	

Business Development



The Philippine National Construction Corporation (PNCC) is known for its vision, expertise and landmark projects and has been a distinguished partner in Philippine progress and economic development.

On November 22, 1966 as a consortium of well known contractor firms, it was originally incorporated under the name of Construction Development Corporation of the Philippines (CDCP) for a term of fifty (50) years. CDCP's entry into the construction field was a big break-away from tradition. For the first time, the concept of private financing for the construction of government infrastructure projects was introduced in the Philippines. Since its establishment, CDCP had constructed billions of pesos worth of engineering and construction projects. This covered a broad range of projects, from the construction of highways, bridges and industrial facilities and even land development.

On August 14, 1968, the 28 km. Manila North Expressway (MNEX), a fully fenced limited access highway consisting of a four-lane divided roadway was opened as a tollway facility, with CDCP managing its operations and maintenance. It was originally a project of the Department of Public Highways (now DPWH), but the completion of the major portion of the project fell on CDCP to pioneer the toll concept of funding infrastructure. It was carried out under the private financing scheme provided for under RA 3741. This first big success in public works construction gave way to CDCP's rise in the road building industry. The construction of the Manila South Expressway (MSEX), the second major roadway project completed by CDCP, was opened on December 16, 1969. It provided a vital artery to Southern Luzon stretching 15 kilometers from Makati to Alabang.

On March 31, 1977, PD 1113 granted CDCP the franchise to operate, construct, and maintain the above toll facilities for a period of 30 years. From May 1, 1977 these roadways already then called the North and South Luzon Tollways, were operated and maintained under the franchise granted to CDCP. The franchise expired on April 30, 2007.

While the terms of the franchise provided under PD 1113 for the North Luzon Expressway and the South Luzon Expressway which is thirty (30) years from May 1, 1977 shall remain the same, the franchise granted for the Metro Manila Expressway and all extensions, linkages, stretches and diversions that may be constructed after the date of approval of this decree shall also have a term of thirty (30) years commencing from the date of completion of the project. On December 22, 1983, PD 1894 was issued further granting PNCC a franchise over the Metro Manila Expressway (MME), and the expanded and delineated NLEX and SLEX. PNCC was granted the *"right, privilege and authority to construct, maintain and operate any and all such extensions, linkages or stretches, together with the toll facilities appurtenant thereto, from any part of the North Luzon Expressway, South Luzon Expressway and/or Metro Manila Expressway and/or to divert the original route and change the original end-points of the North Luzon Expressway and/or South Luzon Expressway as may be approved by the TRB."*

In 1981, in order to strengthen the financial structure of the Corporation, LOI 1136 was issued mandating the National Development Company (NDC) to invest the sum of ₱250 million in CDCP at par value.

In 1983, LOI 1295 was issued directing lender/guarantor government financial institutions to convert PNCC debts into equity in PNCC. However, only ₱1.4 billion of the estimated ₱7 billion debt was converted to equity and the balance of ₱5.5 billion remain unconverted due to Central Bank intervention.

The accomplished conversion in 1983 gave the Government a majority shareholding, and pursuant to this substantial change in ownership, the corporate name was changed from CDCP to Philippine National Construction Corporation (PNCC) in the same year. The increase in the company's capital stock was approved by SEC on December 7, 1983. By virtue of LOI 1136 and PD 1295, 76.96% of the PNCC's voting equity has been held by the then Asset Privatization Trust (APT), now the Privatization and Management Office (PMO). The APT was created on December 8, 1986 by virtue of Proclamation No. 50 that authorized the privatization program of government. The program is guided by the Committee on Privatization (COP) that was also created under Proclamation No. 50, and is now called the Privatization Council (PrC). As a result of the aforesaid APT holdings, only 12.09% of the Corporation's voting equity is considered as under private ownership. However, 24% of GSIS shares is considered private because it is owned by government employees and financed by the premiums they pay.

The Company's debt of ₱5.552 billion which remained unconverted to equity is treated as part of equity in the Company's books, instead of a liability with the interest and penalties unilaterally charged thereon by the PMO/BTr amounting to ₱62.641 billion and ₱60.907 billion as of December 31, 2017 and 2016, respectively, are not considered or taken up in the Company's books. The Company maintains the position that the account/amount shall be booked as equity and not as a liability (inclusive of interests and penalty charges). The assertion that the ₱5.552 billion should be part of equity is supported by a Supreme Court ruling that recognizes the validity of LOI 1295 confirming that the ₱5.552 billion is no longer a debt but equity. The Office of the Government Corporate Counsel, and a private firm engaged by PMO have concurred with this ruling. Pursuant to the mutual agreement between the Company and the PMO, the option/authority to convert the mentioned debt into equity was submitted to the Department of Justice (DOJ) on June 21, 2012 for arbitration. However, DOJ decision dated February 18, 2014 dismissed the Company's petition against the PMO. PNCC filed a Motion for Reconsideration (MR) at the DOJ on March 14, 2014. On January 22, 2015, the DOJ denied the Company's MR.

Thereafter, the Company filed a Supplement to the MR on May 28, 2015 which was also denied by the DOJ in its order dated July 13, 2015.

On June 26, 2015, the Company filed a Notice of Appeal with the Office of the President (OP) of the Philippines and filed the corresponding Appeal Memorandum on July 27, 2015. The Company is awaiting the resolution of the OP on its appeal.

From 1987 to 2001, PNCC still implemented selected construction projects, but this resulted in losses. Since 2002, the Corporation has refrained from actively engaging in the construction business, and focused more on the operation and maintenance of its tollways.

Earlier in 1995, PNCC entered into Joint Venture Agreements (JVAs) that resulted in the division of the Tollways into 3 portions, the North Luzon Expressway (NLEX), the Skyway, and the South Luzon Expressway (SLEX). The objective was to improve the manner by which the tollways were operated and maintained.

The NLEX JVA was entered into originally with First Philippine Infrastructure Development Corporation (FPIDC) together with Leighton Contractor Asia Ltd. and Egis Project Systems, which formed the JV company, Manila North Tollways Corporation (MNTC). The operation of the NLEX was officially turned over to MNTC on February 10, 2005, where PNCC had 20% shareholding. PNCC's inability to respond to succeeding capital calls limited its participation to 2.5% in MNTC. FPIDC was acquired by the Pangilinan (MVP) Group in November 2008. In the O&M company for NLEX, the Tollway Management Corp. however, PNCC is a 20% shareholder.

For the South Luzon Tollways, PNCC entered into a partnership with Indonesia's P.T. Citra Lamtore Gung Persada to build the elevated toll road or Skyway System from Nichols to Alabang and to upgrade the at-grade portion for the same stretch. Citra Metro Manila Tollways Corporation (CMMTC) is the Joint Venture Company and concessionaire, and has been running these segments since 1999. The PNCC Skyway Corporation (PSC) originally managed the operation and maintenance of the Skyway System and its corresponding at-grade section, but due to operational inefficiencies, PSC suffered financial losses. The Skyway Operation and Maintenance Corporation (SOMCO) took over the operations and maintenance of the Skyway Systems in 2008. PNCC has 11% share in CMMTC (also diluted from 20%) and a 20% share in SOMCO, which up to this day remains unissued to PNCC because of legal disputes with CMMTC.

For the Alabang to Calamba stretch, PNCC entered into a JVA with the Malaysian Corporation, MTD Manila Expressways, Inc. (MTDME) under the corporate name of South Luzon Tollway Corporation (SLTC). Under this JVA, are the following South Luzon Expressway (SLEX) Projects: the rehabilitation and upgrading of the Alabang Viaduct; the expansion and rehabilitation of the Alabang to Calamba segment; and the construction of a 7.8 km. toll road extension from Calamba to Sto. Tomas, Batangas. The O&M company for the said stretch is the Manila Toll Expressway Systems, Inc. (MTESI). PNCC owns 20% of SLTC and 40% of MTESI.

San Miguel Corporation and its partner Citra Group of Indonesia had acquired an 80% indirect equity interest in SLTC and 60% in MTESI. The acquisition was made by its wholly-owned subsidiary San Miguel Holdings Corporation (SMHC) and Atlantic Aurum Inc., the joint venture corporation of SMHC and the Citra Group. SMHC has accepted the invitation of the Citra Group of Indonesia to invest in Atlantic Aurum Inc, the corporate vehicle of the Citra Group which has a controlling equity interest in CMMTC, the concession holder and operator of the Skyway project.

Although the original franchise of PNCC expired on April 30, 2007, the Toll Regulatory Board (TRB) issued a Toll Operations Certificate (TOC) dated April 27, 2007 to PNCC, for the continued Operation and Maintenance of the SLEX. The said authority from the TRB, pursuant to its powers under PD 1112, allowed PNCC to operate and maintain the SLEX and to collect toll fees, in the interim. The effective date of the TOC commenced on May 1, 2007, but in no case to exceed the date of substantial completion of the SLEX Project Toll Roads under the STOA dated February 1, 2006, or unless sooner revoked by the Board. On April 8, 2010, the TRB issued the Certificate of Substantial Completion for Project Toll Roads 1 and 2, and accordingly issued the Toll Operation Permit (TOP) over the said Project Toll Roads to MATES. On May 2, 2010, the operation and maintenance of the SLEX was officially turned over to SLTC and MATES.

A Subscription Agreement was also executed by and among the Alabang-Sto. Tomas Development Inc. (ASDI), the NDC, and the PNCC on November 14, 2008, wherein PNCC subscribed to 12,500 shares from the unissued portion of the 150,000 shares authorized capital stock (with par value of ₱1,000 per share) of ASDI. ASDI is a joint venture company between PNCC and NDC and incorporated to undertake the Daang Hari-SLEX connector road (DHLRP). In 2009, as the construction activities of the DHLRP was underway, PNCC infused additional equity to total ₱255 million, thereby increasing its ownership share to 51%.

On December 15, 2009, a Memorandum of Agreement (MOA) for the Advance Works on the Daang Hari-SLEX Link Road Project (DHLRP) was entered into by and among the ASDI and PNCC. PNCC was designated as the Main Turnkey Contractor responsible for undertaking the Advance Works and to implement of the design and construction of the Road Project, which consists of a toll road facility connecting Daang Hari Road in Cavite to the SLEX adjacent to the Susana Heights Interchange. The project was 25% complete when the DPWH, pursuant to its PPP mandate, took over the project for the purpose of bidding it out. The project was bid out and awarded to Ayala Corporation in the amount of ₱900M and ASDI was reimbursed in the amount of ₱353M representing its cost plus a premium for its efforts.

Meanwhile, pursuant to Executive Order No. 605 which directed all government agencies to install a Government-wide quality management program, and prior to the above turn-over to MATES, PNCC has acquired and maintained an ISO 9001 Certification to cover its expressway operations in the SLEX. The company, with the full support of its Board, adopted and implemented its Quality Management System Manual. On December 15, 2009, Stage 1 (Documentation) Certification Audit was conducted by a Certification Body, the SGS Philippines. Before the end of the first quarter of 2010, SGS Philippines, Inc. granted to PNCC the ISO 9001:2008 Quality Management System Certificate for Tollway Management. The certificate was valid from 18 March 2010 until 17 March 2013.

About the same period in *Ernesto B. Francisco vs. TRB, PNCC et. al.* (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of *Strategic Alliance Development Corporation vs. Radstock Securities Limited, et. al.* (G.R. No. 178158, December 4, 2009), the Supreme Court ruled and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the National Government (NG) at no cost. Consequently, this resulted in the latter's ownership of the toll fees and the net income derived, for the period starting May 1, 2007, from the toll assets and facilities, including PNCC's percentage share in the toll fees collected by the joint venture companies currently operating the tollways. This has adversely affected PNCC's entitlement to a share in the gross proceeds of the operation of the SLEX and dividends, if declared.

PNCC through the Office of Government Corporate Counsel (OGCC) filed a Motion for Clarification with the Supreme Court (SC) asking for definition of "Net Income". The SC resolved to grant the Motion of PNCC. In addition, it ordered the Toll Regulatory Board (TRB) with the assistance of Commission on Audit (COA) to formulate the Guidelines to determine what can be retained by PNCC to determine the Net Income to be remitted to NG. Due to inevitable delays and in fairness to PNCC, the TRB on 22 March 2012, issued "Interim Guidelines" that determined amounts to be remitted to the NG and PNCC "by the JV Companies in relation to the operation of the NLEX and SLEX projects respectively." Detailed discussion on revenue and dividend share from joint venture companies were described in Notes 21.3 of Audited Financial Statement (AFS), page 62 of AFS.

On May 3, 2011, the company and its partner for Skyway Toll Projects, CITRA Lamtoro Gung Persada, submitted to TRB an Updated Joint Venture Investment Proposal (UJVIP) for the Metro Manila Skyway (MMS) Stage 3 Project pursuant to one of the provisions of Supplemental Toll Operations Agreement dated November 27, 1995 as amended on July 18, 2007. The 14.8 kilometer Stage 3 Project starts from the existing Buendia interchange and will be extended and eventually connected to the North Luzon Expressway at Balintawak – EDSA Interchange. The Toll Regulatory Board (TRB) reviewed, evaluated and approved the UJVIP.

On January 9, 2012, a Supplement to the Business and Joint Venture Agreement (Supplement BJVA) was executed by the Company and CITRA which governs the implementation of the MMS Stage 3 Project and Stage 4 of the Project also known as Metro Manila Expressway (MME). The parties also executed the Second Supplement to the Business Joint Venture Agreement (Second Supplement to BJVA) which contains the terms and conditions for the implementation of both MMS and MME.

On June 6, 2011, PNCC was placed under the supervision of Governance Commission on GOCCs or the GCG classified under "public utilities sector", pursuant to R.A. 10149 or the "GOCC Governance Act of 2011".

On September 6, 2012, the Restated Second Supplement to BJVA was executed which contains the entire agreement of the parties and embodies the final terms and conditions for MMS.

On November 12, 2012, following Section 1 of the Restated Second Supplement to BJVA, Citra Central Expressway Corporation (CCEC), the joint venture company, was incorporated as the vehicle to implement the financing, design, and construction of the MMS.

On September 26, 2013, the Supplemental Toll Operation Agreement (STOA) governing the design, construction, operation and maintenance of the MMS Stage 3 was approved by the Office of the President of the Philippines. Under the STOA, the Company is provided with 20% equity in CCEC, 10% is free carry and can never be diluted while the other 10% is to be paid for. In 2015, when the call was made for a capital increase investment in CCEC, the Company waived its subscription rights for the 10%. PNCC's 10% investment in CCEC amounted to ₱620 million as of December 31, 2016. The Company waived its right in the Operation and Maintenance (O&M) company in exchange for the shares in gross revenues. Pursuant to the STOA, the investor has been granted to perform the construction of this toll road for a term of thirty-six (36) consecutive months counted from the effectiveness of the Notice to Proceed (Section 5.08) while the construction of the Buendia-PUP Segment shall be for a term of twenty-eight (28) months counted from the effectiveness of the Notice to Proceed (Section 7.06).

On October 14, 2013, Executive Order No. 141 was issued transferring the Philippine National Construction Corporation from the Department of Trade and Industry (DTI) to the Office of the President (OP) of the Philippines.

In January 2014, the Restated Supplement to the BJVA for MME was executed. The MME or C6 Project or the Stage 4 of SMMS will stretch from Bicutan to San Jose Del Monte and then will connect to the proposed MRT7 Project which will extend to the NLEX. The toll road will have a length of 34.33 km. Patterned from the MMS Project, the Company is provided with 20% equity in Citra Intercity Tollways Inc. (CITI), the joint venture company incorporated as the vehicle to implement the financing, design, and construction of the MME. 10% of the CITI equity is free carry and can never be diluted. PNCC's 10% investment in CITI amounted to ₱240.816 million as of December 31, 2016.

On August 11, 2014, the Supplemental Toll Operation Agreement (STOA) was approved by the Office of the President of the Philippines. Pursuant to the STOA, the investor has been granted to perform the construction of MME for a term of fifty-two (52) consecutive months counted from the effectiveness of the Notice to Proceed for Phase 1 (Section 5.07).

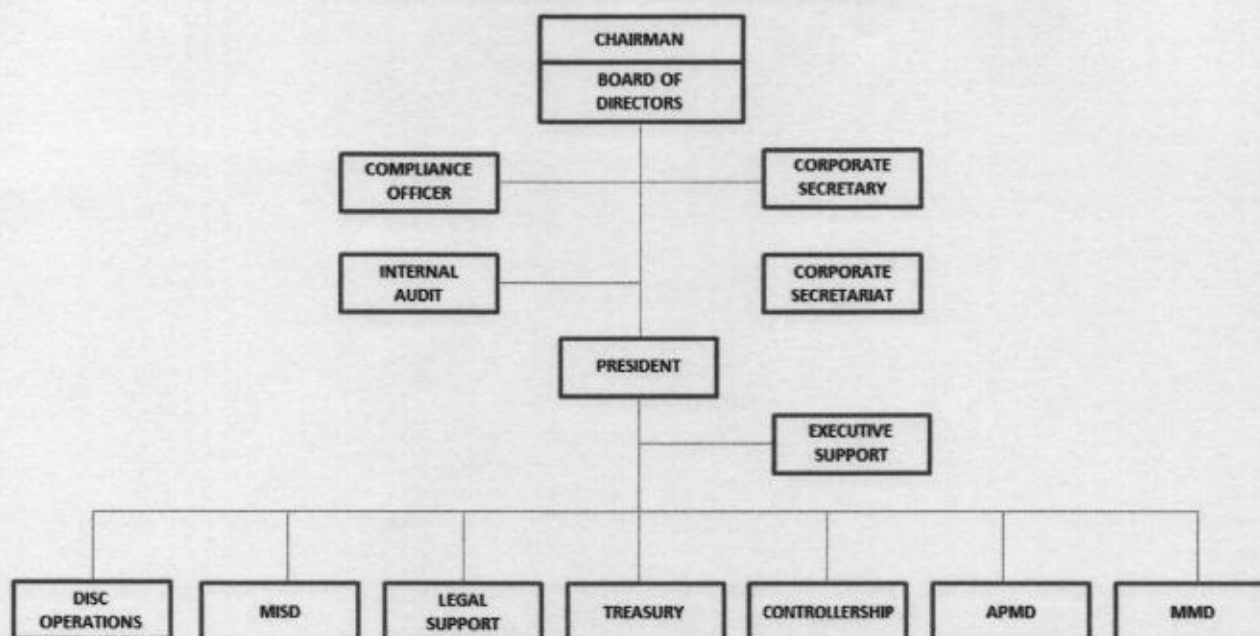
On October 17, 2016, a stockholders' meeting was held where majority of the stockholders voted for the extension of corporate term of PNCC for another 50 years, which extension was approved by the President of the Philippines Rodrigo Roa Duterte on even date.

The Securities and Exchange Commission has issued the Certificate of Registration for the extension of the company's corporate term for another 50 years on November 21, 2016.

Starting 2017, the Management with the support of the Board has accepted proposal from interested parties to construct and develop new toll roads utilizing PNCC's franchise under P.D. 1894. Negotiation on economics terms of the project toll roads is now on-going.

Organizational Setup for 2017

PNCC TABLE OF ORGANIZATION AND MANPOWER COMPLEMENT 2017



Total Number of PNCC Employees Per Sector as of December 31, 2017

Sector	Regular	Probationary	Co-Terminus	Fixed Term	Project Employee	Total
Rank & File	17			124	1	142
Supervisor	13	1		2	3	19
Manager	8		1			9
Executive	8	1				9
TOTAL	46	2	1	126	4	179

Business Development and Description of Subsidiaries

PNCC has a number of subsidiaries legally in existence but for the past three years were inactive. These are wholly-owned subsidiaries namely the Traffic Control Products Corp. (TCPC), Tierra Factors Corp. (TFC), CDCP Farms, Inc. and PNCC Skyway Corp. Likewise, there are subsidiaries such as Land Management and Development Corp., Managerial Resources Corp., Manila Land Corp., San Ramon Ranch, Inc. and San Roque Ranch, Inc. where PNCC's investments are still carried in the books, but with no management files or records.

The Governance Commission for GOCC's (GCG), in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five (5) subsidiaries of the Company, namely: 1) Alabang-Sto Tomas Development, Inc. (ASDI); 2) DISC Contractors, Builders and General Services, Inc. (DCBGS); 3) Traffic Control Products Corporation (TCPC); 4) CDCP Farms Corporation (CDCP-FC), and

Tierra Factors Corporation (TFC). Through a Memorandum from the Executive Secretary dated August 7, 2014, the GCG was informed that its recommendation to abolish PNCC subsidiaries had been approved by the President of the Republic of the Philippines, subject to pertinent laws, rules and regulations. Furthermore, GCG recommended the creation of a Technical Working Group (TWG) to coordinate the implementation of said abolition. The TWG shall be composed of the GCG, together with the representatives of the following government agencies, as regular members : 1) Department of Trade and Industry; 2) Securities and Exchange Commission, and 3) PNCC. Special members are composed of : 1) ASDI; 2) DCBGSi; 3) TCPC; 4) CDCP-FC, and 5) TFC.

On October 16, 2012, ASDI's corporate life was shortened up to December 31, 2012 pursuant to Board resolution No. BD-04-2014. On August 7, 2014, this Board resolution was revoked. Investment in ASDI was originally 255,000 common shares with a par value of ₱1,000 per share representing equity ownership of the Company at 51 per cent, with the remaining 49 per cent owned by the National Development Company (NDC). On December 9, 2015, ASDI liquidated 127,500 common shares of PNCC as part of its dissolution process paying PNCC ₱127.5 million. On December 15, 2016, the Company received ₱66.3 million as additional partial liquidation of its investment in shares of ASDI. ASDI has a pending collection balance of ₱4.2 million from DPWH.

On September 26, 2013, the abolition/dissolution of TCPC was approved per Board Resolution BD-006-2013. The conveyance of TCPC assets to PNCC has already been completed. Part of these assets has already been disposed through public bidding. The remaining undisposed assets are now being classified according to commodity classification for appraisal and for purposes of higher return upon sale.

On September 30, 2015, DCBGSi was closed pursuant to DCBGSi Shareholders' resolution dated August 7, 2015. On October 1, 2015, PNCC absorbed DCBGSi functions. On January 18, 2016, the Board of Directors of DCBGSi approved the shortening of its corporate life to January 31, 2016.

On September 30, 2015, Special Stockholders Meeting of TFC and CDCP-FC were held to dissolve these subsidiaries. Management is still awaiting the appointment of Directors for both companies in order to call for a Board Meeting to put into effect the closure of the two companies. Several letters has been sent to the GCG regarding this matter.

A 100 per cent impairment loss is provided for investments in inactive and non-operating subsidiaries and affiliates, as well as investments in the remaining active wholly-owned subsidiary, due to their incurrence of losses resulting in accumulated deficit.

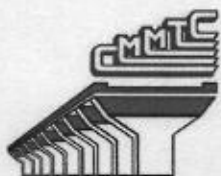
Business Development of Affiliates

In compliance with the Supreme Court decision, the company has transferred and turned over the shares of stock in tollway joint venture companies through a Deed of Compliance to Transfer Shares of Stock to the National Government under Supreme Court Decision in G.R. Nos. 166910, 169917, 173630, and 183599.

The only joint venture company left to PNCC after the turn over to National Government is Citra Metro Manila Tollways Corporation (CMMTC) the joint venture company for Metro Manila Skyway System (SMMS) and the Operation and Maintenance Corporation for SMMS or Skyway Operation and Maintenance (SOMCO). These said JV was approved pursuant to Presidential Decree No. 1894, which expanded PNCC's original franchise by granting firstly, the further "right, privilege and authority to, construct, maintain and operate any and all such extensions, linkages or stretches, together with the toll facilities appurtenant thereto, from any part of the North Luzon Expressway, South Luzon Expressway as may be approved by the Toll Regulatory Board (TRB); and, secondly, the right to construct and operate the Metro Manila Expressway, also named as the "Metro Manila Tollway" (C-6).

Meanwhile, the Company now holds updated partnership with Citra Lamtoro Gung Persada for new toll road projects : the Metro Manila Skyway Stage 3 and Metro Manila Expressway or C6.

The projects will enable the Company to generate sufficient cash flow from dividend and revenue shares from the JV companies for the next 30 years.



Citra Metro Manila Tollways Corporation and Skyway Operation and Maintenance

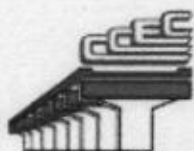


board seats in CMMTC.

Citra Metro Manila Tollways Corporation (CMMTC), a Joint Venture Company or the Investor Company was incorporated on 27 November 1995 to pursue the South Metro Manila Skyway Project (SMMS), i.e., the present at-grade level and Skyway stretching from Nichols to Alabang, southbound, and to Buendia, northbound. CITRA has a 30-year concession period which commenced in December 1998. Originally, PNCC owned 20% of CMMTC with P551 million infused as equity. As of 2008, however, following the exercise of pre-emptive rights to which PNCC issued a waiver, PNCC's equity participation was reduced to 11%. PNCC continues to hold two

In 2006, PNCC was able to secure a share of the gross revenues of the Skyway from CMMTC, similar to the arrangement with the MNTC of NLEX and SLTC of SLEX. This concession was secured in return for PNCC's willingness to dilute its shareholdings in CMMTC, as the latter raised financing for the Skyway II extension project.

Skyway O&M Corporation (SOMCO) is the operations and maintenance corporation for the Skyway section where PNCC has 20% participation. This, however, remains unissued because of legal difficulties with CMMTC. SOMCO was incorporated on December 12, 2007 and took over the O&M role from the PNCC Skyway Corporation on 31 December 2007.



Citra Central Expressway Corporation

Citra Central Expressway Corporation (CCEC), a joint Venture Company between the Company and PT Citra Lamtoro Gung Persada, was incorporated on November 16, 2012 pursuant to Section 1 of the Supplement to Business and Joint Venture Agreement to be the vehicle to implement the financing, design and construction of the Metro Manila Skyway – Stage 3 (MMS).

Pursuant to approved STOA of MMS, CCEC has a 30-year concession period to commence upon completion of the project.

The Company is provided with 20% equity in CCEC, 10% is free carry and can never be diluted while the other 10% is to be paid for.

On May 26, 2014, the Toll Regulatory Board (TRB) approved the change in the ownership of a majority of the shares of the capital stock of CCEC.

Upon execution of the Subscription Agreement on September 5, 2014, Stage 3 Connector Tollways Holdings Corporation (S3HC) became a majority stockholder of CCEC. The shareholder structure in CCEC is as follows: S3HC - 55%, PT Citra Lamtoro Gung Persada - 25% and PNCC – 20%.

In 2015, when the call was made for a capital increase investment in CCEC, the Company waived its subscription rights for the 10%. The initial 10% investment in CCEC amounted to P12.5 million.

The Company agreed to forego any equity participation in the Operation and Maintenance (O&M) company provided the latter remains a cost center and not a profit center. The Company is provided with one (1) permanent seat with one non-voting director to the Board of CCEC, regardless of its shareholdings. Membership in all Board Committees and Chairmanship of the Board Audit Committee is given to the Company.

The Company's share in gross revenues for the duration of the operation period is projected at ₱35.06 billion while the share in net profits is projected at ₱21.42 billion.

On the following dates, CCEC issued ten (10) percent "free-carry" equity shares (₱100 par value) as the Company's share in the joint venture company as follows : June 30, 2014 – 125,000 shares; September 15, 2014 – 275,000 shares, and December 1, 2016 – 5,800,000 shares.



Citra Intercity Tollways, Inc.

Citra Intercity Tollways, Inc. (CITI) was incorporated on February 17, 2014, a joint Venture Company between the Company and PT Citra Lamtoro Gung Persada to be the vehicle to implement the financing, design and construction of the Metro Manila

Expressway – C6 (MME).

Pursuant to approved STOA of MME, CITI has a 30-year concession period to commence upon completion of the project.

The Company is provided with 20% equity in CITI, 10% is free carry and can never be diluted while the other 10% is to be paid for.

On July 20, 2015, the Toll Regulatory Board (TRB) approved the change in the ownership of a majority of the shares of the capital stock of CITI.

The shareholder structure in CITI is as follows: SMC Infraventures, Inc. - 55%, PT Citra Lamtoro Gung Persada 25% and PNCC – 20%.

The Company agreed to forego any equity participation in the Operation and Maintenance (O&M) company provided the latter remains a cost center and not a profit center. The Company is provided with one (1) permanent seat with one (1) non-voting director to the Board of CITI, regardless of its shareholdings. Membership in all Board Committees and Chairmanship of the Board Audit Committee is given to the Company.

The Company's share in gross revenues for the duration of the operation period is projected at ₱43.86 billion while the share in net profits is projected at ₱27.21 billion.

On the following dates, CITI issued ten (10) per cent "free-carry" equity shares (₱100 par value) as the Company's share in the joint venture company as follows : March 9, 2016 – 400,000 shares and December 1, 2016 – 2,008,167 shares.

Description of Properties

The list of Real Property as of December 31, 2017 are presented below:

ITEM NO.	LOCATION	AREA (sq .m.)	REGISTERED OWNER
A.	BOOKED PROPERTIES:		
1.	TAGOLOAN PROPERTY Bo. Casinglot, Tagoloan, Misamis Oriental	20,687 13,785 16,380 1,065 5,316 3,387 60,620	CDCP CDCP CDCP CDCP CDCP CDCP
2.	BICUTAN PROPERTY ParanaqueCity	107 54 27,762 5,123 33,046	CDCP CDCP CDCP
3.	MABALACAT LOT Bo. Maisac, Mabalacat, Pampanga	10,000 15,000 2,905 27,905	CDCP CDCP CDCP
4.	TAGAYTAY PROPERTY Bo. Tolentino, TagaytayCity	49,107 49,100 98,207	CDCP CDCP
5.	ANTIPOLO PROPERTY <ul style="list-style-type: none"> VictoriaValley Subdivision Town & Country Estate Subd. 	840 850 958 741 680 701 10,000 14,770	CDCP CDCP CDCP CDCP CDCP CDCP CDCP
6.	MORONG LOT Morong, Rizal	240 240 240 240 240 240 240 240 240 382 2,542	CDCP CDCP CDCP CDCP CDCP CDCP CDCP CDCP CDCP CDCP
7.	FINANCIAL CENTER AREA (FCA) Pasay City	129,548	R. P.
8.	PORAC LOT Porac, Pampanga	116,591	PNCC

ITEM NO.	LOCATION	AREA (sq .m.)	REGISTERED OWNER
9.	STA. RITA PROPERTY (NLT Office) Sta. Rita, Guiguinto, Bulacan	11,395 8,605 20,000	PNCC Remedios Bengzon
10.	BOCAUE REST AREA NLEX, Bocaue, Bulacan	733 2,801 4,404 1,141 847 9,926	CDCP CDCP CDCP CDCP CDCP
B.	UNBOOKED PROPERTIES		
B.1	PNCC LISTED PROPERTIES		
1.	PILILLA PROPERTY Pililla, Rizal	500 500 500 500 500 500 459 702 607 500 500 500 500 500 500 7,768	M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone
2.	GULOD RESORT CONDOMINIUM Nasugbu, Batangas • Apartment 5-102 • Apartment 5-302	34.65 34.65 69.30	Land Bank Land Bank
B.2	CDCP FARMS CORP. PROPERTIES		
1.	TABANG PROPERTY Tabang, Guiguinto, Bulacan	4,945 678 5,623	CDCP Farms Corporation CDCP Farms Corporation

Legal Proceedings

1. *Asiavest Merchant Berhad vs. CA and PNCC*

G.R. No. 110263, Supreme Court

Date of Institution : July 14, 1988

Amount Involved: MYR5,200,000

This case involves the enforcement of a foreign judgment rendered against PNCC in Malaysia for guarantees it issued on various construction projects involving Malaysian Ringgit (MYR) 5,108,290.23. The Pasig City RTC and the Court of Appeals rendered decisions in favor of PNCC, dated October 14, 1991 and May 19, 1993, respectively.

In 2001, The Supreme Court (SC) rendered a decision reversing the decision of the Court of Appeals and ordered the payment of the foreign award. In 2002, the Pasig RTC issued a Writ of Execution, and which was partially satisfied but PNCC later asked for its temporary suspension by moving to quash the writ because of: (a) change of the party's status making the execution inequitable; and, (b) the claim has already prescribed under Malaysian laws. In 2015, the RTC finally denied PNCC's Motion to Quash, including the subsequent Motion for Reconsideration. PNCC has since filed a Petition for Certiorari which is pending in the Court of Appeals.

In April 2016, AMB's counsel filed for Ex-Parte Motion for Issuance of Alias Writ of Execution to enforce the 2002 Writ of Execution. PNCC has since opposed it, prompting AMB to file its Urgent Motion to Resolve.

On 18 December 2017, the CA denied the Petition.

In view of the foregoing, the Company, through its legal counsel, OGCC, shall continue to exhaust all legal options provided by law.

2. *PNCC vs. Asiavest Merchant Bankers*

G.R. No. 172301, Supreme Court

CA-GR CV No. 50948, Court of Appeals

Civil Case No. 64367, RTC Pasig Branch 153

Date of Institution: April 12, 1994

This case arose after Asiavest-CDCP Sdn. Bhd. (Asiavest-CDCP), a corporation organized by both CDCP (now PNCC) and Asiavest Holdings (M) Sdn. Bhd. (Asiavest Holdings), which acted as PNCC's subcontractor in Malaysia, failed to complete the project in Malaysia. Asiavest Merchant Bankers (M) Berhad (AMB), which provided various guarantees and bonds to PNCC in connection with the construction contracts in Malaysia, thus sought reimbursement of the surety bond the former paid to the State of Pahang (Malaysia). The amount involved is Malaysian Ringgit (MYR) 3,915,053.54.

On April 12, 1994, AMB instituted the case before the Pasig City Regional Trial Court (RTC). PNCC through its legal counsel, Office of the Government Corporate Counsel (OGCC), had filed four (4) motions for extension of time to file answer and/or any responsive pleading. However, PNCC was not able to file its Answer to the Complaint because the transactions were executed in Malaysia and the documents were not then immediately available. Thus a judgment by default was rendered by the trial court. Efforts were made towards lifting of the default order and reconsideration of the decision, but the same were denied.

PNCC appealed the case to the Court of Appeals but was dismissed in its Decision dated June 10, 2005. A Motion for Reconsideration was filed but the same was denied.

A Petition for Review on Certiorari was filed before the Supreme Court which eventually decided against PNCC last April 4, 2016. On April 6, 2016, OGCC received a Motion for issuance of Alias Writ of Execution filed by AMB with the RTC.

On April 16, 2016, PNCC filed its opposition thereto arguing that the subject claim should be filed first with COA before a Writ of Execution can be issued by the RTC.

On 21 February 2017, OGCC, received a Motion for the Issuance of Entry of Judgment.

On 6 March 2017, OGCC received the 3 November 2016 Entry of Judgment that the 19 August 2015 Decision become final and executory.

3. ***Superlines Transportation Co. Inc. vs. PNCC***
G.R. 169596
Supreme Court 2nd Division
Date of Institution: February 22, 1991

This case seeks the recovery of personal property (replevin) with damages, the merits of which the Supreme Court had already resolved in "Superlines Transportation Company, Inc. vs. Philippine National Construction Company," which ordered that the case be remanded to the lower court for further proceedings.

After the matter was remanded to the RTC, trial ensued and the latter issued its assailed Decision, where it recapped the series of events following the Supreme Court 2007 Decision. Later, additional defendant Cesar Lopera filed his answer on March 31, 2008. Early on, the other defendants, i.e. Philippine National Construction Company and Pedro Balubal, were represented by private counsel. Lately thought, the Office of the Government Corporate Counsel entered appearance for and in behalf of PNCC, that plaintiff even questioned, asking that said appearance be disallowed. That particular matter was addressed in this Court's order dated November 7, 2008.

Because of the possibility that the passenger bus object of the replevin suit no longer exists in the light of the sheriff's report dated December 10, 2007, plaintiff moved that the value of the bus be determined instead with the said determination as to value be ordered paid to the plaintiff, invoking section 9, Rule 60, Rules of Court.

While PNCC (through PNCC Legal Department) did formally file its Answer to the amended complaint disavowing liability, it opted to remain silent on the particular plea of the plaintiff that the value of the bus be determined to be ordered paid the plaintiff, instead of the recovery of the bus itself which whereabouts appear to be unknown at the moment.

In time, or on May 15, 2008 in particular, plaintiff presented additional three (3) witnesses who identified their respective judicial affidavits that constituted their direct testimony on the matters they testified on. Xxx

The cross-examination by PNCC of these witnesses was conducted on June 18, 2009. On November 6, 2009 plaintiff made its formal Offer of evidence. Opposition was registered by PNCC on December 10, 2009. All exhibits were admitted by order dated January 13, 2010.

Meanwhile, for reasons of its own, plaintiff moved to drop from the complaint the recently impleaded Cesar Lopera. Defendant Lopera understandably offered no objection but PNCC registered its opposition, looking at defendant Lopera to be an indispensable party.

The RTC's 12 May 2010 held PNCC and co-defendant Balubal liable. PNCC elevated the case to the Court of Appeals, which affirmed the trial court's finding in its 30 May 2014 Decision. The Motion for Reconsideration of PNCC was like wise denied by the CA. Hence, PNCC was constrained to elevate the matter to the Supreme Court arguing that the CA: (a) violated the SC ruling in G.R. 169596; (b) gravely erred in failing to consider that SCTI never went to Lopera to seek his permission to have the vehicle released; (c) failed to consider SCTI's bad faith in excluding Loera as party defendant; and (d) erred in holding that PNCC should be held liable for damages.

In its 15 June 2016 Resolution, the SC noted PNCC's 4 April 2016 Reply to SCTI's Comment on the Petition for Review. In the same resolution, the SC denied SCTI's Motion for Leave to File Rejoinder for being a prohibited pleading.

On 26 July 2016, OGCC received Superlines' 19 July 2016 Motion for Earlier Resolution. The Supreme Court issued its 9 November 2016 Resolution Noting Superlines' Motion SCTI's Motion for Early Resolution.

Financial Information

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 6. Management's Discussion and Analysis or Plan of Operation

Management's Discussion and Analysis for Each of the Last Three Fiscal Years

Year End 2017 vs. Year End 2016 (as restated)

Results of Operations

Revenue. Revenue for the year ended December 31, 2017 stood at P2.802 billion, higher by 208.54% or P1.894 billion compared to P908.393 million for the year ended December 31, 2016. The increase was mainly attributable to the gain from Changes in Fair Value of Investment Property, recognized revenue and dividend share from the Joint Venture Companies and rental income from the leased Financial Center Area (FCA) property.

Cost of Services. Cost of services account increased by 13.39% or P4.934 million from P36.852 million for the year ended December 31, 2016 to P41.785 million for the year ended December 31, 2017 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

General and Administrative Overhead. Overhead account decreased by 5.72% or P1.539 million from P26.915 million for the year ended December 31, 2016 to ~~P25.376 million~~ for the year ended December 31, 2017 due mainly to the decrease in taxes and licenses.

Income from Operation. Income from operation for the year ended December 31, 2017 increased by P20.060 million, higher by 6.49% or P328.926 million compared to the December 31, 2016 figure of P308.866 million. Said favorable variance was the resulting effect of the reasons discussed above.

Other Income (Charges). This account posted a balance of P63.623 million for the year ended December 31, 2017 compared to the amount of P1.027 billion for the year ended December 31, 2016. The decrease was mainly due to the recognition of "free-carry" equity share of the company in Central Expressway Corporation (CCEC), Citra Intercity Tollways, Inc. (CITI), asset disposal related service charge and fees and reversal of recognized liability in Ernesto N. Valentin, et al vs. PNCC in 2016.

Comprehensive Income (Loss). Net Comprehensive Income for the year ended December 31, 2017 amounted to P2.802 billion compared to the net income of P908.393 million for the year ended December 31, 2016. The favorable variance was likewise due to the recognition of the gain in change in fair value of investment property and the favorable increase in Revenue.

Financial Position

Current Assets. Current assets increased by 34.15% or P320.074 million from P937.366 million as of December 31, 2016 to P1.257 billion as of December 31, 2017 mainly due to the cash flows provided by the Company's operating and investing activities.

Current Liabilities. Current liabilities increased by 3.16% or P287.663 million from P9.094 billion as of December 31, 2016 to P9.381 billion as of December 31, 2017 mainly due to the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB), increase in advance rental deposits from tenants in the leased FCA property in Pasay, ten (10) per cent bid deposit posted by winning bidders with regards to the Company's disposal of assets and scrap materials and Income Tax.

Stockholder's Equity. Stockholder's equity improved to P2.800 billion as of December 31, 2017 against P1.024 billion as of December 31, 2016. The significant increase in the account is mainly attributable to the recognized gain in change in fair value of investment property in 2017.

Presented hereunder is the discussion of the Company's key performance indicators:

Performance Indicators	As of		Explanation
	12/31/2017	12/31/2016 (As Restated)	
Current/Liquidity Ratios			
Current Ratio (Current Assets Divided by Current Liabilities)	0.13	0.10	This ratio evaluates the ability of the company to pay its current debt promptly. Current ratio of 0.13 as of December 31, 2017 is an improvement from 2016 of 0.03 mainly due to additional operating revenues.
Solvency Ratios			
Debt to Assets (Total Liabilities Divided by Total Assets)	78.52%	93.69%	Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts. The ratio has improved from 93.69% as of December 31, 2016 to 78.52% as of December 31, 2017. This improvement was caused by additional operating revenues that offsetted the yearly 2% penalty charges on unpaid concession fees.
Debt to Equity (Total Liabilities Divided by Total Equity)	365.567%	1485.61%	Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business. The ratio of 365.56% as of December 31, 2017 vis-à-vis the ratio of 1485.61% as of December 31, 2016 resulted mainly from the partial payment to the Bureau of Treasury for the outstanding share in the toll revenue as offset by the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB) in 2016 and a corresponding comprehensive income in 2017.
Asset to Equity Ratio (Total Assets Divided by Total Equity)	465.557%	1585.61%	Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts. The significant improvement of the ratio from 1585.61% as of December 31, 2016 to 465.55% as of December 31, 2017 is mainly due to the comprehensive income in 2017.
Interest Rate Coverage Ratio (Income Before Interest/Penalty/Penalty and Taxes Divided by Interest/Penalty)	11.86	4.13	Determines how easily a company can pay interest on outstanding debt. The ratio increase from 4.13 as of December 31, 2016 to 11.86 as of December 31, 2017 due to recognition of income resulting from the gain in change in fair value of investment property for the year ended 2017.
Profitability Ratios			
Return on Assets (Net Income (Loss) Divided by Total Assets)	15.74%	5.54%	Measures the Company's earnings in relation to all the resources it had at its disposal. The ratio of 15.74% as of December 31, 2017 vis-à-vis the ratio of 5.54% resulted from the recognition of comprehensive income for the period ended December 31, 2017 and due to the gain in change in fair value of investment property.
Return on Equity (Net Income (Loss) Divided by Total Equity)	73.29%	152.32%	Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital The decrease in the ratio from 152.32% to 73.29% is attributable to the increase in stockholders' equity as a result of higher comprehensive income in 2017.

- (i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way. Indicate course of action that the Company has taken or proposes to take to remedy the deficiency.

- i.a The Company's inability to settle its outstanding obligations with the Toll Regulatory Board and the National Government brought about by the difficulties in collecting its receivables from various government agencies.
- i.b Pending labor cases which consists of those filed against the Company involving dismissal, backwages, and separation pay. Most of these cases have been ruled by the Labor Arbiter in favor of the complainants, pending appeal by the Company before the National Labor Relation Commission (NLRC).
- i.c Pending civil cases which consists of those filed against the Company involving damages, collection of money, and attorney's fees which are still on litigation before the various regional Trial Courts (RTC).
- i.d Pending assessments on deficiency taxes. Discussion is contained under Note 29 of the 2017 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

Having encountered this liquidity concern, the Company implemented a program of manpower rightsizing and corporate restructuring in 2001 and has been pursued gradually until this year. Also, the Company will continue to pursue and invigorate its revenue share from Joint Venture Companies, earnings from leased FCA property, and the contracted participation in the Joint Venture's Skyway Stage 3 and C6 Projects. Partnership with PT Citra Lamtoro for the implementation of the Metro Manila Expressway of C6 and Metro Manila Skyway Stage 3 and the completion and commercial operation on revenue sharing basis for both Project Roads. The revenue scenario best rests on the policy directions intended by the Board and the NG through the PMO/DOF. Discussion in detail, is presented under Note 2 of the 2017 Audited Financial Statements.

- (ii) Any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

The default in payment of its TRB loan, the recognition of debts to the NG, and the pending assessments on tax deficiencies.

- (iii) There are no material off-balance sheet transactions, arrangements.

- (iv) There are no material commitments for capital expenditures.

- (v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

- v.a The continued decline in the construction industry resulted to the Company's incurrence of severe losses from the said operation. Thus, to prevent from suffering greater losses as it had experienced for the last several years, Management decided to veer away with the construction business (since 2002) and focus on its tollways operation.

- v.b The turn over of the North Luzon Tollway operations to the MNTC on February 10, 2005 had affected the revenue generating capacity of the Company.

- v.c The hand-over of the South Luzon Tollway operation to the SLTC on May 02, 2010 likewise had an unfavorable impact on the Company's revenue.

- v.d The Supreme Court decision, in Ernesto B. Francisco vs. TRB, PNCC et. al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al. (G.R. No. 178158, December

04, 2009), ruled and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the National Government (NG) at no cost and, consequently, this inevitably resulted in the latter's owning too of the toll fees and the net income derived after May 01, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

Pending TRB's issuance of the Final Implementing Rules and Guidelines relative to the determination of the net income remittable by the Company to the National Government, the Company receives only the following revenue shares based on TRB's interim guidelines: 10% of 6% share on the MNTC gross revenue; 10% of 3.5% share on the CMMTC gross revenue; and 10% of 1.75% share on the SLTC gross revenue. It also receives 10% dividend in the equity share from the said Joint Venture Companies.

- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) There are no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.
- (viii) **Material changes to the Company's Statement of Financial Position as of December 2017 compared to December 31, 2016 (increased/decrease of 5% or more)**

Cash and cash equivalents increased by P197.982 million or 33.50% from P591.046 million as of December 31, 2016 to P789.028 million as of December 31, 2017 due to the cash flows provided by the Company's operating and financing activities.

Accounts Receivable – Loans and Receivable Accounts increased by P63.383 million or 45.27% from P140.006 million as of December 31, 2016 to P203.389 million as of December 31, 2017 mainly due to the uncollected revenue from supply of manpower to Skyway O&M Corporation.

Accounts Receivable – other receivable increased by P53.969 million or 142.40% from P37.899 million to P91.868 million due mainly to the uncollected revenue shares from Joint Ventures and various tenants at Financial Center Area (FCA).

Inventories- Inventory Held for Consumption decreased by P0.983 million or 22.33% from P4.404 million as of December 31, 2016 to P3.421 million as of December 31, 2017 due to a decrease in construction materials, common supplies and hardware materials.

Prepayments - prepayments increased by P5.181 million or 38.09% from P13.603 million as of December 31, 2016 to P18.785 million as of December 31, 2017 due to an increase of applicable creditable withholding taxes.

Investment Property increased by P4.068 billion or 38.13% from P10.699 billion as of December 31, 2016 to P14.738 billion as of December 31, 2017 due to appraisal adjustment of investment property.

Property and equipment decreased by P115.095 million or 14.75% from P780.275 million as of December 31, 2016 to P665.180 million as of December 31, 2017 due to appraisal adjustment.

Accounts payable increased by P2.435 million or 13.73% from P17.738 million as of December 31, 2016 to P20.173 million as of December 31, 2017 due to unpaid accounts to suppliers of goods and services that are normally settled within twelve (12) months from the reporting period.

Inter-Agency payable increased by P2.132 million or 261.28% from P0.816 million as of December 31, 2016 to P2.948 million as of December 31, 2017 due to Income Tax.

Customer deposit increased by P24.742 million or 131.03% from P18.884 million as of December 31, 2016 to P43.626 million as of December 31, 2017 due to an increase in advance rental deposits from tenants in the leased FCA property in Pasay and ten (10) per cent bid deposit posted by winning bidders with regards to the Company's disposal of assets and scrap materials.

Deferred Tax Liabilities increased by ₱1.187 billion or 34.81% from ₱3.408 billion as of December 31, 2016 to ₱4.595 billion as of December 31, 2017 due to the deemed tax on the increase in value of investment property and property and equipment as required by PAS 12, Income Taxes.

Stockholders equity increased by ₱2.800 billion or 273.32% from ₱1.024 billion as of December 31, 2016 to ₱3.824 billion as of December 31, 2017 due to the comprehensive income in 2017.

Material changes to the Company's Statement of Income for the year ended December 31, 2017 compared to the year ended December 31, 2016 (increase/decrease of 5% or more)

Revenue and dividend share from joint venture companies increased by ₱9.794 million or 6.59% from ₱148.584 million as of December 31, 2016 to ₱158.378 million as of December 31, 2017 due to an increase in revenue share and increase in CMMTC's declaration and payment of dividend.

Rental income increased by ₱17.645 million or 16.38% from ₱107.741 million as of December 31, 2016 to ₱125.386 million as of December 31, 2017 due to increase in rental rate per sq.m. in the leased FCA property.

Service Income decreased by ₱2.441 million or 5.86% from ₱41.627 million as of December 31, 2016 to ₱39.187 million in December 31, 2017 due to decrease in Plantwide structural steel rehabilitation - Philphos.

Interest Income decreased by ₱4.939 million or 45.25% from ₱10.914 million as of December 31, 2016 to ₱5.975 million in December 31, 2017 due to decrease in interest rates.

Cost of Services increased by 13.39% or ₱4.934 million from ₱36.852 for the year ended December 31, 2016 to ₱41.785 million for the year ended December 31, 2017 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

General and Administrative Overhead decreased by 5.72% or ₱1.539 million from ₱26.915 million for the year ended December 31, 2016 to ₱25.376 million for the year ended December 31, 2017 due mainly to the decrease in Taxes, Insurance Premiums and Other Fees.

Other Income (Charges) decreased by 93.81% or ₱963.692 million from ₱1.027 billion the year ended December 31, 2016 to ₱63.623 million for the year ended December 31, 2017 due to the recognition of "free-carry" equity share of the company in Central Expressway Corporation (CCEC), Citra Intercity Tollways, Inc. (CITI), asset disposal related service charge and fees and reversal of recognized liability in Ernesto N. Valentin, et al vs. PNCC in 2016.

Comprehensive Income (Loss) increased by 208.54% or ₱1.894 billion from ₱908.393 million for the year ended December 31, 2016 to ₱2.803 billion for the year ended December 31, 2017 due to the recognition of the gain in change in fair value of investment property and the favorable increase in Revenue .

Year End 2016 vs. Year End 2015 (as restated)

Results of Operations

Revenue. Revenue for the year ended December 31, 2016 stood at P297.575 million, higher by 30.69% or P69.882 million compared to P227.693 million for the year ended December 31, 2015. The increase was mainly attributable to the recognized revenue and dividend share from the Joint Venture Companies, rental income from the leased Financial Center Area (FCA) property, and increase in service income from supply of manpower services to Skyway O&M Corporation.

Cost of Services. Cost of services account increased by 265.71% or P21.824 million from P8.213 million for the year ended December 31, 2015 to P30.037 million for the year ended December 31, 2016 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

General and Administrative Overhead. Overhead account increased by 11.95% or P7.566 million from P63.343 million for the year ended December 31, 2015 to P70.909 million for the year ended December 31, 2016 due mainly to the depreciation of property, plant and equipment and regularization of contractual employees. No major allowances were provided for 2016.

Income from Operation. Income from operation for the year ended December 31, 2016 increased by P40.492 million, higher by 25.93% or P196.629 million compared to the December 31, 2015 figure of P156.137 million. Said favorable variance was the resulting effect of the reasons discussed above.

Other Income (Charges). This account posted a balance of P868.549 million for the year ended December 31, 2016 compared to the amount of P244.934 million for the year ended December 31, 2015. The increase was mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).

Comprehensive Income (Loss). Comprehensive income for the year ended December 31, 2016 increased by 213.52% or P502.143 million from P235.178 million for the year ended December 31, 2015 to P737.321 million for the year ended December 31, 2016. The favorable variance was likewise mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).

Financial Position

Current Assets. Current assets increased by 21.22% or P236.897 million from P1.116 billion as of December 31, 2015 to P879.549 million as of December 31, 2016 mainly due to the cash flows used in financing activities as partially offset by the cash flows provided by the Company's operating and investing activities.

Current Liabilities. Current liabilities decreased by 3.16% or P297.118 million from P9.391 billion as of December 31, 2015 to P9.094 billion as of December 31, 2016 mainly due to the partial payment to the Bureau of Treasury for the outstanding share in the toll revenue as offset by the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB).

Stockholders' Equity. Stockholder's equity improved to P853.334 million as of December 31, 2016 against P114.772 million as of December 31, 2015. The significant increase in the account is mainly attributable to the comprehensive income in 2016.

Presented hereunder is the discussion of the Company's key performance indicators:

Performance Indicators	As of		Explanation
	12/31/2016	12/31/2015 (As Restated)	
<u>Current/Liquidity Ratios</u>			
<u>Current Ratio</u> (Current Assets Divided by Current Liabilities)	0.10	0.12	<p>This ratio evaluates the ability of the company to pay its current debt promptly.</p> <p>Current ratio of 0.10 as of December 31, 2016 slightly decreased from 0.12 as of December 31, 2015 mainly due to the partial payment to the Bureau of Treasury for the outstanding share in the toll revenue as offset by the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB).</p>
<u>Solvency Ratios</u>			
<u>Debt to Assets</u> (Total Liabilities Divided by Total Assets)	93.69%	99.12%	<p>Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts.</p> <p>The ratio has improved from 99.12% as of December 31, 2015 to 93.69% as of December 31, 2016. This improvement was mainly caused by the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI) that offset the yearly 2% penalty charges on unpaid concession fees.</p>
<u>Debt to Equity</u> (Total Liabilities Divided by Total Equity)	1485.61%	11305.46%	<p>Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business.</p> <p>The ratio of 1485.61% as of December 31, 2016 vis-à-vis the ratio of 11305.46% as of December 31, 2015 resulted mainly the partial payment to the Bureau of Treasury for the outstanding share in the toll revenue as offset by the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB), and a corresponding comprehensive income in 2016.</p>
<u>Asset to Equity Ratio</u> (Total Assets Divided by Total Equity)	1585.61%	11405.46%	<p>Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts.</p> <p>The significant improvement of the ratio from 11405.46% as of December 31, 2015 to 1585.61% as of December 31, 2016 is mainly due to the comprehensive income in 2016.</p>
<u>Interest Rate Coverage Ratio</u>			
(Income Before Interest/Penalty and Taxes Divided by Interest/Penalty)	4.13	1.55	<p>Determines how easily a company can pay interest on outstanding debt.</p> <p>The ratio increased from 1.55 as of December 31, 2015 to 4.13 as of December 31, 2016 mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).</p>
<u>Profitability Ratios</u>			
<u>Return on Assets</u> (Net Income (Loss) Divided by Total Assets)	5.54%	1.86%	<p>Measures the Company's earnings in relation to all the resources it had at its disposal.</p> <p>The ratio of 5.54% as of December 31, 2016 vis-à-vis a ratio of 1.86% as of December 31, 2015 resulted from the increase in comprehensive income for the period ended December 31, 2016 mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).</p>
<u>Return on Equity</u> (Net Income (Loss) Divided by Total Equity)	152.32%	204.91%	<p>Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital.</p> <p>The decrease in the ratio from 204.91% to 152.32% is attributable to the increase in stockholders' equity as a result of higher comprehensive income in 2016.</p>

- (i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way. Indicate course of action that the Company has taken or proposes to take to remedy the deficiency.

- i.a The Company's inability to settle its outstanding obligations with the Toll Regulatory Board and the National Government brought about by the difficulties in collecting its receivables from various government agencies.
- i.b Pending labor cases which consists of those filed against the Company involving dismissal, backwages, and separation pay. Most of these cases have been ruled by the Labor Arbiter in favor of the complainants, pending appeal by the Company before the National Labor Relations Commission (NLRC).
- i.c Pending civil cases which consists of those filed against the Company involving damages, collection of money, and attorney's fees which are still on litigation before the various Regional Trial Courts (RTC).
- i.d Pending assessments on deficiency taxes. Discussion is contained under Note 28 of the 2016 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

Having encountered this liquidity concern, the Company implemented a program of manpower rightsizing and corporate restructuring in 2001 and has been pursued gradually until this year. Also, the Company will continue to pursue and invigorate its revenue share from Joint Venture Companies, earnings from leased FCA property, and the contracted participation in the Joint Venture's Skyway Stage 3 and C6 Projects. Partnership with PT Citra Lamtoro for the implementation of the Metro Manila Expressway or C6 and Metro Manila Skyway Stage 3 and the completion and commercial operation thereof, are projected to generate incremental revenues for the Company at commercial operation on revenue sharing basis for both Project Roads. The revenue scenario best rests on the policy directions intended by the Board and the NG through the PMO/DOF. Discussion, in detail, is presented under Note 2 of the 2016 Audited Financial Statements.

- (ii) Any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

The default in payment of its TRB loan, the recognition of debts to the NG, and the pending assessments on tax deficiencies.

- (iii) There are no material off-balance sheet transactions, arrangements.

- (iv) There are no material commitments for capital expenditures.

- (v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

The continued decline in the construction industry resulted to the Company's incurrence of severe losses from the said operation. Thus, to prevent from suffering greater losses as it had experienced for the last several years, Management decided to veer away with the construction business (since 2002) and focus on its tollways operation.

- v.b The turn over of the North Luzon Tollway operations to the MNTC on February 10, 2005 had affected the revenue generating capacity of the Company.
- v.c The hand-over of the South Luzon Tollway operation to the SLTC on May 02, 2010 likewise had an unfavorable impact on the Company's revenue.
- v.d The Supreme Court decision, in Ernesto B. Francisco vs. TRB, PNCC et. al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al. (G.R. No. 178158, December 04, 2009), ruled

and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the National Government (NG) at no cost and, consequently, this inevitably resulted in the latter's owning too of the toll fees and the net income derived after May 01, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

Pending TRB's issuance of the Final Implementing Rules and Guidelines relative to the determination of the net income remittable by the Company to the National Government, the Company receives only the following revenue shares based on TRB's interim guidelines: 10% of 6% share on the MNTC gross revenue; 10% of 3.5% share on the CMMTC gross revenue; and 10% of 1.75% share on the SLTC gross revenue. It also receives 10% dividend in the equity share from the said Joint Venture Companies.

- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) There are no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.
- (viii) **Material changes to the Company's Statement of Financial Position as of December 31, 2016 compared to December 31, 2015 (increased/decrease of 5% or more)**

Cash and cash equivalents decreased by ₱203.022 million or 29.26% from ₱693.740 million as of December 31, 2015 to ₱490.718 million as of December 31, 2016 mainly due to the cash flows used in financing activities as partially offset by the cash flows provided by the Company's operating and investing activities.

Accounts receivable decreased by ₱38.359 million or 10.49% from ₱365.539 million as of December 31, 2015 to ₱327.180 million as of December 31, 2016 mainly due to the collection of accounts receivable – trade and subsidiaries and affiliates.

Prepayments increased by ₱5.109 million or 39.61% from ₱12.898 million as of December 31, 2015 to ₱18.007 million as of December 31, 2016 mainly due to an increase of applicable creditable withholding taxes.

Investments increased by ₱754.507 million or 437.54% from ₱172.444 million as of December 31, 2015 to ₱926.951 million as of December 31, 2016 mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI) as offset by the partial liquidation of investment in AlabangSto. Tomas Development Inc. (ASDI).

Other assets decreased by ₱70.501 million or 20.48% from ₱344.311 million as of December 31, 2015 to ₱273.810 million as of December 31, 2016 due mainly to the utilization of the carry forward benefit of unused tax credits and the excess of the MCIT over the RCIT.

Accounts payable and accrued expenses increased by ₱11.180 million or 22.16% from ₱50.463 million as of December 31, 2015 to ₱61.643 million as of December 31, 2016 mainly due to the accrual of the mandatory benefits and leave credits of the Company's employees, unpaid accounts to suppliers of goods and services that are normally settled within twelve (12) months from the reporting period, and increase in advance rental deposits from tenants in the leased FCA property in Pasay.

Stockholders' equity increased by ₱738.561 million or 643.50% from ₱114.772 million as of December 31, 2015 to ₱853.334 million as of December 31, 2016 mainly due to the comprehensive income in 2016.

Material changes to the Company's Statement of Comprehensive Income for the year ended December 31, 2016 compared to the year ended December 31, 2015 (increase/decrease of 5% or more)

Revenue and dividend share from joint venture companies increased by ₱27.980 million or 23.27% from ₱120.226 million as of December 31, 2015 to ₱148.207 million as of December 31, 2016 due to an increase in revenue share from MNTC, CMMTC and SLTC and an increase in CMMTC's declaration and payment of dividend.

Rental income increased by P10.902 million or 11.26% from P96.839 million as of December 31, 2015 to P107.741 million as of December 31, 2016 due to increase in rental rate per sq.m. in the leased FCA property.

Service Income increased by P31.000 million or 291.69% from P40.628 million as of December 31, 2015 to P41.627 million as of December 31, 2016 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

Cost of Services increased by P21.824 million or 265.71% from P8.213 million as of December 31, 2015 to P30.037 million as of December 31, 2016 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

General and administrative overhead increased by P623.615 million or 254.60% from P244.934 million for the year ended December 31, 2015 to P868.549 million for the year ended December 31, 2016 due mainly to the depreciation of property, plant and equipment and regularization of contractual employees. No major allowances were provided for 2016.

Other income (charges) increased by P223.22 million or 1028.04% from P21.713 million as of December 31, 2014 to P244.934 million as of December 31, 2015 primarily due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).

Year End 2015 vs. Year End 2014 (as restated)

Results of Operations

Revenue. Revenue for the year ended December 31, 2015 stood at P227.693 million, higher by 17.91% or P34.581 million compared to P193.112 million for the year ended December 31, 2014. The increase was mainly attributable to the recognized revenue and dividend share from the Joint Venture Companies and rental income from the leased Financial Center Area (FCA) property.

General and Administrative Overhead. Overhead account decreased by 63.95% or P112.343 million from P175.686 million for the year ended December 31, 2014 to P63.343 million for the year ended December 31, 2015 due mainly to the provision of allowance for doubtful accounts made in 2014. No major allowances were provided for 2015.

Income from Operation. Income from operation for the year ended December 31, 2015 increased by P138.711 million, higher by 796.01% or P156.137 million compared to the December 31, 2014 figure of P17.426 million. Said favorable variance was the resulting effect of the reasons discussed above.

Other Income (Charges). This account posted a balance of P244.934 million for the year ended December 31, 2015 compared to the amount of P21.713 million for the year ended December 31, 2014. The increase was mainly due to the recognition of gain in change in fair value of investment property account in 2015.

Net Income (Loss). Net Comprehensive Income for the year ended December 31, 2015 amounted to P235.178 million compared to the net loss of P218.863 million for the year ended December 31, 2014. The favorable variance was likewise due to the recognition of the gain in change in fair value of investment property and the favorable increase in Revenue.

Financial Position

Current Assets. Current assets increased by 29.26% or P252.757 million from P863.688 million as of December 31, 2014 to P1.116 billion as of December 31, 2015 mainly due to the cash flows provided by the Company's operating and investing activities.

Current Liabilities. Current liabilities increased by 2.89% or P263.389 million from P9.127 billion as of December 31, 2014 to P9.391 billion as of December 31, 2015 mainly due to the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB).

Stockholder's Equity (Capital Deficiency). Stockholder's equity improved to P87.272 million as of December 31, 2015 against a Capital deficiency as of December 31, 2014 of P146.995 million. The

significant increase in the account is mainly attributable to the recognized gain in change in fair value of investment property in 2015.

Presented hereunder is the discussion of the Company's key performance indicators:

Performance Indicators	As of		Explanation
	12/31/2015	12/31/2014 (As Restated)	
Current/Liquidity Ratios			
Current Ratio (Current Assets Divided by Current Liabilities)	0.12	0.095	<p>This ratio evaluates the ability of the company to pay its current debt promptly.</p> <p>Current ratio of 0.12 as of December 31, 2015 is an improvement from 2014 of 0.095 mainly due to additional operating revenues and the liquidation of 50% investment in a subsidiary.</p>
Solvency Ratios			
Debt to Assets (Total Liabilities Divided by Total Assets)	99.33%	101.18%	<p>Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts.</p> <p>The ratio has improved from 101.18% as of December 31, 2014 to 99.33% as of December 31, 2015. This improvement was caused by additional operating revenues that offset the yearly 2% penalty charges on unpaid concession fees.</p>
Debt to Equity (Total Liabilities Divided by Total Equity)	14867.87%	-8554.95%	<p>Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business.</p> <p>The ratio of 14867.87% as of December 31, 2015 vis-à-vis the negative ratio of -8554.95% as of December 31, 2014 resulted mainly from the reversal of the capital deficiency balance of ₱146.995 million as of December 31, 2014 to a positive stockholders' equity of ₱87.272 million as of December 31, 2015.</p>
Asset to Equity Ratio (Total Assets Divided by Total Equity)	14967.87%	-8454.95%	<p>Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts.</p> <p>The significant improvement of the ratio from -8454.95% as of December 31, 2014 to a positive ratio of 14967.87% as of December 31, 2015 is due to the aforesaid reversal of the capital deficiency balance to a positive stockholder's equity.</p>
Interest Rate Coverage Ratio (Income Before Interest/Penalty)	1.55	0.15	<p>Determines how easily a company can pay interest on outstanding debt.</p> <p>The ratio increased from 0.15 as of December 31, 2014 to 1.55 as of December 31, 2015 due to recognition of income resulting from the gain in change in fair value of investment property for the year ended 2015.</p>
Profitability Ratios			
Return on Assets (Net Income (Loss) Divided by Total Assets)	1.80%	-1.76%	<p>Measures the Company's earnings in relation to all the resources it had at its disposal.</p> <p>The ratio of 1.80% as of December 31, 2015 vis-à-vis the negative ratio of -1.76% resulted from the recognition of comprehensive income for the period ended December 31, 2015 in the amount of ₱235.178 million (mainly due to the gain in change in fair value of investment property and movement in revaluation increment) against the net loss of ₱218.863 as of December 31, 2014.</p>
Return on Equity (Net Income (Loss) Divided by Total Equity)	269.48%	-148.89%	<p>Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital</p> <p>The increase in the ratio from -148.89% to 269.48% is attributable to the reversal of the capital deficiency for the year ended December 31, 2014 to a positive stockholder's equity in December 31, 2015.</p>

- (i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in any material way. Indicate course of action that the Company has taken or proposes to take to remedy the deficiency.

- i.a The Company's inability to settle its outstanding obligations with the Toll Regulatory Board and the National Government brought about by the difficulties in collecting its receivables from various government agencies.
- i.b Pending labor cases which consists of those filed against the Company involving dismissal, backwages, and separation pay. Most of these cases have been ruled by the Labor Arbiter in favor of the complainants, pending appeal by the Company before the National Labor Relation Commission (NLRC).
- i.c Pending civil cases which consists of those filed against the Company involving damages, collection of money, and attorney's fees which are still on litigation before the various regional Trial Courts (RTC).
- i.d Pending assessments on deficiency taxes. Discussion is contained under Note 26 of the 2015 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

Having encountered this liquidity concern, the Company implemented a program of manpower rightsizing in 2001 and has been pursued gradually during the year. The program will be considered in the succeeding years until the Company attains manpower complement to match its present revenue level which in 2015 was generated from its 10% revenue share from Joint Venture Companies and its earnings from leased FCA property.

The Company intends to pay all recognized debts using the proceeds from the sale of its investment properties. The Board approved the offer to apply part of the FCA to pay liabilities to the National Government (NG). The Company sent a letter to the Office of the President (OP) dated July 21, 2015 and a subsequent letter dated November 12, 2015 recognizing its liability to the NG in the amount of P7.9 billion and proposing settlement of its debt. The Company is awaiting the decision of the OP.

The Company asserts the contracted participation in the Joint Venture's Skyway Stage 3 and C6 Projects. Partnership with PT Citra Lamtoro for the implementation of the Metro Manila Expressway or C6 and Metro Manila Skyway Stage 3 and the completion and commercial operation thereof, are projected to generate incremental revenues for the Company at commercial operation on revenue sharing basis for both Project Roads. The revenue scenario best rests on the policy directions intended by the Board and the NG through the PMO/DOF as the disposition entity. Discussion, in details, is presented under Note 2 of the 2015 Audited Financial Statements.

- (ii) Any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

The default in payment of its TRB loan, the recognition of debts to the NG, and the pending assessments on tax deficiencies.

- (iii) There are no material off-balance sheet transactions, arrangements.

- (iv) There are no material commitments for capital expenditures.

- (v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

- v.a The continued decline in the construction industry resulted to the Company's incurrence of severe losses from the said operation. Thus, to prevent from suffering greater losses as it had experienced for the last several years, Management decided to veer away with the construction business (since 2002) and focus on its tollways operation.
- v.b The turn over of the North Luzon Tollway operations to the MNTC on February 10, 2005 had affected the revenue generating capacity of the Company.

v.c. The hand-over of the South Luzon Tollway operation to the SLTC on May 02, 2010 likewise had an unfavorable impact on the Company's revenue.

v.d. The Supreme Court decision, in Ernesto B. Francisco vs. TRB, PNCC et. al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al. (G.R. No. 178158, December 04, 2009), ruled and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the National Government (NG) at no cost and, consequently, this inevitably resulted in the latter's owning too of the toll fees and the net income derived after May 01, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

Pending TRB's issuance of the Final Implementing Rules and Guidelines relative to the determination of the net income remittable by the Company to the National Government, the Company receives only the following revenue shares based on TRB's interim guidelines: 10% of 6% share on the MNTC gross revenue; 10% of 3.5% share on the CMMTC gross revenue; and 10% of 1.75% share on the SLTC gross revenue. It also receives 10% dividend in the equity share from the said Joint Venture Companies.

- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) There are no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.
- (viii) **Material changes to the Company's Statement of Financial Position as of December 2015 compared to December 31, 2014 (increased/decrease of 5% or more)**

Cash and cash equivalents increased by P295.096 million or 74.02% from P398.644 million as of December 31, 2014 to P693.740 million as of December 31, 2015 due to the cash flows provided by the Company's operating and financing activities.

Accounts Receivable – contract related receivables increased by P11.597 million or 9.63% from P120.413 million as of December 31, 2014 to P132.01 million as of December 31, 2015, due to the inclusion of the former DCBGS, a wholly-owned subsidiary, operations giving manpower to SOMCO and construction projects for Philphos projects.

Accounts Receivable – other accounts receivable decreased by P60.50 million or 86.73% from P69.757 million to P9.255 million due mainly to the reclassification of account from receivable from BIR to deferred tax assets and the reversal to prior period adjustments of 2008-2010 prescribed MCIT payments.

Accounts receivable-subidiaries and affiliates increased by P.486 million or 5.5% from P8.8 million as of December 31, 2014 to P 9.287 million as of December 31, 2015. This is mainly due to additional accommodations to its subsidiary, DCBGS.

Prepayments - prepayments increased by P5.521 million or 148.48% from P3.718 million as of December 31, 2014 to P9.240 million as of December 31, 2015 due to an increase of applicable creditable withholding taxes.

Prepayments - Inventories decreased by P2.690 million or 42.37% from P6.348 million as of December 31, 2014 to P 3.658 million as of December 31, 2015 due to the recognition of Allowance for inventory write-down for obsolete and expired inventory set aside for disposal.

Investments – investment in stocks decreased by P127.5 million or 47.66% from P267.5 million as of December 31, 2014 to P140 million as of December 31, 2015 due to the liquidation of 50% investments in Alabang-Sto. Tomas Development Inc. (ASDI)

Property and equipment increased by P224.110 million or 39.80% from P563.070 million as of December 31, 2014 to P787.181 million as of December 31, 2015 due to an appraisal to fair market value of its Bicutan Property.

Deferred charges increased by ₱58.406 million or 118.27% from ₱49.383 million as of December 31, 2014 to ₱107.789 million as of December 31, 2015 due mainly to the reclassification of account from receivable from BIR to deferred tax assets.

Accounts payable increased by ₱3.454 million or 12.72% from ₱27.147 million as of December 31, 2014 to ₱30.601 million as of December 31, 2015 due to withheld government remittances and due to suppliers.

Accrued expenses increased by ₱0.810 million or 13.48% from ₱6.004 million as of December 31, 2014 to ₱6.813 million as of December 31, 2015 due to the accrual of construction cost of DISC operations in Philphos, employee benefits and unpaid accounts to suppliers of goods and services that are normally settled within twelve (12) months from the reporting period.

Customers deposit increased by ₱1.123 million or 9.42% from ₱11.926 million as of December 31, 2014 to ₱13.049 million as of December 31, 2015 due to an increase in advance rental deposits from tenants in the leased FCA property in Pasay.

Stockholders' equity increased by ₱235.178 million or 259.99% from a capital deficiency ₱ 146.995 million as of December 31, 2014 to a positive stockholder's equity of ₱87.272 million as of December 31, 2015 due to the recognized gain in change in fair value of investment property and revaluation increment in 2015.

Material changes to the Company's Statement of Income for the year ended December 31, 2015 compared to the year ended December 31, 2014 (increase/decrease of 5% or more)

Revenue and dividend share from joint venture companies increased by ₱14.356 million or 13.56% from ₱105.870 million as of December 31, 2014 to ₱120.226 million as of December 31, 2015 due to an increase in revenue share and increase in CMMTC's declaration and payment of dividend.

Rental income increased by ₱9.597 million or 11% from ₱87.242 million as of December 31, 2014 to ₱96.839 million as of December 31, 2015 due to increase in rental rate per sq.m. in the leased FCA property.

Service Income increased by ₱10.628 million or 100% from ₱0.00 as of December 31, 2014 to ₱10.628 million in December 31, 2015. This account arose from the absorption of the company of the operations of DCBGSI – a wholly owned subsidiary in Oct 1, 2015.

Cost of Service increased by ₱8.213 million or 100% from ₱0.00 as of December 31, 2014 to ₱8.213 million in December 31, 2015. This account arose from the absorption of the company of the operations of DCBGSI – a wholly owned subsidiary in Oct 1, 2015.

General and administrative overhead decreased by ₱112.34 million or 63.95% from ₱175.685 million for the year ended December 31, 2014 to ₱63.343 million for the year ended December 31, 2015 due mainly to the provision of allowance for doubtful accounts made in 2014.

Other income charges increased by ₱223.22 million or 1028.04% from ₱21.713 million as of December 31, 2014 to ₱244.934 million as of December 31, 2015 primarily due to the recognition of gain in change in fair value of investment property and revaluation increment in 2015.

Item 8. Information on Independent Accountant and Other related Matters

(A) External Audit Fees and Services

The Joint Audit and Finance Committees oversees the performance of the company's external auditors. The joint committee reviews PNCC's financial reporting to ensure its integrity.

PNCC, a Government Acquired Asset since 1986, is under the audit jurisdiction of the Commission on Audit (COA). COA is the independent (external) auditor of PNCC. The assignment of COA Auditors/Audit-in-Charge and staff is purely the prerogative/decision of the COA Chairman.

The Audit Engagement of COA is covered by a Term of Reference (TOR) executed between PNCC and COA and duly provided to the joint Audit and Finance Committee for information/notation. The audit covers the accounts, transactions and operations of PNCC for calendar year 2012, undertaken for the purpose of expressing an opinion on the company's financial statements and for determining the Company's compliance with pertinent laws, rules and regulations, and the efficiency and effectiveness of operations.

The aggregate audit fees billed for each of the last two calendar year indicated in the TOR are ₱2,437,436.00 for 2017 and ₱ 2,244,614.00 for 2016.

(B) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Control and Compensation Information

Item 9. Directors and Executive Officers of the Issuer

The Names of the incumbent directors and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions held in the last five years, are as follows:

Board of Directors

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>
Herculano C. Co, Jr.	59	Filipino	Chairman
Mario K. Espinosa	59	Filipino	President & CEO and Vice Chairman
Jonathan S. Avancena	47	Filipino	Director
Pedro B. Cabatingan, Jr.	57	Filipino	Director
Salvador B. Calanoy IV	58	Filipino	Director
Mohamad Taha A. Guinomla	67	Filipino	Director
Lamberto B. Mercado, Jr.	53	Filipino	Director
Alan R. Luga	59	Filipino	Director
William T. Yu	64	Filipino	Director
Jonathan A. Dela Cruz	-	Filipino	Director
Elpidio C. Jamora, Jr. ¹	60	Filipino	Chairman
Luis F. Sison ²	74	Filipino	President & CEO and Vice Chairman
Jephonie L. Agustin ³	43	Filipino	Director
Tomas C. Alvarez ⁴	85	Filipino	Director
Nora O. Vinluan ⁵	74	Filipino	Director
Rosanna E. Velasco ⁶	59	Filipino	Director
Cristino L. Panlilio ⁷	66	Filipino	Director
Robert G. Vergara ⁸	57	Filipino	Director
Elisea G. Gozun ⁹	65	Filipino	Director
Anthony B. Sasin ¹⁰	76	Filipino	Director
Wilfredo C. Maldia ¹¹	68	Filipino	Director
Antonio C. Pido ¹²	62	Filipino	Director
Rosendo T. Capco ¹³	67	Filipino	Director

Legend:

- 1 Replace by Herculano C. Co, Jr. on November 16, 2017
- 2 Replaced by Mario K. Espinosa on January 16, 2017
- 3 Replaced by Jonathan S. Avancena on August 15, 2017
- 4 Replaced by Mohamad Taha A. Guinomla on March 14, 2017
- 5 Replaced by Pedro B. Cabatingan, Jr. on March 14, 2017
- 6 Replaced by Salvador B. Calanoy IV on March 14, 2017
- 7 Replaced by William T. Yu on March 14, 2017
- 8 Replaced by Jonathan A. Dela Cruz on March 14, 2017
- 9 Replaced by Anthony B. Sasin on February 27, 2017
- 10 Replaced by Wilfredo C. Maldia on July 17, 2017
- 11 Replaced by Alan R. Luga on November 16, 2017
- 12 Replaced by Lamberto B. Mercado, Jr. on April 17, 2017
- 13 Resigned effective June 19, 2017

HERCULANO C. CO, JR. has served as Chairman of the Board of the Company since November 16, 2017. Mr. Co is a successful businessman engaged in milling, warehousing, wholesaling and retailing of palay and rice. At present, he serves as Chairman of the following private companies : Herco Agro-Industries, Inc. (since 1982) and Alheed International Trading Corporation (since 1995); Vice Chairman of Aurora Securities, Inc. (since 1993), and Director of Santa Clara Shipping Corporation (since 1996). He obtained his degree in Bachelor of Science in Commerce Major in Marketing from the Colegio de San Juan de Letran in 1980. He was a recipient of Marketing Leadership Award by the Philippine Marketing Association. He earned unit in the College of Law of Ateneo de Manila University from 1980-1981.

MARIO K. ESPINOSA, has served as President and CEO and Vice Chairman of the Board of the Company since January 16, 2017. He has varied experience in both the government and private sectors. He has substantial experience in the operation of government owned and controlled corporations having part of the board of several GOCCs. He served as Director of Granex Oils Mills from 2002 to 2010 and contemporaneously served as Director of Macopramarco, Inc. in 2008. At present, he serves as Director of Masbate Consolidated Arrastre, Inc. and MCI Cable, Inc. He had served the Presidential Assistant for Bicol affairs from 2003 up to 2005 with the rank of Undersecretary. He was also a Director of Toll Regulatory Board representing the private sector from 2002 up to 2010. Prior to his election as Vice Governor of Masbate Province from 1998 to 2001, he had served as Provincial Administrator from 1992 to 1995. Mr. Espinosa earned his A.B. Philosophy degree from the University of the Philippines in 1980 and earned units in the Ateneo De Manila Law School.

JONATHAN S. AVANCENA, has served as Director of the Company since August 15, 2017. Mr. Avancena has varied experience in the field of information technology having been part of the management of various Business Process Outsourcing companies. At present, he serves as Assistant Manager of Netgear/Concentrix based in Davao. He served as Team Captain of Linksys/Concentrix from 2007 to 2011. He later became Team Captain 3 of Dlink NA and Dlink International/Concentrix. He earned his BS Computer Science degree from Ateneo de Davao University in 1993.

PEDRO B. CABATINGAN, JR., has served as Director of the Company since March 14, 2017. Mr. Cabatingan has been in Military service in various capacities for more than 36 years until his retirement in 2015 as Police Director assigned in Region 11 - Internal Affairs Service of the Philippine National Police. He graduated from Philippine Military Academy in 1985 and earned his Master's in Management major in Public Administration from Philippine Christian University in 2003.

SALVADOR B. CALANNOY IV, has served as Director of the Company since March 14, 2017. Mr. Calanoy has been in military service for 33 years serving as Colonel of Philippine Army until his retirement in 2015. He graduated from the Philippine Military Academy in 1984. Thereafter, he earned his Bachelor of Laws degree from Sebastian College in 1996.

JONATHAN A. DELA CRUZ, has served as Director of the Company as representative of Government Service Insurance System (GSIS) since March 14, 2017. He was an outstanding member of the 14th and 16th Congress. He is presently a co-anchor of the daily morning radio show Karambola over DWIZ and writes a regular column for Business Mirror, Tribune and People's Journal. In 1973, he joined the staff of the Board of Investments and became the youngest Director of the Bureau of Employment Services, the precursor of the Philippine Overseas Employment Administration. He also served as a member of the governing board of the Overseas Employment Development Board (OEDB), the National Seaman Board (NSB) and the Workers Welfare Fund (WWF). In 1983, he served as the Director General of the Labor Center for Middle East and Africa covering 16 countries in the region and concurrently assigned as Deputy Chief of Mission of the Philippine Embassy in the Kingdom of Saudi Arabia. Mr. Dela Cruz finished his 5th year in BS Mechanical Engineer at the Ateneo de Manila University in 1972. He earned his Certificate on Environment and Urban Planning from the University of the Philippines in 1979.

MOHAMAD TAHA A. GUINOMLA, has served as Director of the Company since March 14, 2017. Mr. Guinomla is a Certified Public Accountant with more than 30 years of diplomatic experience. He joined the government service in 1977 through the Budget Commission now the Department of Budget and Management. He then transferred to the Department of Foreign Affairs in 1987 as Budget Director before getting his first foreign service assignment in Kuwait in 1988, where he was designated as Administrative Officer. In 1990, he was cross-posted to Jeddah and in 1999, he was again posted to Jeddah as Administrative Officer until he completed his six-year tour of duty. He was then returned to his old post as DFA Budget Officer before he was again assigned to Kuwait in 2008. He was again cross-posted to Riyadh in June 2010 until 2014 after which he was designated as Head of DFA Mindanao until his retirement in 2015. Mr. Guinomla obtained a degree in Bachelor of Science in Commerce major in Accounting from University of Mindanao in 1975. He then passed the CPA board examinations in 1977.

LAMBERTO B. MERCADO, JR., has served as Director of the Company since April 17, 2017. Atty. Mercado is a Legal Counsel and member of the Board of Directors of the following corporations from 1998 until today : Air Philippines Corp., Philippine International Airways, Inc., Grand Ilocandia Resort and Development, Inc., Waterfront Philippines, Inc., Forum Pacific, Inc., Consumer Products Distribution Services, Inc., Mabuhay Vinyl

Corporation, Metro Alliance Holdings & Equities Corp., Acesite (Phils.) Hotel Corp., Pacific Wide Realty & Development Corp. He obtained his degree in Bachelor of Science in Commerce Major in Accounting from the University of Santo Tomas in 1985. He passed the Certified Public Accountant (CPA) Board Examinations in June 1985. Further, Mr. Mercado took up his Bachelor of Laws from Ateneo De Manila University School of Law in 1990 and passed the Philippine Bar in 1991.

ALAN R. LUGA, has served as Director of the Company since November 16, 2017 as representative of Government Service Insurance System (GSIS). Director Alan R. Luga obtained his Bachelor of Science Degree from the Philippine Military Academy in 1981. In 1994, he acquired his MBA units from the Ateneo De Manila University Graduate School of Business. He completed a Master's Degree in Military Arts and Science at the US Army Command and General Staff College in 2002.

He is the current President and CEO of AFP General Insurance Corporation. He is also a member of the following insurance organizations: Insurance Institute for Asia and the Pacific, Inc., Philippine Insurers and Reinsurers Association, Philippine Insurers Club, and the Philippine Machinery Management Services Corp.

He was the Vice Chief of Staff of the Armed Forces of the Philippines before his compulsory retirement in May 2014 after 38 years of continued military service. From 2012 to 2013, he served as Commander of the AFP Southern Luzon Command. He was also the Commander of two Infantry Brigades (the 802nd Infantry Brigade and the 1001st Infantry Brigade) from 2008 to 2011 and the Commander for the 7th Infantry Division of the Philippine Army in 2012. He was a member of the GRP Peace Panel for the GRP-MILF Peace Talks as the Chairman of the ADHOC Joint Action Group, OPAPP in 2011-2012. In 2005-2006, he was the Chief of the AFP Command Center as well as the Secretary, Army General Staff. He was deployed as Deputy Commander of the Philippine Battalion for the International Forces in East Timor and later as Chief Plans of the Peace Keeping Force of UNTAET in East Timor from 1999 to 2001.

Lt. Gen. Luga has held various military and corporate positions. He was the Chairman of the Board of the Camp Aguinaldo Golf and Country Club from 2013 to 2014, and of the AFP Housing Board in the same years. He was also a member of the Board of Directors of the Riviera Sports and Country Club, Inc. from 2014 to 2016, and served as a member of the AFP Board of Generals from 2013 to 2014.

WILLIAM T. YU, has served as Director of the Company since March 14, 2017. Dr. Yu has served 31 years in military service as Military Medical Officer with a rank of Colonel. He was the General Duty Officer of PMA Station Hospital; He held various positions at the V. Luna General Hospital such as Ward Officer, Chief Pulmonary DSE Service, Training and Education Officer of Chief of Clinics, Assistant Head of Department of Medicine & Head of Out-Patient Service. He likewise served at the Fort Bonifacio General Hospital as Chief of Medical Services and Deputy Commander. He was also a Commanding Officer (Director) of the following military hospitals: Camp Evangelista Station Hospital at Cagayan De Oro, Fort Bonifacio General Hospital, Camp Melchor Dela Cruz Hospital and Fort Magsaysay Army Station Hospital.

Dr. Yu graduated with a Degree of BS Chemistry at Far Eastern University in 1973 and Doctor of Medicine at FEUNRMF in 1977. He is an active honorary member of Philippine Military Academy Class of 1978. Dr. Yu obtained his Master's degree in Management major in Hospital Administration at Philippine Christian University in June 2017.

ELPIDIO C. JAMOR, JR. has served as Chairman of the Company from September 30, 2013 up to November 16, 2017. Atty. Jamora is the President of Epsilon Maritime Services, Inc., Camnorte Ezone Realty, Inc., Impress Land, Inc. and Bandera Realty, Inc. He serves as Director of Himawari International Promotion, Inc., Indo Phil Acrylic Mfg. Corp., Indo Pil Cotton Mills, Inc. Mahaveer Philippine Foundation, Inc. and Exquisite Focus, Inc. He is a Managing Partner and Founding Member of Carag, Jamora, Somera & Villareal Law Offices. He earned his Bachelor of Arts, major in Political Science degree, from the Lyceum of the Philippines in 1977. He earned his Bachelor of Laws degree from the University of the Philippines in 1982.

LUIS F. SISON, has served as President and CEO and Vice Chairman of the Board of the Company from January 11, 2011 up to January 16, 2017. Atty. Sison was the Chairman of the Philippine Retirement Authority from August 1992 up to June 10, 1998. He served as Presidential Assistant for Legal & Judicial Affairs, with the rank of Undersecretary, in the Office of the President from July 15, 1992 until June 30, 1998. He served as Chairman & President of PNCC from March 2001 until June 2002 & as its President from June 2002 until October 2002, and again, from January 11, 2011 until today. He earned his B.S. Political Science degree in

1963 & his Bachelor of Laws degree from the Ateneo de Manila University in 1967. He passed the Philippine Bar in the same year.

JEPHONIE L. AGUSTIN, has served as Director of the Company from November 14, 2016 up to August 15, 2017. He has 18-year experience in the field of project management of various construction projects. He is a Senior Manager of Moses & Partners Management Company based in Davao City handling various construction projects from 2004 until today. He served as General Manager of Megalith Project Management and Allied Services from 2010 to 2014. Mr. Agustin has earned his Bachelor of Science degree in Mechanical Engineering from the University of Mindanao in 1997.

TOMAS C. ALVAREZ, has served as Director of the Company from January 11, 2011 up to March 14, 2017. Mr. Alvarez has been the Chief Financial Officer of Seafont Resources Corp. from 1992-94. He served in various capacities in the SGV & Co. starting in 1958 as a member of an audit team. He then served as the Branch Manager of SGV Iloilo starting 1964, was assigned to SGV Bangkok from 1970-1980 & retired in 1989 as head of the SGV Philippine Branches. He served as a Consultant to the Columbian Motors Group of Companies from 1995-2009. He earned his Bachelor of Science degree, major in Accounting from the University of San Jose-Recoletos in 1957 & passed the CPA Board in 1958.

NORA O. VINLUAN, has served as Director of the Company from January 11, 2011 up to March 14, 2017. Ms. Vinluan is a Trustee of the Multi-Saving and Loan Association, the Vice-Chairman of the Schuylkill Assets Strategists, the Executive Vice-President of the Asset Custody & Resolution Managers, Inc. She was Consultant to the Philippine Bank of Communications (2003-2005), Easter Telecommunications Philippines, Inc. (1999-2002), & Hydro-Resources Contractors, Inc. (1985-1986) & was the Treasurer & Vice President for Finance of the Construction & Development Corp. of the Philippines (now PNCC) from 1980-1986. She obtained her degree in Bachelor of Science in Business Administration, Cum Laude, from the University of the Philippines in 1961 & her Master of Arts (Economics) from Syracuse University in 1965.

ROSANNA E. VELASCO, has served as Director of the Company from September 30, 2013 up to March 14, 2017. Ms. Velasco served as the Academics and Programs Director of the center for Autism and Related Disorders Phils. – Professionals for Autism Foundation, Inc. from May 2005 – May 2007 and November 2012 until today, respectively. Ms. Velasco is the owner of RME Publishing since September 12, 2012, and she is serving as Director of Inteconsult Corp. starting June 2011. She was engaged as Senior Consultant in the Corporate Achievers Institute from May 2010 until November 2012. She completed the degree of Bachelor of Science in Commerce, Major in Accounting, Minor in Management of Financial Institutions in 1979 and is a candidate for the degree of Masters in Education-Special Education at the De La Salle University.

CRISTINO L. PANLILIO, has served as Director of the Company from September 30, 2013 up to March 14, 2017. Mr. Panlilio served as Undersecretary of the Department of Trade and Industry until January 30, 2013, handling the Board of Investments, Bureau of Export Trade Promotion, Center for International Trade Expositions and Missions, Foreign Trade Services Corps., Garments & Textile Industry Development Office, Philippine International Trading Corporation and the Philippine Trade Training Center. He earned his AB Economics & Master in Business Administration degrees from the Ateneo de Manila University in 1973 and 1981, respectively. He also completed in 1984 the Advance Management Program from the Wharton School of Finance.

ROBERT G. VERGARA, has served as Director of the Company as GSIS Representative from October 14, 2013 up to March 14, 2017. Mr. Vergara graduated with double degrees in Management Engineering and Mathematics from Ateneo de Manila University (Magna Cum Laude). In 1986, he obtained his Master's degree in Business Administration from Harvard Graduate School of Business Administration, with concentration on general management, finance and corporate strategy. Prior to his appointment as President and General Manager and Vice Chairman of the GSIS Board of Trustees, he was the Managing Director and Founding Partner of Cannizaro (Hong Kong) Capital Partners Limited. He spent most of his career in Hong Kong where he was also a Trader of IFM Trading Limited, Managing Director of IFM Asia Limited, Principal of Morgan Stanley Dean Witter Asia Limited, Director of Dresdner Kleinwort Wasserstein Securities (Asia) Limited, Managing Director of Lionhart (Hong Kong) Limited.

ELISEA G. GOZUN, has served as Director of the Company as GSIS Representative from October 14, 2013 up to March 14, 2017. Ms. Gozun graduated with a Bachelor of Arts from Southwestern University in Cebu City in 1976. She completed units for a Master's degree in Environmental Management at the Philippine Women's

University in 1996. She was conferred Doctor of Environmental Management (*Honoris Causa*) by Ramon Magsaysay Technological University in 2004 and by Xavier University in 2008.

Aside from her current work at the GSIS as Trustee, she serves as Consultant to several World Bank projects including the Climate Public Expenditure and Institutional Review, Phil-Wealth Accounting and Valuation of Ecosystem Services, and Green Print 2030 Phase II. She is also a consultant to AECOM, which is a contractor for the United States Agency for International Development on the Climate Resiliency Team Leader, Be Secure Project. She has also worked with various UN Bodies, ADB, National Government Agencies and Local Government Units.

ANTHONY B. SASIN, has served as Director of the Company as GSIS Representative from February 27, 2017 up to July 17, 2017. Mr. Sasin graduated with a degree in Bachelor of Science in Business Administration – Major in Management, from the Ateneo de Davao University. Prior to his appointment, he served as Undersecretary for the Office of the Presidential Adviser for New Government (2007-2008); as Presidential Assistant for Regional Concerns (Southern Mindanao); and as Barangay Captain of Barangay 3A, Davao City (1971-1972). In the private sector, Trustee Sasin was Executive Director for the Don Antonio Floirendo, Sr. Foundation; Executive Vice President for Industrial Relations Division of Anflo Management and Investment Corporation; President of Grand Aide Manpower Services, Inc.; and General Manager of Cougar Security Agency and Davao Motor Sales Corporation. Currently, Trustee Sasin is the Management Consultant and a Member of the Board of Anflo Management and Investment Corporation. He is also the President of Masters Port Services, Inc. (MPSI). Trustee Sasin is a staunch advocate and defender of workers' rights and interests. He has been a member of the National Directorate of the Trade Union Congress Party (TUCP Partylist) since 2009 and was elected as its Vice President in March 2016.

WILFREDO C. MALDIA, has served as Director of the Company as GSIS Representative from July 17, 2017 up to November 16, 2017. Mr. Maldia graduated with a Bachelor of Science degree in Agriculture, major in Agricultural Economics from the University of the Philippines Los Baños, Laguna in 1969. In 1979, he also completed his Bachelor's degree in Commerce major in Accounting from the Polytechnic University of the Philippines, and immediately obtained his license as a Certified Public Accountant (CPA). He earned his Master's degree in Business Administration from the Philippine Christian University in 1984.

Currently, Mr. Maldia holds various directorship positions in the private sector. He sits as an independent director in the Board of the First Valley Development Bank and as member of the Board of ROTECO, Yamang Lupa't Dagat Corporation, and CEAM Corporation.

Prior to his appointment to the GSIS Board, he served as senior adviser to the Ropali Group of Companies, and as director of the Farmers Savings & Loan Bank, Inc. and Banco Alabang Inc. (A Rural Bank). He also worked as a consultant to the Asian Development Bank as financial & organizations specialist for Agricultural Development Bank of Nepal, Agricultural Credit Specialist for Bangladesh Krishi Bank, and as rural credit specialist of the Estanislao Lavin & Associates. He was likewise the financial specialist/expert of the Urban Integrated Consultants, Incorporated and Livestock Development Program Office (LDPO) & the Kilusang Kabuhayan at Kaunlaran (KKK). He also worked as Farm Manager at Universal Robina Corporation, a private company engaged in food manufacturing business.

ANTONIO C. PIDO, has served as Director of the Company from January 11, 2011 up to April 17, 2017. Atty. Pido is a Senior Partner of the Siguion Reyna, Montecillo & Ongsiako Law Offices from 1994 until today. He was a Partner in the Pido, Quimbo & Guades Law Office from December 1991 until December 1993. He served as Labor Arbiter at the National Labor Relations Commission from June 1986 until May 1991. He obtained his degree in Bachelor of Science in Commerce from the Colegio de San Jose-Recoletos in 1976 and in Bachelor of Laws from the University of the Philippines in 1982 and passed the Philippine Bar in the same year.

ROSENDO T. CAPCO, has served as Director of the Company from January 11, 2011 until he resigned on June 19, 2017. Atty. Capco has served as President of the Integrated Bar of the Philippines (IBP), Rizal Chapter, & as Chairman of the IBP-Rizal Legal Aid Program for Poor Litigants in 1999-2000. He also served as Chairman of the Metro Manila Local Amnesty Board in 199-2001. He was elected twice as Mayor of the Municipality of Pateros – for terms 2001-2004 & 2004-2007. He is presently a Managing Partner of the Capco, Campanilla & Santos Law Firm. He earned his B.S. Business Administration degree in 1972 & his Bachelor of Laws degree in 1977 from the University of the East. He passed the Philippine Bar in the 1978.

Senior Management

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>
Mario K. Espinosa	59	Filipino	President & CEO
Janice Day E. Alejandrino	62	Filipino	Senior Vice President for Human Resource and Administration
Miriam M. Pasetes	64	Filipino	Vice President – Corporate Treasurer
Yolanda C. Mortel	61	Filipino	Vice President for Materials Management and Asset Disposal
Ilie Lionel B. Gramata	39	Filipino	Vice President – Corporate Legal
Henry B. Salazar	46	Filipino	Asst. Vice President – Corporate Legal Officer
Felix M. Erece	55	Filipino	Asst. Vice President – Personnel Services
Ezra L. Panopio	29	Filipino	Asst. Vice President – Corporate Controller

JANICE DAY E. ALEJANDRINO, Senior Vice President for Human Resources and Administration, has served PNCC since 1997 in the area of human resource and administrative services. She is now the Compliance Officer of the company and has earlier served as the Lead Internal Auditor for the company's Quality Management System. She has earned her degrees in B.S. in Hygiene and M.A. in Asian Studies from the University of the Philippines in 1975 and 1984, respectively. She completed the academic requirements of 36 units for a degree in Master of Arts in Economic Research from the University of Asia and the Pacific from 1984-1986. She has been engaged as a resource person in various government institutions in the area of training and systems development.

MIRIAM M. PASETES, Vice President & Corporate Treasurer, has served PNCC since 1977 until today in various capacities in the field of finance. She started as a Management Economics and Financial Analyst 1 in 1977 and moved up to the position of Corporate Finance Officer in 1998 with the rank of Senior Vice President. She was promoted to the rank of Vice President and Senior Vice President. In February 2004 and May 2005, respectively. She now serves as Corporate Treasurer. Ms. Pasetes graduated *Cum Laude* with a degree in Bachelor of Science in Commerce from Centro Escolar University in 1972.

YOLANDA C. MORTEL, Vice President for Materials Management & Asset Disposal, joined the company in 1975 and rose from the ranks to become the Head of the Materials Management Division from March 2001 up to the present. She has continued to serve as Head of the Asset Disposal Task Force from January 2004 and as Head of the Technical Working Group of the PNCC Bids and Awards Committee from 2005. She also has served as Director of CDCP Employees Salary and Loan Association from 2001 until today. She obtained her degree in Bachelor of Science in Education in 1975 from J. Rizal College of Taal, Batangas.

ILIE LIONEL B. GRAMATA, Vice President for Corporate Legal, joined the Philippine National Construction Corporation in January 2017. Prior to his appointment in PNCC, he served in the Department of Finance from November 2013 to June 2016 in various capacities. Mr. Gramata was Managing Partner of Valenton Gramata Loseriaga Law Offices from May 2010 to October 2013. Mr. Gramata graduated with Bachelor of Laws degree at San Beda College in 2001 and passed the Philippine Bar in 2002. Mr. Gramata earned his Diploma in Financial Engineering in 2014 and obtained his Bachelor of Science in Applied Economics degree in 1996 at De La Salle University Manila.

HENRY B. SALAZAR, Asst. Vice President & Corporate Legal Officer, he headed the Litigation Department of PNCC until he was retrenched in June 2011. He rejoined PNCC a month after. At present, he is the Corporate Legal Officer of PNCC, with the rank of Assistant Vice President. He previously served as Trust Attorney in the Asset Privation Trust from July 1997 to December 2000. He obtained his Bachelor of Laws degree from Arellano Law School in 1996. He was admitted to the Philippine Bar after passing the 1996 Bar Examinations. He has a degree in AB Economics from San Beda College where he graduated in 1991.

FELIX M. ERECE, Asst. Vice President for Personnel Services and Records Management is the Head of Personnel Services and Records Control. In addition, he was tapped to oversee the operation of manpower supply contract with SOMCO (Skyway Maintenance and Operation) and the manpower requirements of Philphos Project in Leyte previously handled by the dissolved DISC Management. He studied in TUPP-Manila Technician Institute taking up a three-year Civil Technology course sponsored by PBSP. He also studied Civil Engineering at Feati University, took-up various computer related courses and attended trainings/seminars to equip him with the knowledge and skills needed in handling bigger responsibilities.

EZRA L. PANOPIO, Asst. Vice President for Controllershship joined PNCC in March 2017 as the Head of Corporate Controllershship Department. Mr. Panopio served as Audit Manager of auditing firms such as PwC Philippines from 2015 to 2016 and Reyes Tacandong & Co. from 2011 to 2015. He graduated with Bachelor of Science in Accountancy degree at University of Bicol in 2008 and passed the CPA examination on the same year. Mr. Panopio is pursuing his Master of Science in Accountancy at Ateneo de Naga University.

The Company has also engaged the consultancy services of Ms. Josefina Reyes to review the personnel administration, performance evaluation, manpower training and development and organizational development.

Board Attendance

In 2017, the Board of Directors held twenty four (24) meetings. The attendance of the Directors in these meetings is as follows:

	Name of D	Date of Election in the Board	Date of Resignation / Replaced	No. of Meetings Held during Incumbency	No. of Meetings Attended	%	Length of Service in the Board
Chairman	Herculano C. Co, Jr.	11/16/2017	N/A	4	4	100%	0.08 years
Vice Chairman President & CEO	Mario K. Espinosa	01/16/2017	N/A	23	23	100%	0.9 years
Member	Jonathan S. Avancena	08/15/2017	N/A	9	7	77.77%	0.25 years
Member	Pedro B. Cabatingan, Jr.	03/14/2017	N/A	20	20	100%	0.75 years
Member	Salvador B. Calanoy IV	03/14/2017	N/A	20	20	100%	0.75 years
Member	Mohamad Taha A. Guinomia	03/14/2017	N/A	20	20	100%	0.75 years
Member	William T. Yu	03/14/2017	N/A	20	18	90%	0.75 years
Member	Lamberto B. Mercado, Jr.	04/17/2017	N/A	17	15	88.23%	0.66 years
Member	Alan R. Luga	11/16/2017	N/A	4	3	88.23%	0.08 years
Chairman	Elpidio C. Jamora, Jr.	09/30/2013	11/16/2017	20	20	100%	3.66 years
Vice Chairman President & CEO	Luis F. Sison	01/11/2011	01/16/2017	1	1	100%	6 years
Member	Jephonie L. Agustin	11/14/2016	08/15/2017	15	13	86.66%	0.75 years
Member	Tomas C. Alvarez	01/11/2011	03/14/2017	5	3	60%	6.25 years
Member	Nora O. Vinluan	01/11/2011	03/14/2017	5	3	60%	6.25 years
Member	Cristino L. Panlilio	09/30/2013	03/14/2017	5	4	80%	3.5 years
Member	Robert G. Vergara	10/14/2013	03/14/2017	5	0	0	3.5 years
Member	Elisea G. Gozun	10/14/2013	02/27/2017	4	0	0	3.3 years
Member	Anthony B. Sasin	02/27/2017	07/17/2017	10	3	30%	0.4 years
Member	Jonathan A. Dela Cruz	03/14/2017	N/A	20	16	80%	0.75 years
Member	Wilfredo C. Maldia	07/17/2017	11/16/2017	7	4	57.14%	0.25 years
Member	Antonio C. Pido	01/11/2011	04/17/2017	7	5	71.42%	6.25 years
Member	Rosendo T. Capco	01/11/2011	06/19/2017	10	10	100%	6.5 years

Board Committee Attendance

The attendance of the members of the Board Committees in their respective meetings in 2017 is as follows:

• Audit Committee

	Name	Date of Election in the Board	Date of Appointment in the Committee	Date of Resignation / Replaced in the Committee	No. of Meetings Held during Incumbency	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Mohamad Taha A. Guinomia	03/14/2017	03/14/2017	N/A	2	2	100%	0.75 years
Member	Pedro B. Cabatingan, Jr.	03/14/2017	03/14/2017	N/A	2	2	100%	0.75 years
Member	William T. Yu	03/14/2017	03/14/2017	N/A	2	2	100%	0.75 years
Member	Mario K. Espinosa	01/16/2017	03/14/2017	N/A	3	3	100%	0.8 years
Member	Elpidio C. Jamora, Jr.	09/30/2013	11/20/2013	11/16/2017	3	3	100%	4 years
Member	Herculano C. Co, Jr.	11/16/2017	11/16/2017	N/A	0	0	-	0.08 years
Chairman	Rosanna E. Velasco	09/30/2013	11/20/2013	03/14/2017	1	0	100%	3.3 years
Member	Tomas C. Alvarez	01/11/2011	01/11/2011	03/14/2017	1	1	100%	6 years
Member	Nora O. Vinluan	01/11/2011	01/11/2011	03/14/2017	1	1	100%	6 years

• Finance Committee

	Name	Date of Election in the Board	Date of Appointment in the Committee	Date of Resignation / Replaced in the Committee	No. of Meetings Held during Incumbency	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Jonathan A. Dela Cruz	03/14/2017	03/14/2017	N/A	1	1	100%	0.75 years
Member	Rosendo T. Capco	01/11/2011	07/21/2014	06/19/2017	1	1	100%	2.75 years
Member	Mario K. Espinosa	01/16/2017	02/15/2017	N/A	1	1	100%	0.8 years
Member	Elpidio C. Jamora, Jr.	09/30/2013	11/20/2013	11/16/2017	1	1	100%	4 years
Chairman	Cristino L. Panlilio	09/30/2013	11/20/2013	03/14/2017	0	0	-	3.3 years
Member	Herculano C. Co, Jr.	11/16/2017	11/16/2017	N/A	0	0	-	0.08 years

• Legal Committee

	Name	Date of Election in the Board	Date of Appointment in the Committee	Date of Resignation / Replaced in the Committee	No. of Meetings Held during Incumbency	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lamberto B. Mercado, Jr.	04/17/2017	04/17/2017	N/A	1	1	100%	0.75 years
Member	Rosendo T. Capco	01/11/2011	07/21/2014	06/19/2017	1	1	100%	2.75 years
Member	Mario K. Espinosa	01/16/2017	02/15/2017	N/A	1	1	100%	0.8 years
Member	Elpidio C. Jamora, Jr.	09/30/2013	11/20/2013	11/16/2017	1	1	100%	4 years
Chairman	Antonio C. Pido	01/11/2011	01/11/2011	04/17/2017	0	0	-	6 years
Member	Herculano C. Co, Jr.	11/16/2017	11/16/2017	N/A	0	0	-	0.08 years

• Nomination and Compensation Committee

	Name	Date of Election in the Board	Date of Appointment in the Committee	Date of Resignation / Replaced in the Committee	No. of Meetings Held during Incumbency	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Jephonie L. Agustin	11/14/2016	11/14/2016	08/15/2017	1	1	100%	0.75 years
Member	Rosendo T. Capco	01/11/2011	01/20/2014	06/19/2017	0	0	-	3.25 years
Member	Mario K. Espinosa	01/16/2017	02/15/2017	N/A	1	1	100%	0.6 years
Member	Elpidio C. Jamora, Jr.	09/30/2013	02/15/2017	11/16/2017	1	1	100%	0.75 years
Member	Salvador B. Calanoy IV	03/14/2017	03/14/2017	N/A	1	1	100%	0.75 years
Member	Mohamad Taha A. Guinomia	03/14/2017	03/14/2017	N/A	1	1	100%	0.75 years
Member	Herculano C. Co, Jr.	11/16/2017	11/16/2017	N/A	0	0	-	0.08 years

• **Performance Negotiation Agreement (PAN) Committee**

	Name	Date of Election in the Board	Date of Appointment in the Committee	Date of Resignation / Replaced in the Committee	No. of Meetings Held during Incumbency	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Pedro B. Cabatingan, Jr.	03/14/2017	03/14/2017	N/A	2	2	100%	0.75 years
Member	Jonathan A. Dela Cruz	03/14/2017	03/14/2017	N/A	1	1	100%	0.75 years
Member	Mario K. Espinosa	01/16/2017	02/15/2017	N/A	2	2	100%	0.6 years
Member	Elpidio C. Jamora, Jr.	09/30/2013	02/15/2017	11/16/2017	1	1	100%	0.75 years
Member	Salvador B. Calanoy IV	03/14/2017	03/14/2017	N/A	2	2	100%	0.75 years
Member	Wilfredo C. Maldia	07/17/2017	07/17/2017	11/16/2017	1	1	100%	0.25 years
Member	Alan R. Luga	11/16/2017	11/16/2017	N/A	1	1	100%	0.08 years
Member	Herculano C. Co., Jr.	11/16/2017	11/16/2017	N/A	1	1	100%	0.08 years
Member	Mohamad Taha A. Guinomia	03/14/2017	03/14/2017	N/A	2	2	100%	0.75 years

Term of Office

Pursuant to the Company's By-Laws, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Under the Company's By-Laws, the annual stockholders' meeting of the Company is held on the 4th Tuesday of March.

Independent Directors

No stockholders' meeting has been held in 2017, thus no independent directors has been elected.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

Mario K. Espinosa and Ms. Geraldine C. Espinosa, who are both employees of the Company, are related by affinity within the second degree. Ms. Geraldine C. Espinosa having been married to Mr. Mario K. Espinosa's brother.

Involvement in Certain Legal Proceedings

In addition to the major cases discussed in pages 11 and 12, the Company is involved in continuing litigations relating to labor and civil cases. The ultimate outcome of these litigations cannot be determined yet and no provision for any liability that may result can be made in the financial statements.

The labor cases consist of those filed against the Company comprised mostly of claims for illegal dismissal, backwages, separation pay and unpaid benefits. Most of these case have been ruled by the Labor Arbiter in favor of the complainant. However, these cases are on appeal by the Company before the National Labor Relations Commission, Court of Appeals and Supreme Court.

The civil cases filed against the Company consist of cases involving damages, collection of money, and attorney's fees, which are still in litigation before various Regional Trial Courts. On the other hand, those files by the Company against other individuals or companies consists of suits involving sums of money, damages, and breaches of contract which involve undeterminable amount of money.

Item 10. Executive Compensation

Information as to the aggregate compensation (including management fees) paid or incurred during its calendar period to the company's Chief Executive Officer and four most highly compensated executive officers are as follows:

Paid to		Amount
Mario K. Espinosa	President and CEO	
Janice Day E. Alejandrino	Senior Vice President	
Miriam M. Pasetes	Vice President	
Yolanda C. Mortel	Vice President	
Ilie Lionel B. Gramata	Vice President	
All above named officers as a group		P 14.085M
All other directors and above named officers as group		P 18.066M

Except for the regular company retrenchment/retirement plan, which by its very nature will be received by the officers concerned only upon retirement/separation from the company, the above mentioned officers do not received any other compensation from the company in the form of warrants, option and/or profit sharing.

There are no outstanding warrants or options held by the Company's President, named executive officers and all directors and officers as a group.

There are no other arrangements pursuant to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, by the Company for services rendered by such directors.

There are no employment contracts between the Company and its executive officers. There is no compensatory plan nor arrangement with respect to an executive officer which results or will result from the resignation, retirement or any other termination of such executive officer's employment with the Company, or from a change-in-control of the Company, or a change in an executive officer's responsibilities following a change-in-control of the Company.

Securities of the Registrant

Market Price of and Dividends on Registrant's Common Equity and Related Stockholders' Matters

Market Information

Registrant's 174,444,759 common shares are listed with the Philippine Stock Exchange. The Registrant was listed on 13 March 1974.

Trading of shares was suspended on May 16, 2008, for this reason, no transaction was recorded for the last three (3) years. Last transaction date was on April 9, 2008, last closing price at P4.90 per share.

The Board of Directors did not declare dividends in the last three (3) years. This was due to the Company's deficit of P4.43 billion and P7.31 billion as of December 31, 2017 and 2016, respectively. Such action of the Board is supported by Article XI, Section 11.01 of the Amended By-Laws of the Company which provides that *"Dividends maybe declared annually or oftener as the Board of Directors may determine. The Board may declare dividends only from the surplus profits of the Corporation."*

A detailed discussion on this matter can be found on Notes 18 of AFS, page 58 of AFS.

Shareholders

TOP TWENTY (20) COMMON SHAREHOLDERS OF PNCC as of December 31, 2017

Shareholder	No. of Shares	% of Ownership
Republic of the Philippines/Privatization Management Office	79,271,024	45.44
Government Service Insurance System	47,490,383	27.22
Universal Holdings Corporation	24,780,746	14.20
PCD Nominee Corporation - Filipino	12,561,278	7.20
Cuenca Investment Corporation	2,088,132	1.19
Cuenca, Rodolfo M.	698,116	0.40
Land Bank of the Philippines	657,836	0.37
Unigrowth Development Corporation	630,625	0.36
Gow, Jimmy N.	274,000	0.15
Cruz, F.F. & Co., Inc.	252,630	0.14
Blue Chip Asset, Inc.	244,700	0.14
Adachi, Sueo - Foreign	184,025	0.10
Chung, Felix	173,900	0.09
Alpapara, Johnson	170,000	0.09
Go, Le Khim	150,000	0.08
Benpres Corporation	140,000	0.08
Cruz, Felipe F.	135,993	0.07
Motellbano A. Hijos, Inc.	120,750	0.06
Carnet Machineries & Invest. Corp.	119,842	0.06
Filipinas Bag Corporation	106,936	0.06

Total No. of Shareholders : 4,818

The Privatization Management Office (PMO) holds PNCC's 25,500,000 preferred "D" shares which are also voting shares of the company. This translates to 12.75% of all voting shares.

Security Ownership of Certain Record and Beneficial Owners and Management

Owners of record of more than ten percent 10% of the company's voting securities as of December 31, 2017

Title of Class	Name & Address of Record/Beneficial Owner	No. of Shares	% of Class
Common	PRIVATIZATION MANAGEMENT OFFICE 104 Gamboa Street, Legaspi Village Makati City 1229, Philippines	79,271,024	39.65
Common	GOVERNMENT SERVICE INSURANCE SYSTEM Roxas Blvd., Manila	47,490,383	23.75
Common	UNIVERSAL HOLDINGS CORP. CVCLAW Center, 11 th Ave. cor. 39 th St. Bonifacio Global City, 1634 Metro Manila	24,780,746	12.39
Common	VARIOUS STOCKHOLDERS	22,902,606	11.45
Preferred D	PRIVATIZATION MANAGEMENT OFFICE 104 Gamboa St., Legaspi Village, Makati City 1229, Metro Manila Philippines	25,500,000	12.75

By virtue of LOI 1295 (1983) 76.15% of voting equity has been held by various government financial institutions (GFIs), namely: PNB, PhilGuarantee, NDC, DBP, GSIS, and Land Bank, under the mandated debt-to-equity conversion scheme.

Pursuant to Proclamation No. 50, some of the GFIs have actually transferred their equity interests in PNCC to the Asset Privatization Office (APT) now Privatization Management Office. PMO through a resolution passed by its Board of Directors usually designates the Chief Privatization Officer or the Chairman as its authorized representative with the power to vote its shares of stock in PNCC.

Only 23.85% of PNCC's voting equity is strictly under private ownership and 6.28% of which is being held by PCD Nominee Corporation (Filipino).

Security Ownership of Management

BENEFICIAL STOCK OWNERSHIP OF EACH DIRECTORS AND OFFICERS as of December 31, 2017

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>
DIRECTORS		
Common	Avancena, Jonathan S.	100
Common	Cabatingan, Pedro Jr. B.	2
Common	Calanoy, Salvador IV B.	50
Common	Capco, Rosendo T.	10
Common	Dela Cruz, Jonathan A.	50
Common	Espinosa, Mario K.	1
Common	Guinomla, Mohamad Taha A.	101
Common	Jamora, Elpidio Jr. C.	1
Common	Maldia, Wilfredo C.	50
Common	Yu, William T.	1
OFFICERS		
Common	Yolanda C. Mortel	13
Common	Janice Day E. Alejandrino	6

Certain Relationship and Related Transactions

Considering that the Government is the majority substantial stockholder of PNCC, no director/security holder or any member of his/her immediate family is allowed to transact business with the corporation directly or indirectly since this is prohibited under existing laws and regulations.

Corporate Governance

Pursuant to SEC Memorandum Circular No. 5, series of 2013 ("MC No. 5"), Part IV Corporate Governance of this report is hereby deleted. MC No. 5 also requires filing of an Annual Corporate Governance Report by listed companies. However, the SEC issued Memorandum Circular No. 15 series of 2017 to facilitate the disclosure of publicly-listed companies' (PLCs) compliance/non-compliance with the recommendations provided under the Code of Corporate Governance for PLCs and to harmonize the corporate governance requirements of the Commission and the Philippine Stock Exchange, the Commission, pursuant to its regulatory and supervisory power under Section 5 of the Securities Regulation Code, mandates all companies to submit an Integrated Annual Corporate Governance Report (I-ACGR).

The Company's I-ACGR for 2017 is attached hereto as Annex "A" and is also posted on the Company website.

FINANCIAL SOUNDNESS INDICATORS

	2017	2016 (As restated)
1 Current / Liquidity Ratios:		
Current Ratio	0.13	0.10
Quick Asset Ratio	0.13	0.10
2 Solvency Ratios:		
Debt to Assets	78.52%	93.69%
Debt to Equity Ratio	365.56%	1485.61%
3 Asset to Equity Ratio	465.55%	1585.61%
4 Interest Rate Coverage Ratio	11.86	4.13
5 Profitability Ratios:		
Return on Assets	15.74%	5.54%
Return on Equity	73.29%	152.32%

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
PFRSs Practice Statement Management Commentary				√
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			√
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			√
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			√
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			√
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			√
	Amendments to PFRS 1: Government Loans			√
PFRS 2	Share-based Payment			√
	Amendments to PFRS 2: Vesting Conditions and Cancellations			√
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			√
PFRS 3 (Revised)	Business Combinations			√
PFRS 4	Insurance Contracts		√	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			√
PFRS 6	Exploration for and Evaluation of Mineral Resources			√
PFRS 7	Financial Instruments: Disclosures	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	√		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	√		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	√		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
PFRS 8	Operating Segments			√
PFRS 9*	Financial Instruments		√	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		√	
PFRS 10*	Consolidated Financial Statements		√	
	Amendments to PFRS 10: Investment Entities			√
PFRS 11*	Joint Arrangements			√
PFRS 12*	Disclosure of Interests in Other Entities	√		
	Amendments to PFRS 12: Investment Entities	√		
PFRS 13*	Fair Value Measurement	√		
	Amendment to PFRS 13: Short-term receivables and payables	√		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	√		
PAS 2	Inventories	√		
PAS 7	Statement of Cash Flows	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	√		
PAS 10	Events after the Reporting Period	√		
PAS 11	Construction Contracts			√
PAS 12	Income Taxes	√		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	√		
PAS 16	Property, Plant and Equipment	√		
PAS 17	Leases	√		
PAS 18	Revenue	√		
PAS 19 (amended)	Employee Benefits	√		
PAS 19 (Amended)*	Employee Benefits	√		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			√
PAS 21	The Effects of Changes in Foreign Exchange Rates	√		
	Amendment: Net Investment in a Foreign Operation	√		
PAS 23 (Revised)	Borrowing Costs	√		
PAS 24 (Revised)	Related Party Disclosures	√		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			√
PAS 27 (Amended)*	Separate Financial Statements			√
	Amendments to PAS 27: Investment Entities			√
PAS 28 (Amended)*	Investments in Associates and Joint Ventures		√	
PAS 29	Financial Reporting in Hyperinflationary Economies			√
PAS 31	Interests in Joint Ventures	√		
PAS 32	Financial Instruments: Disclosure and Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
	Amendment to PAS 32: Classification of Rights Issues			√
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	√		
PAS 33	Earnings per Share	√		
PAS 34	Interim Financial Reporting			√
PAS 36	Impairment of Assets	√		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	√		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	√		
PAS 38	Intangible Assets	√		
PAS 39	Financial Instruments: Recognition and Measurement	√		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	√		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			√
	Amendments to PAS 39: The Fair Value Option			√
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	√		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			√
	Amendment to PAS 39: Eligible Hedged Items			√
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			√
PAS 40	Investment Property	√		
PAS 41	Agriculture			√
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			√
IFRIC 2	Members' Share in Co-operative Entities and Similar			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
	Instruments			
IFRIC 4	Determining Whether an Arrangement Contains a Lease	√		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			√
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			√
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			√
IFRIC 8	Scope of PFRS 2			√
IFRIC 9	Reassessment of Embedded Derivatives			√
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			√
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			√
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			√
IFRIC 12	Service Concession Arrangements			√
IFRIC 13	Customer Loyalty Programmes			√
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			√
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			√
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			√
IFRIC 17	Distributions of Non-cash Assets to Owners			√
IFRIC 18	Transfers of Assets from Customers			√
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			√
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			√
IFRIC 21	Levies	√		
SIC-7	Introduction of the Euro			√
SIC-10	Government Assistance - No Specific Relation to Operating Activities			√
SIC-12	Consolidation - Special Purpose Entities			√
	Amendment to SIC - 12: Scope of SIC 12			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			√
SIC-15	Operating Leases - Incentives	√		
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			√
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or Its Shareholders			√
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	√		
SIC-29	Service Concession Arrangements: Disclosures.			√
SIC-31	Revenue - Barter Transactions Involving Advertising Services			√
SIC-32	Intangible Assets - Web Site Costs			√

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
 SCHEDULE OF RETAINED EARNINGS (DEFICIT)
 DECEMBER 31, 2017

Deficit, balance at the beginning of year , as restated	(7,318,550,684)
Piecemeal realization of revaluation surplus	3,956,414
Expiration of 2012 minimum corporate income tax	(4,016,686)
Deficit, balance at the beginning of year , as adjusted	(7,318,610,956)
Comprehensive Income	2,879,342,681
Deficit, balance at the end of year	(4,439,268,275)

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2017

	Carrying Value	Fair Value
Cash on Hand:		
Petty cash and revolving fund	350,000	350,000
Loans and Receivables:		
Cash in banks	145,117,935	145,117,935
Cash equivalents	643,559,929	643,559,929
Accounts receivable	446,206,479	446,206,479
	<u>1,235,234,343</u>	<u>1,235,234,343</u>

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES,
AND PRINCIPAL STOCKHOLDERS (P100,000 and above)

December 31, 2017

(In Thousand Pesos)

Name and Designation of Debtor		Balance at Beginning of Period	Additions	DEDUCTIONS		Current	Not Current	Balance at End of Period
				Amounts Collected	Amounts Written-off			
Alentajan, Bonifacio	Former Consultant	400					400	400
Armonio, Manuel	Former Consultant	138					138	138
Asuncion, Ma. Theresa	Former President & CEO	1,709					1,709	1,709
Bucio, Hermilo	Former Employee	105					105	105
Caballo, Marlon	Former Technical Assistant (Legal)	5,555					5,555	5,555
Encanto, Mervin	Former Consultant	300					300	300
Garin, Edgardo	Former Employee	192					192	192
Gaston, Segundo	Former Group Head - (Senior Vice Pres.)	41,043					41,043	41,043
Jardin, Penny	Former Employee	2,860					2,860	2,860
Pascual, Ruben	Former Consultant	2,190					2,190	2,190
Paulino, Ibarra	Former Employee	632					632	632
Purugganan, Abraham	Former Executive Vice President	476					476	476
Rivera, Reynaldo	Former Consultant	400					400	400
		56,000	-	-	-	-	56,000	56,000

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE E: LONG TERM DEBT
December 31, 2017
(In Thousand Pesos)

Creditors	Amount Authorized by Indenture	As of December 31, 2017					As of December 31, 2016				
		Current Portion of Long-term Debt	Long-term Debt				Current Portion of Long-term Debt	Long-term Debt			
			Amount	Interest Rate	No. of Periodic Install.	Mat. Date		Amount	Interest Rate	No. of Periodic Install.	Mat. Date
Domestic:	912M										
Toll Regulatory Board		5,786,436 *		2%/mo. on outs. bal.	30 years	04/30/2007	5,528,433 *		2%/mo. on outs. bal.	30 years	04/30/2007
Debt to NG		2,300,569					2,300,569				
Debt to GOCC		1,203,000					1,203,000				
Total		9,290,005	0				9,032,002	0			

* inclusive of penalty charges

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE H - CAPITAL STOCK
DECEMBER 31, 2017

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Reserved for Options, Warrants Conversion and Other Rights, Redemption	Number of Shares Held by Affiliates	Directors, Officers, and Employees	Others
Preferred A (Treasury Stock)	1,400,000	1,400,000	1,400,000			
Preferred B	42,114,879	18,689,500				18,689,500
Preferred C	6,485,121	6,485,121				6,485,121
Preferred D	27,800,000	25,500,000				25,500,000
Special Common (Treasury Stock) }	10,000,000	1,489,037 367,395	367,395		2,952	1,486,085
Common	182,200,000	174,444,759			4,105	174,440,654
Total	270,000,000	228,375,812	1,767,395	-	7,057	226,601,360

MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANIES IN THE GROUP, ITS ULTIMATE PARENT COMPANY AND SUBSIDIARIES

STOCKHOLDERS

RP* thru PMO**
55.28%

GSIS
20.79%

UNIVERSAL
HOLDING CORP.
20.79%

OTHERS
13.08%

**PHILIPPINE NATIONAL
CONSTRUCTION
CORPORATION**

Alabang Sto. Tomas
Dev't. Corp.
51%

Dasmarinas Industrial
& Steelworks Corp.
100%

Tierra Factors Corp.
100%

Skyway Operations &
Maintenance Corp.
20%

CDCP Farms Corp.
100%

CDCP Employees
Savings & Loans Asso.
31%

Citra Central
Expressway Corp.
10%

Citra Intercity
Tollways, Inc.
20%

SUBSIDIARIES & AFFILIATES

ANNEX “A”



SEC FORM - I-ACGR

INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT

1. For the fiscal year ended 31 December 2017
2. SEC Identification Number 30939. BIR Tax Identification No. 330-058-000
4. Exact name of issuer as specified in its charter Philippine National Construction Corporation
5. Metro Manila Philippines
Province, Country or other jurisdiction of
incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. PNCC Complex KM 15 East Service Road Bicutan Parañaque City.
Address of principal office 1700
Postal Code
8. (02) 846-3045 Issuer's telephone number, including area code
9. N/A
Former name, former address, and former fiscal year, if changed since last report.

COVER SHEET

3 0 9 3 9

S.E.C. Registration Number

P H I L I P P I N E N A T I O N A L
C O N S T R U C T I O N C O R P O R A T I O N
(f o r m e r l y C O N S T R U C T I O N A N D
D E V E L O P M E N T C O R P O R A T I O N O F T H E
P H I L I P P I N E S)

(Company's Full Name)

P N C C C O M P L E X K M 1 5 E A S T S E R V I C
E R O A D B I C U T A N P A R A N A Q U E C I T Y

(Business Address: No. Street City / Town / Province)

MARIANO JESUS S. AVIERA

Contact Person

846-2906

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

IACGR

FORM TYPE

0 3

Month

Annual Meeting

4th
Tuesday

Day

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Total No. of Stockholders

Amended Articles Number / Section

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document ID

Cashier

STAMPS



SEC FORM - I-ACGR

INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT

1. For the fiscal year ended 31 December 2017
2. SEC Identification Number 30939. BIR Tax Identification No. 330-058-000
4. Exact name of issuer as specified in its charter Philippine National Construction Corporation
5. Metro Manila, Philippines
Province, Country or other jurisdiction of
incorporation or organization
6. (SEC Use Only)
Industry Classification Code:
7. PNCC Complex KM 15 East Service Road, Bicutan, Parañaque City.
Address of principal office 1700
Postal Code
8. (02) 846-3045
Issuer's telephone number, including area code
9. N/A
Former name, former address, and former fiscal year, if changed since last report.

INTEGRATED ANNUAL CORPORATE GOVERNANCE REPORT			
	COMPLIANT/ NON- COMPLIANT	ADDITIONAL INFORMATION	EXPLANATION
The Board's Governance Responsibilities			
Principle 1: The company should be headed by a competent, working board to foster the long- term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the long- term best interests of its shareholders and other stakeholders.			
Recommendation 1.1			
1. Board is composed of directors with collective working knowledge, experience or expertise that is relevant to the company's industry/sector.	COMPLIANT	http://www.pncc.ph/home_our_company_BOD.htm	
2. Board has an appropriate mix of competence and expertise.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Criteria%20for%20Nomination,%20Election,%20Rerelection%20and%20Disqualification%20of%20Directors.pdf	
3. Directors remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.	COMPLIANT		
Recommendation 1.2			
1. Board is composed of a majority of non-executive directors.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/COMPOSITION%20OF%20THE%20BOARD.pdf	

Recommendation 1.3			
1. Company provides in its Board Charter and Manual on Corporate Governance a policy on training of directors.	COMPLIANT	Article 5.1.c of Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	Board Charter is a work in progress.
2. Company has an orientation program for first time directors.	COMPLIANT	Article 5.1.f.8, 5.2.c.5 of Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
3. Company has relevant annual continuing training for all directors.	NON-COMPLIANT	Article 5.2.c.5 of Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	Annual Continuing training for some Directors for the year 2017 only because some incumbent directors were only appointed in 2017. The required continuing governance training of directors will be held on May 30, 2018.
Recommendation 1.4			
1. Board has a policy on board diversity.	COMPLIANT	Article 5.1.d of Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf Gender composition of the Board can be viewed at http://www.pncc.ph/LINKS/PDFs/CO	

		MPOSITION%20OF%20THE%20BOARD.pdf	
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Optional: Recommendation 1.4

1. Company has a policy on and discloses measurable objectives for implementing its board diversity and reports on progress in achieving its objectives.	COMPLIANT	Article 5.1.d of Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
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Recommendation 1.5

1. Board is assisted by a Corporate Secretary.	COMPLIANT	http://www.pncc.ph/cg_seal.htm#CorpSec http://www.pncc.ph/LINKS/PDFs/2017%2011November%2023%20Appointment%20of%20Mr.%20Mariano%20Jesus%20Averia.pdf	
2. Corporate Secretary is a separate individual from the Compliance Officer.	COMPLIANT	PNCC's Corporate Secretary is Atty. Mariano Jesus S. Averia while the Compliance Officer is Atty. Rey Nathaniel C. Ifurung Refer to appointment of Compliance Officer http://www.pncc.ph/LINKS/PDFs/2018%2003March%2013%20Appointment%20of%20Compliance%20Officer-Rey%20Nathaniel%20Ifurung.pdf	

3. Corporate Secretary is not a member of the Board of Directors.	COMPLIANT	Refer to composition of the Board http://www.pncc.ph/LINKS/PDFs/COMPOSITION%20OF%20THE%20BOARD.pdf	
4. Corporate Secretary attends training/s on corporate governance.	COMPLIANT	Atty. Averia attended the corporate governance training in February 2018, certificate not yet provided.	
Optional: Recommendation 1.5			
1. Corporate Secretary distributes materials for board meetings at least five business days before scheduled meeting.	NON-COMPLIANT	http://www.pncc.ph/cg_seal.htm#Access	
Recommendation 1.6			
1. Board is assisted by a Compliance Officer.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/2018%2003March%2013%20Appointment%20of%20Compliance%20Officer-Rev%20Nathaniel%20Ifurung.pdf	
2. Compliance Officer has a rank of Senior Vice President or an equivalent position with adequate stature and authority in the corporation.	COMPLIANT	http://www.pncc.ph/home_our_company_MANCOM.htm Article 5.1.f of Manual on Corporate Governance details the duties and functions http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
3. Compliance Officer is not a member of the board.	COMPLIANT	Refer to composition of the Board http://www.pncc.ph/LINKS/PDFs/COMPOSITION%20OF%20THE%20BOARD.pdf	

4. Compliance Officer attends training/s on corporate governance.	COMPLIANT	See attached Certificate of Participation in Corporate Governance Orientation Program for GOCCs (Annex "A")	
Principle 2: The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the company's articles and by-laws, and other legal pronouncements and guidelines should be clearly made known to all directors as well as to stockholders and other stakeholders.			
Recommendation 2.1			
1. Directors act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company.	COMPLIANT	Refer to composition of the Board http://www.pncc.ph/LINKS/PDFs/2017%20Accomplishment%20of%20Directors.pdf	
Recommendation 2.2			
1. Board oversees the development, review and approval of the company's business objectives and strategy.	COMPLIANT	The Board through its PAN (Performance Negotiation Agreement) Committee oversees the development, review and approval of the company's business objectives and strategy as required by the Governance Commission on Government-Owned and Controlled Corporation (GCG). See attached Summary of Agreements. (Annex "B") Negotiation meeting with the Technical Working Group of the GCG is on-going.	
2. Board oversees and monitors the implementation of the company's business objectives and strategy.			
Supplement to Recommendation 2.2			
1. Board has a clearly defined and updated vision, mission and core values.	COMPLIANT	http://www.pncc.ph/home_our_company_mission.htm	
2. Board has a strategy execution process that facilitates effective management performance and is attuned to the	NON-COMPLIANT		Work in progress

company's business environment, and culture.			
Recommendation 2.3			
1. Board is headed by a competent and qualified Chairperson.	COMPLIANT	Refer to Chairman Herculano C. Co, Jr.'s resume. http://www.pncc.ph/LINKS/PDFs/Herculano%20C.%20Co,%20Jr..pdf	
Recommendation 2.4			
1. Board ensures and adopts an effective succession planning program for directors, key officers and management.	NON-COMPLIANT		Since the incumbent directors are appointed by the President of the Philippines, they are bound by the provisions of E.O. 24. There is no succession planning program for key officers
2. Board adopts a policy on the retirement for directors and key officers.	NON-COMPLIANT		Key officers retire at age of 65 years old.
Recommendation 2.5			
1. Board aligns the remuneration of key officers and board members with long-term interests of the company.	NON-COMPLIANT		Since PNCC is under the supervision of the GCG, the Board and the Management is still studying the implication/effect of E.O 36, series of 2017 with regards the remuneration of its officers. While the directors are bound by the provisions of E.O. 24.
2. Board adopts a policy specifying the relationship between remuneration and performance.	NON-COMPLIANT		
3. Directors do not participate in discussions or deliberations involving his/her own remuneration.	COMPLIANT		Since the incumbent directors are appointed by the President of the Philippines, they are bound by the provisions of E.O. 24.
Optional: Recommendation 2.5			
1. Board approves the remuneration of senior executives.	NON-COMPLIANT		

2. Company has measurable standards to align the performance-based remuneration of the executive directors and senior executives with long-term interest, such as claw back provision and deferred bonuses.	NON-COMPLIANT		Since PNCC is under the supervision of the GCG, the Board and the Management is still studying the implication/effect of E.O 36, series of 2017 with regards the remuneration of its officers. While the directors are bound by the provisions of E.O. 24.
Recommendation 2.6			
1. Board has a formal and transparent board nomination and election policy.	NON-COMPLIANT		Work in progress
2. Board nomination and election policy is disclosed in the company's Manual on Corporate Governance.			
3. Board nomination and election policy includes how the company accepted nominations from minority shareholders.			
4. Board nomination and election policy includes how the board shortlists candidates.			
5. Board nomination and election policy includes an assessment of the effectiveness of the Board's processes in the nomination, election or replacement of a director.			
6. Board has a process for identifying the quality of directors that is aligned with the strategic direction of the company.	NON-COMPLIANT		Work in progress

Optional: Recommendation to 2.6			
1. Company uses professional search firms or other external sources of candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the board of directors.	NON-COMPLIANT		Nomination and Election Policy/charter is a work in progress
Recommendation 2.7			
1. Board has overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions.	COMPLIANT	Company's policies and procedures for review approval or ratification, monitoring and recording of RPT between among its parent, joint ventures, subsidiaries, associates, affiliates, etc. is detailed in Related Party Transactions http://www.pncc.ph/cg_company_policies.htm	
2. RPT policy includes appropriate review and approval of material RPTs, which guarantee fairness and transparency of the transactions.			
3. RPT policy encompasses all entities within the group, taking into account their size, structure, risk profile and complexity of operations.			
1. Board clearly defines the threshold for disclosure and approval of RPTs and categorizes such transactions according to those that are considered <i>de minimis</i> or transactions that need not be reported or announced, those that need to be disclosed, and those that need prior shareholder approval. The aggregate amount of RPTs within any twelve (12) month period should be considered for purposes of applying the thresholds for disclosure and approval.	NON-COMPLIANT		Enhancement of Related Party Transaction Policy is a work in progress

2. Board establishes a voting system whereby a majority of non-related party shareholders approve specific types of related party transactions during shareholders' meetings.			
Recommendation 2.8			
1. Board is primarily responsible for approving the selection of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).	COMPLIANT	Section 6.01 of PNCC's By-Laws http://www.pncc.ph/LINKS/PDFs/PNCC%20By-Laws.pdf	
2. Board is primarily responsible for assessing the performance of Management led by the Chief Executive Officer (CEO) and the heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive).	NON-COMPLIANT		Assessment Tool for the performance of Management and Directors is a work in progress
1. Board establishes an effective performance management framework that ensures that Management's performance is at par with the standards set by the Board and Senior Management.	NON-COMPLIANT		Assessment Tool for the performance of Management and Directors is a work in progress
2. Board establishes an effective performance management framework that ensures that personnel's performance is at par with the standards set by the Board and Senior Management.			
Recommendation 2.10			

1. Board oversees that an appropriate internal control system is in place.	COMPLIANT	http://www.pncc.ph/ LINKS/PDFs/Audit Committee Charter.pdf	
2. The internal control system includes a mechanism for monitoring and managing potential conflict of interest of the Management, members and shareholders.	NON-COMPLIANT		Enhancement of Internal control system is a work in progress to include the mechanism for monitoring and managing potential conflict of interest of the Management, members and shareholders
3. Board approves the Internal Audit Charter.	COMPLIANT	http://www.pncc.ph/ LINKS/PDFs/Audit Committee Charter.pdf	
Recommendation 2.11			
1. Board oversees that the company has in place a sound enterprise risk management (ERM) framework to effectively identify, monitor, assess and manage key business risks.	NON-COMPLIANT		Risk Management Policy is a work in progress.
2. The risk management framework guides the board in identifying units/business lines and enterprise-level risk exposures, as well as the effectiveness of risk management strategies.	NON-COMPLIANT		Risk Management Policy is a work in progress.
Recommendation 2.12			
1. Board has a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary role.	NON-COMPLIANT		Board Charter is a work in progress, however, the adheres to the GCG's
2. Board Charter serves as a guide to the directors in the performance of their functions.			

3. Board Charter is publicly available and posted on the company's website.			
Additional Recommendation to Principle 2			
1. Board has a clear insider trading policy.	NON-COMPLIANT		Crafting of company's insider trading policy is a work in progress
Optional: Principle 2			
1. Company has a policy on granting loans to directors, either forbidding the practice or ensuring that the transaction is conducted at arm's length basis and at market rates.	NON-COMPLIANT		The company has no policy on granting loans to directors, either forbidding the practice or ensuring that the transaction is conducted at arm's length basis and at market rates
2. Company discloses the types of decision requiring board of directors' approval.	Optional Principle 2		Enhancement of Disclosure Policy is a work in progress
Principle 3: Board committees should be set up to the extent possible to support the effective performance of the Board's functions, particularly with respect to audit, risk management, related party transactions, and other key corporate governance concerns, such as nomination and remuneration. The composition, functions and responsibilities of all committees established should be contained in a publicly available Committee Charter.			
Recommendation 3.1			
1. Board establishes board committees that focus on specific board functions to aid in the optimal performance of its roles and responsibilities.	COMPLIANT	http://www.pncc.ph/cg_board_committees.htm	
Recommendation 3.2			
1. Board establishes an Audit Committee to enhance its oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.	COMPLIANT	http://www.pncc.ph/cg_board_committees.htm	

2. Audit Committee is composed of at least three appropriately qualified non-executive directors, the majority of whom, including the Chairman is independent.	NON-COMPLIANT		No ASM for 2017 thus no independent director has been elected. Chairman of the Audit Committee is not an independent Director.
3. All the members of the committee have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.	NON-COMPLIANT		
4. The Chairman of the Audit Committee is not the Chairman of the Board or of any other committee.	COMPLIANT	Chairman of Audit Committee is Mr. Mohamad Taha A. Guinomla http://www.pncc.ph/home_our_company_BOD.htm#Guinomla	
Supplement to Recommendation 3.2			
1. Audit Committee approves all non-audit services conducted by the external auditor.	COMPLIANT	Article 5.3.b.7 of Revised Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
2. Audit Committee conducts regular meetings and dialogues with the external audit team without anyone from management present.		Provide proof that the Audit Committee conducted regular meetings and dialogues with the external audit team without anyone from management present.	
Optional: Recommendation 3.2			
1. Audit Committee meet at least four times during the year.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/2017 Audit Committee Attendance.pdf	

2. Audit Committee approves the appointment and removal of the internal auditor.	COMPLIANT	Article 5.3.b.12 of Revised Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
Recommendation 3.3			
1. Board establishes a Corporate Governance Committee tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee.	COMPLIANT	Article 5.3.C of Revised Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf http://www.pncc.ph/cg_board_committees.htm	
2. Corporate Governance Committee is composed of at least three members, all of whom should be independent directors.	NON-COMPLIANT	http://www.pncc.ph/cg_board_committees.htm	There are no independent directors.
3. Chairman of the Corporate Governance Committee is an independent director.	NON-COMPLIANT		There are no independent directors.
Optional: Recommendation 3.3.			
1. Corporate Governance Committee meet at least twice during the year.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/2017 Corporate Governance Committee Attendance.pdf	
Recommendation 3.4			
1. Board establishes a separate Board Risk Oversight Committee (BROC) that should be responsible for the oversight of a company's Enterprise Risk Management	NON-COMPLIANT		No Board Risk Oversight Committee (BROC),

system to ensure its functionality and effectiveness.			
2. BROC is composed of at least three members, the majority of whom should be independent directors, including the Chairman.			
3. The Chairman of the BROC is not the Chairman of the Board or of any other committee.			
4. At least one member of the BROC has relevant thorough knowledge and experience on risk and risk management.			
Recommendation 3.5			
1. Board establishes a Related Party Transactions (RPT) Committee, which is tasked with reviewing all material related party transactions of the company.	NON-COMPLIANT		No Related Party Transactions (RPT) Committee
2. RPT Committee is composed of at least three non-executive directors, two of whom should be independent, including the Chairman.			
Recommendation 3.6			
1. All established committees have a Committee Charter stating in plain terms their respective purposes, memberships, structures, operations, reporting process, resources and other relevant information.	NON-COMPLIANT		Crafting of Committee Charter is a work in progress
2. Committee Charters provide standards for evaluating the performance of the Committees.			
3. Committee Charters were fully disclosed on the company's website.			

Principle 4: To show full commitment to the company, the directors should devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the corporation's business.

1. The Directors attend and actively participate in all meetings of the Board, Committees and shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission.	NON-COMPLIANT		Enhancement of relevant policies is a work in progress
2. The directors review meeting materials for all Board and Committee meetings.			
3. The directors ask the necessary questions or seek clarifications and explanations during the Board and Committee meetings.			

Recommendation 4.2

1. Non-executive directors concurrently serve in a maximum of five publicly-listed companies to ensure that they have sufficient time to fully prepare for minutes, challenge Management's proposals/views, and oversee the long-term strategy of the company.	NON-COMPLIANT		Enhancement of Disclosure Policies is a work in progress
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Recommendation 4.3

1. The directors notify the company's board before accepting a directorship in another company.	NON-COMPLIANT		Nothing to report
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Optional: Principle 4

1. Company does not have any executive directors who serve in more than two boards of listed companies outside of the group.	COMPLIANT	The President, Mario K. Espinosa being the sole executive director of the company is not a director of listed companies outside of the group.	
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2. Company schedules board of directors' meetings before the start of the financial year.	COMPLIANT	http://www.pncc.ph/cg_seal.htm	
3. Board of directors meet at least six times during the year.	COMPLIANT	http://www.pncc.ph/cg_seal.htm	
4. Company requires as minimum quorum of at least 2/3 for board decisions.	NON-COMPLIANT		Requires majority of directors
Principle 5: The board should endeavor to exercise an objective and independent judgment on all corporate affairs			
Recommendation 5.1			
1. The Board has at least 3 independent directors or such number as to constitute one-third of the board, whichever is higher.	NON-COMPLIANT		There is no independent directors
Recommendation 5.2			
1. The independent directors possess all the qualifications and none of the disqualifications to hold the positions.	NON-COMPLIANT		There is no independent directors
Supplement to Recommendation 5.2			
1. Company has no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently.	NON-COMPLIANT		There is no independent directors
Recommendation 5.3			
1. The independent directors serve for a cumulative term of nine years (reckoned from 2012).	NON-COMPLIANT		There is no independent directors

2. The company bars an independent director from serving in such capacity after the term limit of nine years.	NON-COMPLIANT		There is no independent directors
3. In the instance that the company retains an independent director in the same capacity after nine years, the board provides meritorious justification and seeks shareholders' approval during the annual shareholders' meeting.	NON-COMPLIANT		There is no independent directors
Recommendation 5.4			
1. The positions of Chairman of the Board and Chief Executive Officer are held by separate individuals.	COMPLIANT	The Chairman of the Board is Mr. Herculano C. Co, Jr. while the President and CEO is Mr. Mario K. Espinosa.	
2. The Chairman of the Board and Chief Executive Officer have clearly defined responsibilities.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Roles%20and%20Deliberables%20of%20Chairman%20&%20President.pdf	
Recommendation 5.5			
1. If the Chairman of the Board is not an independent director, the board designates a lead director among the independent directors.	COMPLIANT	No independent director has been elected in the Board.	
Recommendation 5.6			
1. Directors with material interest in a transaction affecting the corporation abstain from taking part in the deliberations on the transaction.	COMPLIANT	Nothing to report on case of material interest in transaction affecting the corporation by Directors	
Recommendation 5.7			
1. The non-executive directors (NEDs) have separate periodic meetings with the external auditor and heads of the internal	COMPLIANT	NED attended the COA Exit Conference, the President and CEO, the sole Executive Director in the	

audit, compliance and risk functions, without any executive present.		Board is not present during the meeting	
2. The meetings are chaired by the lead independent director.	NON-COMPLIANT		No independent Director has been elected in the Board.
Optional: Principle 5			
1. None of the directors is a former CEO of the company in the past 2 years.	COMPLIANT	Atty. Luis F. Sison was the President and CEO of PNCC from January 11, 2011 to January 16, 2017. Mr. Mario K. Espinosa is the incumbent President and CEO having been appointed on January 16, 2017.	
Principle 6: The best measure of the Board's effectiveness is through an assessment process. The Board should regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.			
Recommendation 6.1			
1. Board conducts an annual self-assessment of its performance as a whole.	NON-COMPLIANT		The Board is yet to craft its own Assessment Tool.
2. The Chairman conducts a self-assessment of his performance.			
3. The individual members conduct a self-assessment of their performance.			
4. Each committee conducts a self-assessment of its performance.			
5. Every three years, the assessments are supported by an external facilitator.	NON-COMPLIANT		The Board is yet to craft its own Assessment Tool.

Recommendation 6.2			
1. Board has in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, individual directors and committees.	NON-COMPLIANT		The Board is yet to craft its own Assessment Tool.
2. The system allows for a feedback mechanism from the shareholders.	COMPLIANT	http://www.pncc.ph/feedback/ContactForm.htm	
Principle 7: Members of the Board are duty-bound to apply high ethical standards, taking into account the interests of all stakeholders.			
Recommendation 7.1			
1. Board adopts a Code of Business Conduct and Ethics, which provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings of the company.	COMPLIANT	http://www.pncc.ph/cg_cced.htm	
2. The Code is properly disseminated to the Board, senior management and employees.	COMPLIANT	The Code has been disseminated to all employees during their orientation as newly hired employees, while the Directors were given copies of Manual on Corporate Governance as this applies to them. Both were uploaded in the company website for ready access of all.	
3. The Code is disclosed and made available to the public through the company website.	COMPLIANT	http://www.pncc.ph/cg_cced.htm	
Supplement to Recommendation 7.1			
1. Company has clear and stringent policies and procedures on curbing and penalizing	COMPLIANT	http://www.pncc.ph/cg_cced.htm	

company involvement in offering, paying and receiving bribes.			
Recommendation 7.2			
1. Board ensures the proper and efficient implementation and monitoring of compliance with the Code of Business Conduct and Ethics.	NON-COMPLIANT		Crafting of policy on implementation and monitoring of compliance with the Code of Business Conduct and Ethics is a work in progress
2. Board ensures the proper and efficient implementation and monitoring of compliance with company internal policies.			
Disclosure and Transparency			
Principle 8: The company should establish corporate disclosure policies and procedures that are practical and in accordance with best practices and regulatory expectations.			
Recommendation 8.1			
1. Board establishes corporate disclosure policies and procedures to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders that gives a fair and complete picture of a company's financial condition, results and business operations.	NON-COMPLIANT		Corporate Disclosure Policies is a work in progress
Supplement to Recommendations 8.1			
1. Company distributes or makes available annual and quarterly consolidated reports, cash flow statements, and special audit revisions. Consolidated financial statements are published within ninety (90) days from the end of the fiscal year, while interim reports are published within forty-five (45) days from the end of the reporting period.	NON-COMPLIANT		The Audited Financial Statements for the year 2017 is not available yet as of filing of this report.

2. Company discloses in its annual report the principal risks associated with the identity of the company's controlling shareholders; the degree of ownership concentration; cross-holdings among company affiliates; and any imbalances between the controlling shareholders' voting power and overall equity position in the company.			
Recommendation 8.2			
1. Company has a policy requiring all directors to disclose/report to the company any dealings in the company's shares within three business days.	NON-COMPLIANT		The Disclosure Policies is a work in progress.
2. Company has a policy requiring all officers to disclose/report to the company any dealings in the company's shares within three business days.			
Supplement to Recommendation 8.2			
1. Company discloses the trading of the corporation's shares by directors, officers (or persons performing similar functions) and controlling shareholders. This includes the disclosure of the company's purchase of its shares from the market (e.g. share buy-back program).	NON-COMPLIANT		Nothing to report because the trading of Corporation's shares was suspended by the PSE since 2008.
Recommendation 8.3			
1. Board fully discloses all relevant and material information on individual board members to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.	COMPLIANT	http://www.pncc.ph/home_our_company_BOD.htm	

2. Board fully discloses all relevant and material information on key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.	COMPLIANT	http://www.pncc.ph/home_our_company_MANCOM.htm http://www.pncc.ph/LINKS/PDFs/Public%20Ownership%202017%204Q.pdf	
Recommendation 8.4			
1. Company provides a clear disclosure of its policies and procedure for setting Board remuneration, including the level and mix of the same.	COMPLIANT	file:///C:/Users/PNCC/Downloads/Remuneration%20Policy%20and%20Structure%20for%20Executive%20and%20Non.pdf	
2. Company provides a clear disclosure of its policies and procedure for setting executive remuneration, including the level and mix of the same.	NON-COMPLIANT		The Policy and Procedure for setting executive remuneration is a work in progress.
3. Company discloses the remuneration on an individual basis, including termination and retirement provisions.	NON-COMPLIANT		Remuneration of the Board is disclosed in the Annual Report. The Company has not submitted the 2017 Annual Report due to unavailability of the 2017 Audited Financial Statements.
Recommendation 8.5			
1. Company discloses its policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions in their Manual on Corporate Governance.	NON-COMPLIANT		Enhancement of policies governing RPT is a work in progress
2. Company discloses material or significant RPTs reviewed and approved during the year.	NON-COMPLIANT		The information on all RPTs is being disclosed in the Annual Report, however, Annual Report for 2017 is not yet filed due to unavailability of the Audited Financial Statements.

Supplement to Recommendation 8.5			
1. Company requires directors to disclose their interests in transactions or any other conflict of interests.	NON-COMPLIANT		The drafting of Policy on Disclosures is a work in progress.
Optional : Recommendation 8.5			
1. Company discloses that RPTs are conducted in such a way to ensure that they are fair and at arms' length.	NON-COMPLIANT		The information on all RPTs is being disclosed in the Annual Report, however, Annual Report for 2017 is not yet filed due to unavailability of the Audited Financial Statements.
Recommendation 8.6			
1. Company makes a full, fair, accurate and timely disclosure to the public of every material fact or event that occur, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders.	COMPLIANT	http://www.pncc.ph/SEC_Filings_AR_2017.htm	
2. Board appoints an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.	COMPLIANT	The appointment of independent party to evaluate the fairness of the transaction price is being done by bidding pursuant to Asset Disposal Procedure. See attached procedure. (Annex "C")	
Supplement to Recommendation 8.6			
1. Company discloses the existence, justification and details on shareholder agreements, voting trust agreements, confidentiality agreements, and such other agreements that may impact on the control, ownership, and strategic direction of the company.	NOT COMPLIANT		The information is being disclosed in the Annual Report, however, Annual Report for 2017 is not yet filed due to unavailability of the Audited Financial Statements.

Recommendation 8.7			
1. Company's corporate governance policies, programs and procedures are contained in its Manual on Corporate Governance (MCG).	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
2. Company's MCG is submitted to the SEC and PSE.			
3. Company's MCG is posted on its company website.			
Supplement to Recommendation 8.7			
1. Company submits to the SEC and PSE an updated MCG to disclose any changes in its corporate governance practices.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
Optional: Principle 8			
1. Does the company's Annual Report disclose the following information:	NON-COMPLIANT		The Company has not submitted the 2017 Annual Report due to unavailability of the 2017 Audited Financial Statements.
a. Corporate Objectives			
b. Financial performance indicators			
c. Non-financial performance indicators			
d. Dividend Policy			

e. Biographical details (at least age, academic qualifications, date of first appointment, relevant experience, and other directorships in listed companies) of all directors			
f. Attendance details of each director in all directors meetings held during the year			
g. Total remuneration of each member of the board of directors			
2. The Annual Report contains a statement confirming the company's full compliance with the Code of Corporate Governance and where there is non-compliance, identifies and explains reason for each such issue.	NON-COMPLIANT		The Company has not submitted the 2017 Annual Report due to unavailability of the 2017 Audited Financial Statements.
3. The Annual Report/Annual CG Report discloses that the board of directors conducted a review of the company's material controls (including operational, financial and compliance controls) and risk management systems.			
4. The Annual Report/Annual CG Report contains a statement from the board of directors or Audit Committee commenting on the adequacy of the company's internal controls/risk management systems.			
5. The company discloses in the Annual Report the key risks to which the company is materially exposed to (i.e. financial, operational including IT, environmental, social, economic).			

Principle 9: The company should establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

Recommendation 9.1

1. Audit Committee has a robust process for approving and recommending the appointment, reappointment, removal, and fees of the external auditors.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	
2. The appointment, reappointment, removal, and fees of the external auditor is recommended by the Audit Committee, approved by the Board and ratified by the shareholders.	NON-COMPLIANT		No stockholders meeting for 2017.
3. For removal of the external auditor, the reasons for removal or change are disclosed to the regulators and the public through the company website and required disclosures.	NON-COMPLIANT		The appointment and removal of External Auditor is beyond the control of the company being a GOCC, COA is the statutory auditor.
Supplement to Recommendation 9.1			
1. Company has a policy of rotating the lead audit partner every five years.	NON-COMPLIANT		The appointment and removal of External Auditor is beyond the control of the company being a GOCC, COA is the statutory auditor.

Recommendation 9.2

1. Audit Committee Charter includes the Audit Committee's responsibility on: i. assessing the integrity and independence of external auditors; ii. exercising effective oversight to review and monitor the external auditor's independence and objectivity; and iii. exercising effective oversight to review and monitor the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	
2. Audit Committee Charter contains the Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	

Supplement to Recommendations 9.2

1. Audit Committee ensures that the external auditor is credible, competent and has the ability to understand complex related party transactions, its counterparties, and valuations of such transactions.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	
2. Audit Committee ensures that the external auditor has adequate quality control procedures.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	

Recommendation 9.3			
1. Company discloses the nature of non-audit services performed by its external auditor in the Annual Report to deal with the potential conflict of interest.	NON-COMPLIANT		The Company has not submitted the 2017 Annual Report due to unavailability of the 2017 Audited Financial Statements
2. Audit Committee stays alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	
Supplement to Recommendation 9.3			
1. Fees paid for non-audit services do not outweigh the fees paid for audit services.	COMPLIANT	No fees paid for non-audit services	
Additional Recommendation to Principle 9			
1. Company's external auditor is duly accredited by the SEC under Group A category.	COMPLIANT	The company is GOCC thus the statutory Auditor is COA.	
2. Company's external auditor agreed to be subjected to the SEC Oversight Assurance Review (SOAR) Inspection Program conducted by the SEC's Office of the General Accountant (OGA).			

Principle 10: The company should ensure that the material and reportable non-financial and sustainability issues are disclosed.			
Recommendation 10.1			
1. Board has a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social and governance (EESG) issues of its business, which underpin sustainability.	NON-COMPLIANT		Drafting of Disclosure Policies is a work in progress
2. Company adopts a globally recognized standard/framework in reporting sustainability and non-financial issues.	NON-COMPLIANT		The Company is yet to adopt a globally recognized standard/framework in reporting sustainability and non-financial issues.
Principle 11: The company should maintain a comprehensive and cost-efficient communication channel for disseminating relevant information. This channel is crucial for informed decision-making by investors, stakeholders and other interested users.			
Recommendation 11.1			
1. Company has media and analysts' briefings as channels of communication to ensure the timely and accurate dissemination of public, material and relevant information to its shareholders and other investors.	COMPLIANT	Page 19 OF FOI MANUAL http://www.pncc.ph/LINKS/PDFs/PNCC%20FOI%20Manual.pdf	
Supplemental to Principle 11			
1. Company has a website disclosing up-to-date information on the following:	COMPLIANT	www.pncc.ph	
a. Financial statements/reports (latest quarterly)			

b. Materials provided in briefings to analysts and media			
c. Downloadable annual report			
d. Notice of ASM and/or SSM			
e. Minutes of ASM and/or SSM			
f. Company's Articles of Incorporation and By-Laws			
Additional Recommendation to Principle 11			
1. Company complies with SEC-prescribed website template.	COMPLIANT	www.pncc.ph	
Internal Control System and Risk Management Framework			
Principle 12: To ensure the integrity, transparency and proper governance in the conduct of its affairs, the company should have a strong and effective internal control system and enterprise risk management framework.			
Recommendation 12.1			
1. Company has an adequate and effective internal control system in the conduct of its business.	NON-COMPLIANT	http://www.pncc.ph/LINKS/PDFs/Audit%20Committee%20Charter.pdf	
2. Company has an adequate and effective enterprise risk management framework in the conduct of its business.	NON-COMPLIANT		Drafting of enterprise risk management framework is a work in progress

Supplement to Recommendations 12.1			
1. Company has a formal comprehensive enterprise-wide compliance program covering compliance with laws and relevant regulations that is annually reviewed. The program includes appropriate training and awareness initiatives to facilitate understanding, acceptance and compliance with the said issuances.	NON-COMPLIANT		No comprehensive enterprise-wide compliance program in place.
Optional: Recommendation 12.1			
1. Company has a governance process on IT issues including disruption, cyber security, and disaster recovery, to ensure that all key risks are identified, managed and reported to the board.	NON-COMPLIANT		Crafting of Governance Process on IT issues is a work in progress
Recommendation 12.2			
1. Company has in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the company's operations.	COMPLIANT	Internal Audit is in-house.	
Recommendation 12.3			
1. Company has a qualified Chief Audit Executive (CAE) appointed by the Board.	COMPLIANT	The Company has appointed Atty. Francisco Domingo Pascua Salazar as Internal Auditor, being the sole personnel in the Internal audit Department, he acts as CAE.	
2. CAE oversees and is responsible for the internal audit activity of the organization, including that portion that is outsourced to a third party service provider.			

3. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel is assigned the responsibility for managing the fully outsourced internal audit activity.	NON-COMPLIANT		Not applicable
Recommendation 12.4			
1. Company has a separate risk management function to identify, assess and monitor key risk exposures.	NON-COMPLIANT		No separate risk management function had been set up by the company. The Board Audit Committee identifies, assesses and monitors key risk exposures.
Supplement to Recommendation 12.4			
1. Company seeks external technical support in risk management when such competence is not available internally.	NON-COMPLIANT		No separate risk management function had been set up by the company. The Board Audit Committee identifies, assesses and monitors key risk exposures.
Recommendation 12.5			
1. In managing the company's Risk Management System, the company has a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM).	NON-COMPLIANT	The Company has no CRO.	
2. CRO has adequate authority, stature, resources and support to fulfill his/her responsibilities.			
Additional Recommendation to Principle 12			
1. Company's Chief Executive Officer and Chief Audit Executive attest in writing, at least annually, that a sound internal audit, control and compliance system is in place and working effectively.	NON-COMPLIANT		

Cultivating a Synergic Relationship with Shareholders

Principle 13: The company should treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

Recommendation 13.1

1. Board ensures that basic shareholder rights are disclosed in the Manual on Corporate Governance.	COMPLIANT	Article 8 of Revised Manual on Corporate Governance http://www.pncc.ph/LINKS/PDFs/AMENDED%20REVISED%20MANUAL%20ON%20CORPORATE%20GOVERNANCE%20MANUAL%202017.pdf	
2. Board ensures that basic shareholder rights are disclosed on the company's website.	COMPLIANT	http://www.pncc.ph/cg_company_policies.htm	

Supplement to Recommendation 13.1

1. Company's common share has one vote for one share.	COMPLIANT	Section 4.05 of Amended By-Laws http://www.pncc.ph/LINKS/PDFs/PNCC%20By-Laws.pdf	
2. Board ensures that all shareholders of the same class are treated equally with respect to voting rights, subscription rights and transfer rights.	COMPLIANT	Page 7-9 of Amended Articles of Incorporation http://www.pncc.ph/LINKS/PDFs/Amended%20Articles%20of%20Incorporation%2021November2016.pdf	
3. Board has an effective, secure, and efficient voting system.	COMPLIANT	http://www.pncc.ph/cg_company_policies.htm	
4. Board has an effective shareholder voting mechanisms such as supermajority or "majority of minority" requirements to protect minority shareholders against actions of controlling shareholders.	COMPLIANT	Section 4.05 of Amended By-Laws http://www.pncc.ph/LINKS/PDFs/PNCC%20By-Laws.pdf	

5. Board allows shareholders to call a special shareholders' meeting and submit a proposal for consideration or agenda item at the AGM or special meeting.	COMPLIANT	Section 4.02 of Amended By-Laws http://www.pncc.ph/LINKS/PDFs/PNCC%20By-Laws.pdf	
6. Board clearly articulates and enforces policies with respect to treatment of minority shareholders.	COMPLIANT	http://www.pncc.ph/cg_company_policies.htm	
7. Company has a transparent and specific dividend policy.	COMPLIANT	http://www.pncc.ph/cg_company_policies.htm	
Optional: Recommendation 13.1			
1. Company appoints an independent party to count and/or validate the votes at the Annual Shareholders' Meeting.	COMPLIANT	COA being the statutory auditor of the company is appointed as independent party to count and/or validate the votes at the ASM.	
Recommendation 13.2			
1. Board encourages active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least 28 days before the meeting.	NON-COMPLIANT		No ASM was held in 2017

Supplemental to Recommendation 13.2			
1. Company's Notice of Annual Stockholders' Meeting contains the following information:	NON-COMPLIANT		No ASM was held in 2017
a. The profiles of directors (i.e., age, academic qualifications, date of first appointment, experience, and directorships in other listed companies)			
b. Auditors seeking appointment/re-appointment			
c. Proxy documents			
Optional: Recommendation 13.2			
1. Company provides rationale for the agenda items for the annual stockholders meeting	NON-COMPLIANT		No ASM was held in 2017
Recommendation 13.3			
1. Board encourages active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/2016%2010October%2020%2017-C%20Result%20of%20Stockholders%20Meeting.pdf	
2. Minutes of the Annual and Special Shareholders' Meetings were available on the company website within five business days from the end of the meeting.	COMPLIANT	http://www.pncc.ph/LINKS/PDFs/2016%2010October%2020%2017-C%20Result%20of%20Stockholders%20Meeting.pdf	
Supplement to Recommendation 13.3			

1. Board ensures the attendance of the external auditor and other relevant individuals to answer shareholders questions during the ASM and SSM.	NON-COMPLIANT		No ASM was held in 2017
Recommendation 13.4			
1. Board makes available, at the option of a shareholder, an alternative dispute mechanism to resolve intra-corporate disputes in an amicable and effective manner.	COMPLIANT	http://www.pncc.ph/cg_company_policies.htm	
2. The alternative dispute mechanism is included in the company's Manual on Corporate Governance.	COMPLIANT	Provide link/reference to where it is found in the Manual on Corporate Governance	
Recommendation 13.5			
1. Board establishes an Investor Relations Office (IRO) to ensure constant engagement with its shareholders.	COMPLIANT	http://www.pncc.ph/ir_investor_relations_program.htm	
2. IRO is present at every shareholder's meeting.	NON-COMPLIANT		No ASM held in 2017
Supplemental Recommendations to Principle 13			
1. Board avoids anti-takeover measures or similar devices that may entrench ineffective management or the existing controlling shareholder group	NON-COMPLIANT		Crafting of Procedure on Anti-takeover measures or similar devices is a work in progress
2. Company has at least thirty percent (30%) public float to increase liquidity in the market.	NON-COMPLIANT		http://www.pncc.ph/LINKS/PDFs/Public%20Ownership%202017%204Q.pdf As of December 31, 2017 Total number of Shares owned by public is 22,902,177 or 13.12%

Optional: Principle 13			
1. Company has policies and practices to encourage shareholders to engage with the company beyond the Annual Stockholders' Meeting	NON-COMPLIANT		Crafting of policies and practices to encourage shareholders to engage with the company beyond the Annual Stockholders' Meeting is a work in progress
2. Company practices secure electronic voting in absentia at the Annual Shareholders' Meeting.	NON-COMPLIANT		Crafting of Company practices secure electronic voting in absentia at the Annual Shareholders' Meeting is a work in progress
Duties to Stakeholders			
Principle 14: The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders should have the opportunity to obtain prompt effective redress for the violation of their rights.			
Recommendation 14.1			
1. Board identifies the company's various stakeholders and promotes cooperation between them and the company in creating wealth, growth and sustainability.	NON-COMPLIANT		Crafting of policies and programs for its stakeholders is a work in progress
Recommendation 14.2			
1. Board establishes clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.	NON-COMPLIANT		Crafting of policies and programs to provide a mechanism on the fair treatment and protection of stakeholders is a work in progress
Recommendation 14.3			
1. Board adopts a transparent framework and process that allow stakeholders to communicate with the company and to obtain redress for the violation of their rights.	COMPLIANT	http://www.pncc.ph/contact_us.htm	

Supplement to Recommendation 14.3			
1. Company establishes an alternative dispute resolution system so that conflicts and differences with key stakeholders is settled in a fair and expeditious manner.	NON-COMPLIANT		Crafting of alternative dispute resolution system so that conflicts and differences with key stakeholders is a work in progress
Additional Recommendations to Principle 14			
1. Company does not seek any exemption from the application of a law, rule or regulation especially when it refers to a corporate governance issue. If an exemption was sought, the company discloses the reason for such action, as well as presents the specific steps being taken to finally comply with the applicable law, rule or regulation.	NON-COMPLIANT		Nothing to report
2. Company respects intellectual property rights.	NON-COMPLIANT		On-going review of licenses on software deployed in the company
Optional: Principle 14			
1. Company discloses its policies and practices that address customers' welfare	NON-COMPLIANT		policies, programs and practices that address customers' welfare is a work in progress
2. Company discloses its policies and practices that address supplier/contractor selection procedures	COMPLIANT	See attached procedure and policy (Annex "D")	

Principle 15: A mechanism for employee participation should be developed to create a symbiotic environment, realize the company's goals and participate in its corporate governance processes.

Recommendation 15.1

1. Board establishes policies, programs and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance.	NON-COMPLIANT		Crafting of policies, programs and procedures that encourage employees to actively participate in the realization of the company's goals and in its governance is a work in progress
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Supplement to Recommendation 15.1

1. Company has a reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.	NON-COMPLIANT		No reward/compensation policy is in place.
2. Company has policies and practices on health, safety and welfare of its employees.	COMPLIANT	http://www.pncc.ph/cg_company_policies.htm	
3. Company has policies and practices on training and development of its employees.	NON-COMPLIANT		4. Crafting of policies and practices on training and development of its employees is a work in progress

Recommendation 15.2

1. Board sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct.	COMPLIANT	http://www.pncc.ph/cg_cced.htm	
2. Board disseminates the policy and program to employees across the organization through trainings to embed them in the company's culture.	COMPLIANT	Policies and program were discussed during orientation program of newly-hired employees. It is posted in the company website for ready access of all employees.	


Supplement to Recommendation 15.2

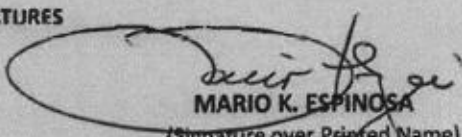
1. Company has clear and stringent policies and procedures on curbing and penalizing employee involvement in offering, paying and receiving bribes.	COMPLIANT	http://www.pncc.ph/cg_cced.htm	
Recommendation 15.3			
1. Board establishes a suitable framework for whistleblowing that allows employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation	COMPLIANT	http://www.pncc.ph/contact_us.htm	
2. Board establishes a suitable framework for whistleblowing that allows employees to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.	NON-COMPLIANT		Enhancement on policy and procedures on whistle blowing is a work in progress
3. Board supervises and ensures the enforcement of the whistleblowing framework.	NON-COMPLIANT		Enhancement on policy and procedures on whistle blowing is a work in progress
Principle 16: The company should be socially responsible in all its dealings with the communities where it operates. It should ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.			
Recommendation 16.1			
1. Company recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that allows the company to grow its business, while contributing to the advancement of the society where it operates.	NON-COMPLIANT		Since the suspension of operations of PNCC Foundation, Inc., the Corporate Social Responsibility arm of PNCC and responsible for addressing the CSR of the corporation, community involvement and environmental-related programs have been put on hold. However, PNCC has maintained corporate social responsibility initiatives, although not in the level previously undertaken.

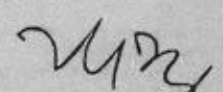
Optional: Principle 16			NON-COMPLIANT		Crafting of Corporate Social Responsibility Policy is a work in progress to include the promotion of sustainable development and positive interaction with communities
1.	Company ensures that its value chain is environmentally friendly or is consistent with promoting sustainable development				
2.	Company exerts effort to interact positively with the communities in which it operates				

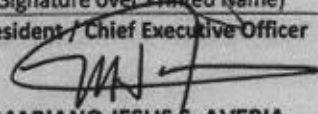
Pursuant to the requirement of the Securities and Exchange Commission, this Integrated Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Parañaque City on May 30, 2018.

SIGNATURES


HERCULANO C. CO, JR.
(Signature over Printed Name)
Chairman of the Board


MARIO K. ESPINOSA
(Signature over Printed Name)
President / Chief Executive Officer


REY NATHANIEL C. IFURUNG
(Signature over Printed Name)
Compliance Officer


MARIANO JESUS S. AVERIA
(Signature over Printed Name)

Corporate Secretary

No stockholders' meeting was held in 2017 thus no Independent Director had been elected.

MAY 30 2018

SUBSCRIBED AND SWORN to before me this _____ day of _____ 20____, affiant(s) exhibiting to me their government issued ID, as follows:

NAME	GOVT ID NO	DATE OF ISSUE	PLACE OF ISSUE
HERCULANO C. CO, JR.	DL#NO7-77-014601	11/24/2017	MANILA
MARIO K. ESPINOSA	SSS ID No. 08-0186862-8		QUEZON CITY
REY NATHANIEL C. IFURUNG	DL#N11-033432		MANILA
MARIANO JESUS S. AVERIA	DL#N02-95-262906		QUEZON CITY

TAGUIG CITY

NOTARY PUBLIC

ATTY. JESUS F. APUYOD

Appointment No. 1 (2018-2019)

Notary Public for Taguig,

Until December 31, 2019

8140 Gen. Santos Ave., Lower Bicutan, Taguig City

Roll No. 572661

PTR No. A-26 562 / 3 Jan. 2018 / Taguig City

IBP Lifetime No. 012164 / RSM Chapter

MCLE Compliance No. V-0021570 / 16 May 2016

Doc No. 30
Page No. 19
Book No. 6
Series of 908



**Institute of
Corporate Directors**

presents this

Certificate of Participation

to

**Atty. Rey Nathaniel C.
Ifurung**

Philippine National Construction Corporation

for having participated in

**Corporate Governance
Orientation Program for GOCCs**

held on the

21st of February 2018 at

Ascott, Bonifacio Global City, Taguig, Philippines

Alfredo E. Pascual
Chief Executive Officer



GOVERNANCE COMMISSION

3/F. Cebu City Center 3rd Floor, The Biscuit Tower, Cebu, Philippines 6000



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22 DEC 2017

HERCULANO C. CO, JR.

Chairman

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION (PNCC)

Km. 15 East Service Road, Bicutan

Parañaque City

ACKNOWLEDGEMENT RECEIPT

LETTER 20 Dec 2017
DATE:

RE: **SUBMISSION OF PNCC CHARTER STATEMENT AND
STRATEGY MAP AND THE PROPOSED SUMMARY OF
AGREEMENTS FOR FY 2018-2020**

The said document was officially received by the Governance Commission on 22 December 2017 and has been forwarded to the responsible GCG Officer for appropriate action.

To follow-up for further action on the document, you may contact us through telephone numbers 328-2030 to 34. Please cite the GCG Document Management System (DMS) Barcode Number: 0-1049-22-12-2017-030054.

THIS RECEIPT IS COMPUTER GENERATED AND DOES NOT REQUIRE SIGNATURE.

Received by:

GCG INFORMATION MANAGEMENT SECTION
22 December 2017, 10:55am

Miguel J. J. J.
12-22-17



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

2017 IACGR ANNEX "B"

20 December 2017

HON. SAMUEL G. DAGPIN, JR.

Chairman

Governance Commission for Government
Owned and Controlled Corporations
3/F Citibank Center, 8741 Paseo De Roxas
Makati City



RE : **SUMMARY OF AGREEMENTS**

Dear Chairman Dagpin,

Pursuant to Performance Evaluation System for the GOCC Sector (GCG 2013-02), submitting herewith the Charter Statement and Strategy Map and the Proposed Summary of Agreements of Philippine National Construction Corporation (PNCC) for FY 2018-2020.

PNCC has formed its Technical Working Group (TWG) to work with your technical panel to negotiate the Performance Agreements and its corresponding scorecard. You may contact our Corporate Secretary, Atty. Mariano Jesus Averia at 846-2906 or email at mjsaveria@gmail.com for the schedule of negotiation meeting/s.

May you find our submission in order.

Very truly yours,

HERCULANO C. CO, JR.
Chairman

PNCC STRATEGY MAP



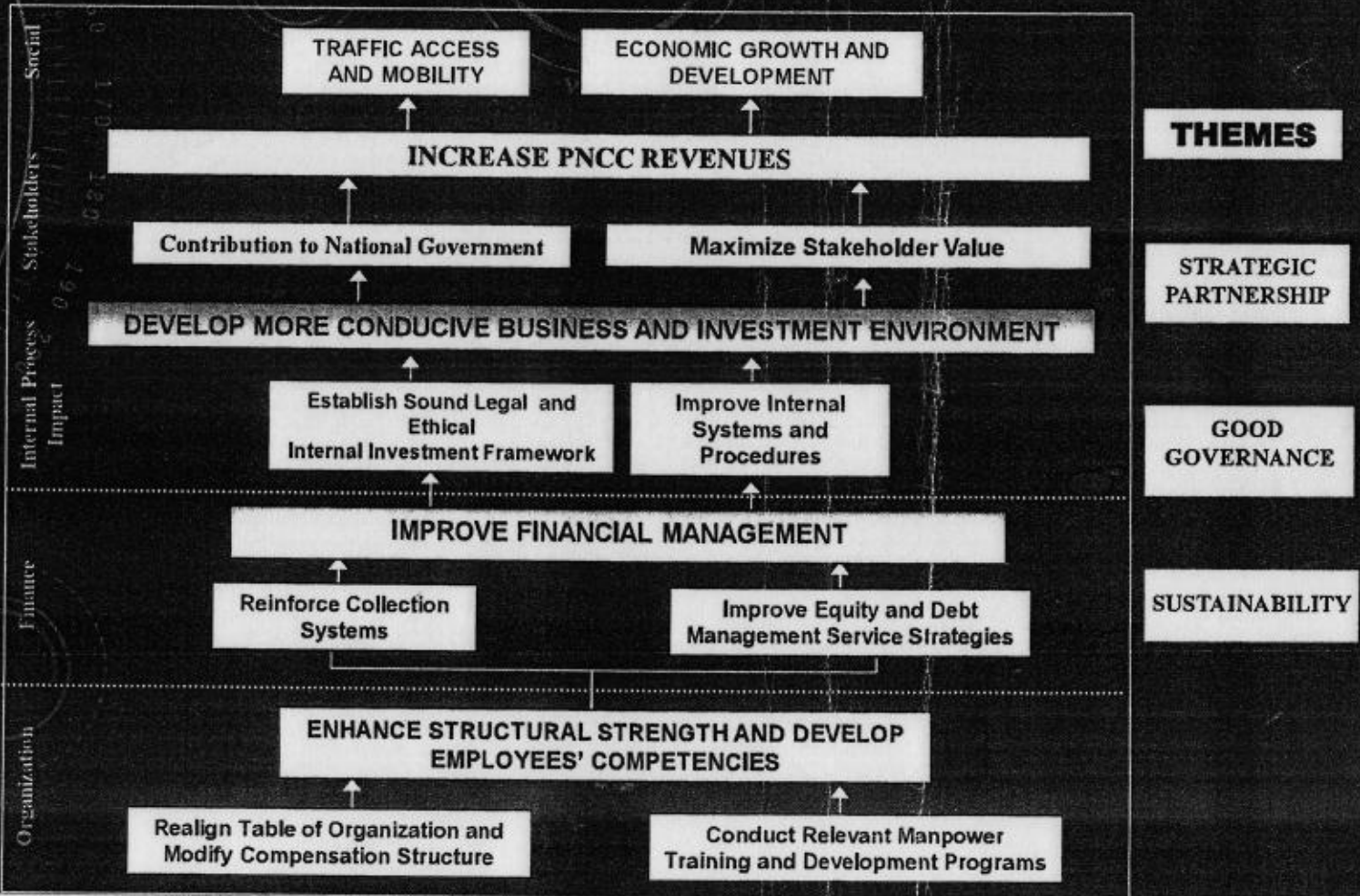
MISSION:

To enhance the capabilities of PNCC in the tollroad business and property investment to ensure financial recovery.

CORE VALUES

Professionalism
Integrity
Commitment
Innovation
Excellence
Loyalty

VISION: By 2020, PNCC would have achieved financial viability as an effective and capable partner of the government in tollroad and other related infrastructure development.



SUMMARY OF AGREEMENTS
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
2018

Vision : By 2020, PNCC would have achieved financial viability as an effective and capable partner of the government in tollroad and other related infrastructure development.

		TWG AGREEMENT				Comments / Recommendation	
		Component					
		Baseline 2017	Target				
			2018	2019	2020		
INCREASE PNCC REVENUES							
SOCIAL IMPACT	SO 1	Contribute to Economic Growth & Development					
	SM 1	Construction and development of PAREx	Exploration undertaking of the project based on provisions of the terms of Memorandum of Understanding (MOU) valid until April 2018	<ul style="list-style-type: none">• Enter into Memorandum of Agreement (MOA) with proponent for construction and development of project;• Negotiation of economic terms with selected proponent;	<ul style="list-style-type: none">• Continue negotiation of economic terms with selected proponent• Submission of Joint Investment Proposal (JIP) to Toll Regulatory Board (TRB)	<ul style="list-style-type: none">• Seek TRB approval of JIP• Seek TRB & Office of the President (OP) approval of Joint Venture Agreement (JVA)• TRB & OP approval of Supplemental Toll Operations Agreement (STOA)	
	SM 2	Construction and development of Lucena to Matnog Expressway	Exploration undertaking of the project based on provisions of the terms of MOU valid until April 2018	<ul style="list-style-type: none">• Enter into MOA with proponent for construction and development of project;• Negotiation of economic terms with selected proponent;	<ul style="list-style-type: none">• Continue negotiation of economic terms with selected proponent• Submission of joint investment proposal to TRB	<ul style="list-style-type: none">• Seek TRB approval of JIP• Seek TRB & OP approval of JVA• Seek TRB & OP approval of STOA	
	SM 3	Construction and development of Subic to Davao Expressway	Presentation to the Board	<ul style="list-style-type: none">• Exploration of prospective proponent for the construction and development of the project	<ul style="list-style-type: none">• Enter into MOU with proponent for construction and development of project;• Exploration of undertaking of the project based on provisions of the terms of MOU	<ul style="list-style-type: none">• Enter into MOA with proponent for construction and development of the project• Negotiation of economic terms with selected proponent• Submission of JIP to TRB	
	SO 2	Enhance Mobility of People and Commerce					
	SM 4	Increase Annual Average Daily traffic (no. of vehicles that will	On-going construction	Segmental completion of Stage 3	Segmental completion of Stage 3	Completion of project, start of operation	In close coordination with Joint Venture Partner

SUMMARY OF AGREEMENTS
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
2018

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			TWG AGREEMENT				Comments / Recommendation
			Component				
			Baseline 2017	Target			
				2018	2019	2020	
		benefit from Buendia to Plaza Dilao)					
	SM 5	Increase Annual Average Traffic (no. of vehicles that will benefit from FTI/Bicutan)	Right of Way (ROW) Acquisition by Department of Public Works and Highways (DPWH)	Monitoring on ROW acquisition	Monitoring on ROW acquisition	Monitoring on ROW acquisition	Dependent on the development of ROW acquisition
DEVELOP CONDUCTIVE BUSINESS ENVIRONMENT / CLIMATE							
STAKEHOLDER	SO 3	Maximize Stakeholder Value					
	SM 6	Increase in rental revenue	₱ 96.8Million rental revenue (as of 3rdQ)	Increase in rental rate / additional lessees	Increase in rental rate / additional lessees	Increase in rental rate / additional lessees	Maximize real property values
	SM 7	Enter into joint venture agreement to develop real properties	Assessment and re-evaluation of real properties	Exploration of Joint venture opportunities for the development of Bicutan Property and other clean titled properties	Continue exploration of Joint venture opportunities for the development of Bicutan Property and other clean titled properties	Continue exploration of Joint venture opportunities for the development of Bicutan Property and other clean titled properties	Maximize real property values
	SO 4	Establish Sound Legal and Ethical Internal Investment Framework					
INTERNAL PROCESS	SM 8	Expansion of P.D. 1894	Presentation to the Board of draft of the proposed bill	<ul style="list-style-type: none">Approval of the Board of the proposed billSubmission of proposed bill to CongressSeek sponsorship of the bill	Seek Congress approval	Seek Senate approval and Office of the President approval	
	SM 9	Establish comprehensive technical working framework involving business development operations	<ul style="list-style-type: none">Creation of Technical Working GroupConduct research	<ul style="list-style-type: none">Continue researchInter-agency consultationApproval of the Board	Implementation guidelines and continuous enhancement	Implementation guidelines and continuous enhancement	Provide transparency and certainty as to PNCC's dealing with prospective investors and partners

2017 IACGR ANN

SUMMARY OF AGREEMENTS
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
2018

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		TWG AGREEMENT				Comments / Recommendation	
		Component					
		Baseline 2017	Target		2020		
			2018	2019			
FINANCIAL	SO 5	Improve Internal Systems & Procedures					
	SM 10	Establish a clear-cut on communication with all the corporation's shareholders	No stockholders' meeting for 2017	Conduct of Annual Stockholders' Meeting pursuant to By-Laws	Conduct of Annual Stockholders' Meeting		
	IMPROVE FINANCIAL MANAGEMENT						
	SO 6	Reinforce Collection System					
	SM 11	Pursue collection of receivables (won cases)	Receivables with final judgement	Initiate appropriate legal action to collect monetary award in cases decided with finality, and ensure that at least 10% of the receivables have been collected	Pursue collection of the remaining receivables (monetary award)	Pursue collection of the remaining receivables (monetary award)	Most of the cases won against another GOCC / Government Agency requires passing through related agencies procedures (i.e. COA, GAAC)
	SO 7	Improve Equity and debt Management Service Strategies					
	SM 12	Conversion of debt-to-equity	Initial meeting with PMO; take off of negotiation on 2007 Privatization Council approval.	<ul style="list-style-type: none">Follow through Memorandum Appeal to Office of the PresidentSeek immediate approval of OP	<ul style="list-style-type: none">Seek approval of the Office of the PresidentStockholders' approval on increase of capital stocks to accommodate the conversion of ₱5.5 billion debt-to-equity	<ul style="list-style-type: none">Seek SEC approval on increase of capital stocks, issuance of stock certificate to NG	Dependent on amicable settlement with PMO to fast track resolution of the issue
	ENHANCE STRUCTURAL STRENGTH AND DEVELOP EMPLOYEE'S COMPETENCIES						
	SO 8	Conduct relevant manpower training and development programs					
ORGANIZATION	SM 13	Re-evaluation of existing Table of Organization (TO)	Filling up of vacant positions	Hiring of additional manpower based on new business programs and projects	Hiring of additional manpower based on new business programs and projects	Hiring of additional manpower based on new business programs and projects	PNCC to anticipate operations full manpower staffing
	SM 14	Develop training program for employees	<ul style="list-style-type: none">Managerial training on Strategic ManagementGood Governance Training	<ul style="list-style-type: none">Implementation of GAD-related programsReorientation ProgramsValues Formation	<ul style="list-style-type: none">Continue Reorientation Programs / Values Formation / Morale,	Re-enforce competency development training program (managerial and supervisory)	

SUMMARY OF AGREEMENTS
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
2018

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			TWG AGREEMENT				
			Component				
			Baseline 2017	Target			
				2018	2019	2020	
			• Morale, Welfare and Recreation Program (MWRP)	Welfare and Recreation Program (MWRP) • Skill Training		Comments / Recommendation	



Document Title:

ASSET / PROPERTY DISPOSAL PROCEDURE

1.0 INPUT

Receipt of Asset / Property for disposal

↓
Identification, monitoring, appraisal, bidding,
awarding of bid and documentation of asset /
property for disposal.
↓

2.0 OUTPUT

Fully accounted disposable asset / property

3.0 PURPOSE

To control and systematically dispose of company assets / properties according to optimum return principles.

4.0 SCOPE

All disposable assets, materials, goods and items no longer needed by the company.

5.0 DEFINITION OF TERMS

5.1 **Asset / Properties for Disposal** – company assets / properties for disposal could be classified as follows:

- 5.1.1 Unserviceable property that can no longer be repaired or reconditioned;
- 5.1.2 Serviceable property whose maintenance and repair costs more than outweighs the benefits and services that will be derived from its continued use;
- 5.1.3 Serviceable property that has become obsolete or outmoded because of change of technology;
- 5.1.4 Serviceable property that has become unserviceable due to change in unit's function or mandate; and
- 5.1.5 Unused supplies, materials and spare parts that were procured in excess of requirements, has become dangerous to use because of long storage or use of which is determined to be hazardous.

5.2 **List of Disposable Assets (LDA)** – summary list of disposable assets determined by Property Custodian/Warehouseman, direct user or TFAD.

5.3 **TFAD** – Task Force Asset Disposal, the unit tasked to handle the disposition of company assets/properties and other materials/items determined to be of no longer use to the company.

6.0 REFERENCES

- | | |
|--|----------|
| 6.1 Quality Manual | ISO-M-01 |
| 6.2 Warehousing Procedure | COM-P-01 |
| 6.3 Purchasing Procedure | MMD-P-01 |
| 6.4 Contracts Formulation and Review Procedure | ISO-P-08 |
| 6.5 Records Control Procedure | HRA-P-01 |



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No. 3 of 16
Document Number MMD-P-02
Revision Number 0

PNCC

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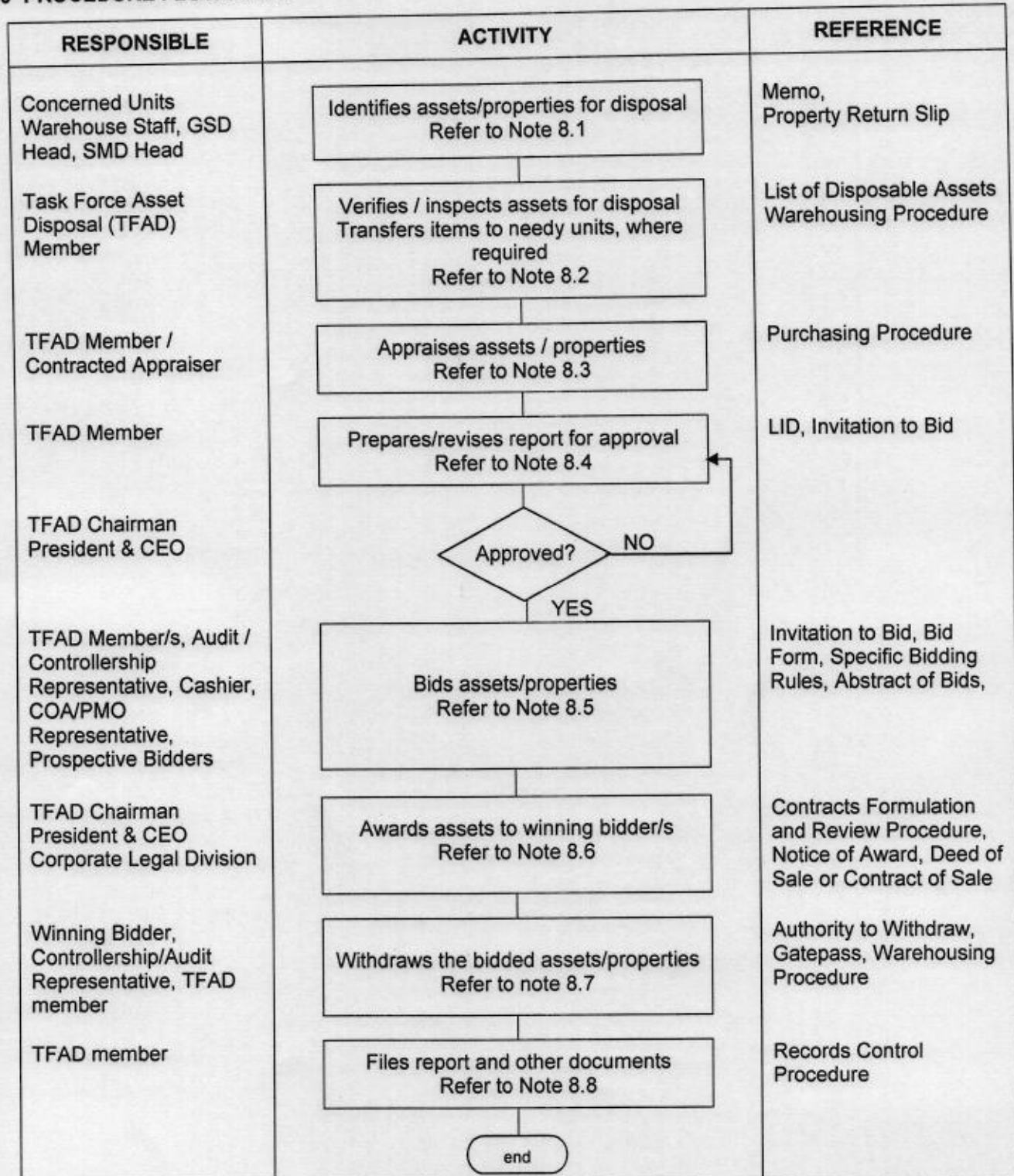
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Document Title:

ASSET / PROPERTY DISPOSAL PROCEDURE

7.0 PROCEDURE FLOWCHART





**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.	4 of 16
Document Number	MMD-P-02
Revision Number	0

PNCC

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Document Title:

ASSET / PROPERTY DISPOSAL PROCEDURE

8.0 NOTES

8.1 Identification of Assets / Properties for Disposal

- 8.1.1 Concerned units/departments shall identify, determine and prepare a List of Disposable Assets (LDA).
- 8.1.1.1 Concerned units/departments shall submit the LDA and the assets for disposal to Warehouse.
- NOTES :
1. A copy of LDA shall also be submitted to TFAD.
 2. In other cases, assets/properties that cannot be accommodated by Warehouse shall remain with the concerned units provided that it will be labelled with "FOR DISPOSAL" and segregate from other assets being used.
- 8.1.1.2 Warehouse Clerk shall verify the assets/properties for disposal against the LDA.
- 8.1.1.2.1 He/she shall prepare Property Return Slip *PNCC Form COM-16 Rev 05/08*. Refer to Appendix 1.
- 8.1.2 GSD/SMD Head shall prepare a summary of all assets for disposal under their care.
- 8.1.2.1 The LDA, which contains the following information, shall be submitted to TFAD:
- a. Properly Description;
 - b. Quantity and unit;
 - c. Condition of property;
 - d. Acquisition cost and book value, if any;
 - e. Estimated Value; and
 - f. Remarks and other information
- 8.1.2.2 A copy of the summary of all assets for disposal shall be given to Corporate Controllership Division (CCD).
- 8.1.3 CCD personnel shall furnish to TFAD the book value/s of the disposable assets/properties.

8.2 Conduct of Site visit / inspection of assets for disposal

- 8.2.1 TFAD Staff shall prepare a consolidated List of Items for Disposal (LID) *PNCC Form MMD-11 Rev 05/08* upon receipt of the LDAs from the respective units. Refer to Appendix 2.
- 8.2.2 TFAD staff/CCD representative shall conduct site inspection to ascertain the actual condition of the assets.
- 8.2.2.1 TFAD staff shall submit inspection report and coordinate with operating units/subsidiaries on availability of disposable items.
- 8.2.3 TFAD Chairman shall conduct a study and initiate plans and programs to ensure an efficient and effective scheme of asset disposal.
- 8.2.4 TFAD chairman shall update/inform the President and CEO on the TFAD's approved plans and programs on asset disposal.

8.3 Appraisal of Asset for Disposal

- 8.3.1 The services of two (2) outsourced appraisers shall be acquired through bidding. Refer to Purchasing Procedure MMD-P-01 for processing of Contract of Appraiser.
- 8.3.2 As supported by TFAD's resolution, TFAD staff shall schedule the appraisal of asset for disposal.
- 8.3.3 Contracted Appraiser together with TFAD staff shall conduct appraisal and ocular inspection of the assets for disposal and shall submit the determined appraised/minimum value of each property.
- 8.3.4 TFAD Staff shall evaluate the appraised value of assets submitted by Contracted Appraisers.
- 8.3.4.1 Compares the appraised value against the book value of assets.
- 8.3.4.2 Determines indicative price of each property for disposal.
- Note: Indicative price may be the appraised value or book value, which ever is higher.
- 8.3.5 TFAD Staff shall update the LID indicating the appraised value of Contracted Appraisers and submit LID to TFAD Chairman for approval.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.	5 of 16
Document Number	MMD-P-02
Revision Number	0

PNCC
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DATE ISSUED

Document Title:

ASSET / PROPERTY DISPOSAL PROCEDURE

8.3.6 TFAD Chairman shall endorse the LID to President and CEO for approval.

8.4 Prepares/revises report for approval

8.4.1 TFAD Staff shall prepare an Invitation to Bid (ITB) based on approved LID and submit to TFAD chairman for approval.

NOTE : In case of non-approval of LID, a revised LID must be submitted for approval prior preparation of ITB.

8.4.2 TFAD Staff shall publish the approved ITB to a national newspaper of general circulation for two (2) consecutive issues (refer to Appendix 3). Processing of publication shall be in accordance with Purchasing Procedure MMD-P-01.

8.4.2.1 ITB shall include the following:

- a. Date, Time and place of bidding;
- b. Sufficient descriptive information of the item/s / lots for bidding including specifications where necessary; and
- c. General information on bidding requirements such as accomplishment of bid tender, bid bonds, payments and claims, among others.

8.4.2.2 Distribution of approved ITB as follows:

- a. Publisher;
- b. Prospective Bidder;
- c. Office of the President and CEO;
- d. Corporate Legal Division; and
- e. TFAD copy.

8.4.3 TFAD Staff shall prepare Bid Form *PNCC Form MMD-12 Rev 05/08* based on approved ITB and LID. Refer to Appendix 4.

8.5 Bidding of Assets for Disposal

8.5.1 TFAD Chairman shall schedule pre-bidding conference to prospective bidders to clarify / discuss relevant matters affecting the scheduled bidding, if necessary.

8.5.1.1 During pre-bidding conference, TFAD Staff shall take note of important matters discussed and submit minutes to TFAD Chairman.

8.5.1.2 Receives and keeps all document/s submitted by the prospective bidders.

8.5.1.3 Requires prospective bidders to pay to the cashier the cost of bid form.

8.5.1.4 Arranges a schedule of inspection of assets for bidding.

8.5.2 Prospective Bidders shall secure Bid Form, Bid Acknowledgement *PNCC Form MMD-13 Rev 05/08* and Specific Bidding Rules upon payment of Bid Form. Refer to Appendix 5 and 6.

8.5.2.1 Accomplishes the official Bid Forms and Bid Acknowledgement and put it on a sealed envelop together with the acknowledgement receipt for the required bid deposit.

8.5.2.2 Drops it on the official designated drop box on or before the last day of submission of bids.

8.5.3 TFAD members, Audit and/or Controllorship Representatives shall canvass the bids under the supervision of PMO and/or COA Representative in the presence of Bidders. Canvassing of bids shall be in accordance with Specific Bidding Rules.

8.5.4 TFAD member shall tabulate the bids using Abstract of Bids *PNCC Form MMD-14 Rev 05/08*. Refer to Appendix 7.

8.5.5 A/B shall be checked, reviewed and signed by PMO/COA/Audit/Controllorship Representatives and TFAD Chairman.

8.5.6 TFAD chairman shall announce/declare the qualified highest/winning bidder/s.

8.6 Awarding of Bidded Assets

8.6.1 TFAD staff shall prepare Notice of Award *PNCC Form MMD-15 Rev 05/08* based on approved A/B. Refer to Appendix 8.

8.6.1.1 Notice of award shall be distributed as follows:

- a. Winning Bidder;



Document Title:

ASSET / PROPERTY DISPOSAL PROCEDURE

- b. Legal Division;
 - c. HRAD-GSD;
 - d. Corporate Controllership Division; and
 - e. TFAD
- 8.6.2 TFAD staff shall draft Deed of Sale or Contract of Sale of Disposable Assets / Materials in favor of the qualified winning bidder and submits the same to Corporate Legal Division for review / comments. Refer to Appendix 9.
- 8.6.3 Legal Division shall finalize the contract/agreement and endorse to TFAD Chairman for signature upon completion of legal requirements for execution of said contract.
- 8.6.4 Contracting parties together with two witnesses shall sign the contract/agreement and notarize it prior submission to TFAD.
- 8.6.5 TFAD chairman shall endorse the contract to President and CEO for approval.
- 8.6.6 Approval and signed contract shall be distributed as follows:
- a. Legal Division;
 - b. Office of the President;
 - c. Winning Bidder; and
 - d. TFAD copy
- 8.7 Withdrawal of Bidded Asset/s**
- 8.7.1 Winning Bidder shall present the official Receipt issued by Cashier and a copy of contract/agreement to TFAD Staff as proof that the bidded asset was settled/paid.
- 8.7.2 TFAD chairman shall issue the Authority to Withdraw *PNCC Form MMD-16 Rev 05/08*. Refer to Appendix 10.
- 8.7.3 Concerned units/departments shall prepare Gate Pass to facilitate the withdrawal of asset. Gate Pass shall be approved by GSD/HRAD Head or SMD/TMD Head.
- 8.7.4 TFAD Staff shall distribute the AW to the following:
- a. Winning Bidder;
 - b. Unit/Dept. where the awarded assets are located;
 - c. Corporate Controllership Division;
 - d. HRAD-GSD; and
 - e. TFAD file.
- 8.7.5 Winning Bidder shall present the Gate Pass to Guard on Duty/TFAD Representative / Audit / Controllership on the agreed schedule of Asset Withdrawal.
- 8.7.6 Audit / Controllership Representative / HRAD-GSD Property Custodian shall observe / witness the actual withdrawal of assets.
- a. Ascertains whether the quantity, unit of measure, and description of assets for withdrawal are observed / followed in the process; and
 - b. Signs and approves Withdrawal Receipt.
- 8.7.7 TFAD Staff shall file documents relating to asset disposal process in accordance with Records Control Procedure HRA-P-01.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.	2 of 29
Document Number	MMD-P-01
Revision Number	1

Document Title:

PURCHASING PROCEDURE

DEC 1 1 2000

1.0 INPUT

Purchase/Procurement Requirements



Supplier accreditation, supplier selection, bidding process, award & delivery process, continual supplier evaluation

2.0 OUTPUT



Delivery of conforming purchased products, materials, supplies or services

3.0 OBJECTIVE

To provide assurance that purchased products/contracted services conform to specified purchase/contract requirements consistent with quality objectives on product realization or the final product.

4.0 SCOPE

All procurement activities of the company for materials, supplies, services and related requirements

5.0 DEFINITION OF TERMS

- 5.1 **Procurement/Purchasing** – refers to the process of acquiring materials supplies and services.
- 5.2 **Materials Management** – the aspect of industrial management, which is concerned with all the functional activities involved in the acquisition and use or non-use of any material possessed and to be possessed by the company.
- 5.3 **Purchase Order** – a controlled and pre- numbered official document w/c serves to order a particular requirement from a supplier at a specified and agreed price, terms and delivery schedule.
- 5.4 **Capital Goods** – refer to assets which are held over a relatively long period of time for the services they yield in the production of goods and services, they are intended to benefit future periods, not to resale in the normal course of operations and are depreciated based on their type or manner of utilization. These include land, building, major equipment, light equipment (inclusive of tools and instruments) and office equipment, furniture and fixtures.
- 5.5 **Major Equipment** – heavy equipment, plants, major machinery and service vehicles; which are depreciated over their economic operational service lives, – extending beyond that of the project where they are utilized and are subject to rebuilding / renovation to extend economical operability.
- 5.6 **Light Equipment** – equipment depreciated over the life of the project where they are acquired and utilized and are not subject to rebuilding/renovation.
While tools and other instruments are classified under light equipment for purposes of delineating procurement responsibilities, this class of capital goods is generally expensed upon acquisition and no longer depreciated specifically if the cost below ₱500.00.
- 5.7 **Accredited Suppliers** – suppliers who upon verification of PNCC's authorized personnel meet the minimum requirements of satisfactory overall rating.
- 5.8 **Accredited Supplier's Master List (ASML)** – the list of accredited suppliers. The list shall be used as reference for purchasing/procurement of goods or services. Refer to Appendix 4.
- 5.9 **Supplier Checklist for Accreditation** - a checklist used by assigned evaluators to evaluate the supplier including its organization, processes, tooling and their capabilities/qualifications for producing the materials required by PNCC for purposes of accreditation. Refer to Appendix 1 and 2.
- 5.10 **Certificate of Conformance** – refers to the certification issued by a manufacturer attesting that necessary parts / materials conforms with the specified requirements.
- 5.11 **Supplier Qualification Status Report** – refers to the document issued by PNCC to potential supplier to inform the status of their qualification.
- 5.12 **Reorders** – recurring or additional purchases of contract or negotiated items as determined from requirement schedules.
- 5.13 **PSR – Purchase Store Requisition** – a controlled form accomplished by requesting unit indicating specifications and quantity of requested items for purchase.



- 5.14 **RPS – Repair Parts and Supplies** – a form accomplished by requesting unit indicating specifications and quantity of requested parts and supplies for equipment under repair.
- 5.15 **AB/PPO – Abstract of Bids/Pro-forma Purchase Order** – a form intended for summarizing the bid details of proponent suppliers for a particular item/s.
- 5.16 **IB – Invitation to Bid** – a written request to join the bidding for a particular item(s)/service(s).
- 5.17 **RQ – Request for Quotations** – a written request to submit price quotations for the item/s indicated therein.
- 5.18 **SIS – Sourcing Information Sheet**- a form filled-out by the purchaser indicating the contact information of intended suppliers.
- 5.19 **RAS – Return Advise Slip** – a form accomplished by Purchaser indicating the reasons of return of PSR to Requesting Unit.
- 5.20 **SIC – Stock Inventory Card** – used to identify various inventory.
- 5.21 **RIR – Receiving and Inspection Report** – the report prepared by warehouse clerk/property custodian in a controlled form stating the required information noted during inspection, upon delivery item(s)/service(s).
- 5.24 **FARL – Fixed Asset Receiving List** – a form accomplished by warehouse clerk/property custodian upon receipt inspection and acceptance of purchased fixed assets.
- 5.25 **Purchaser** – one who handles direct purchases of supplies, equipment and spare parts.
- 5.26 **Purchasing Assistant** – one who assists the purchaser in canvassing and preparation of related purchasing documents.
- 5.27 **Purchasing Clerk** – one who prepares, types and files purchasing documents.
- 5.28 **Records Procurement Services Officer** – one who oversees the proper and correct preparation of all documentation necessary to effect purchase.
- 5.29 **Subcontractor** – any person or entity duly accredited by PNCC to provide specific services under a subcontract.
- 5.30 **Subcontract Request** – a request/initiated by the Project/Department/Division concerned for engaging the services of subcontractor for a specified job.
- 5.31 **Subcontract/Contract** – agreement whereby a duly chosen subcontractor, employing its sources, undertakes to supply labor/services, materials, tools and equipment necessary to accomplish a specified job/work.
- 5.32 **PBAC** – Pre-qualification, Bids and Awards Committee.

6.0 REFERENCES

- | | |
|--|----------|
| 6.1 Quality Manual | ISO-M-01 |
| 6.2 Management Review Procedure | ISO-P-06 |
| 6.3 Contracts Formulation & Review Procedure | ISO-P-08 |
| 6.4 Records Control Procedure | HRA-P-01 |
| 6.5 Warehousing Procedure | COM-P-01 |
| 6.6 Financial Authorities Manual | |



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No. 4 of 29
Document Number MMD-P-01
Revision Number 1

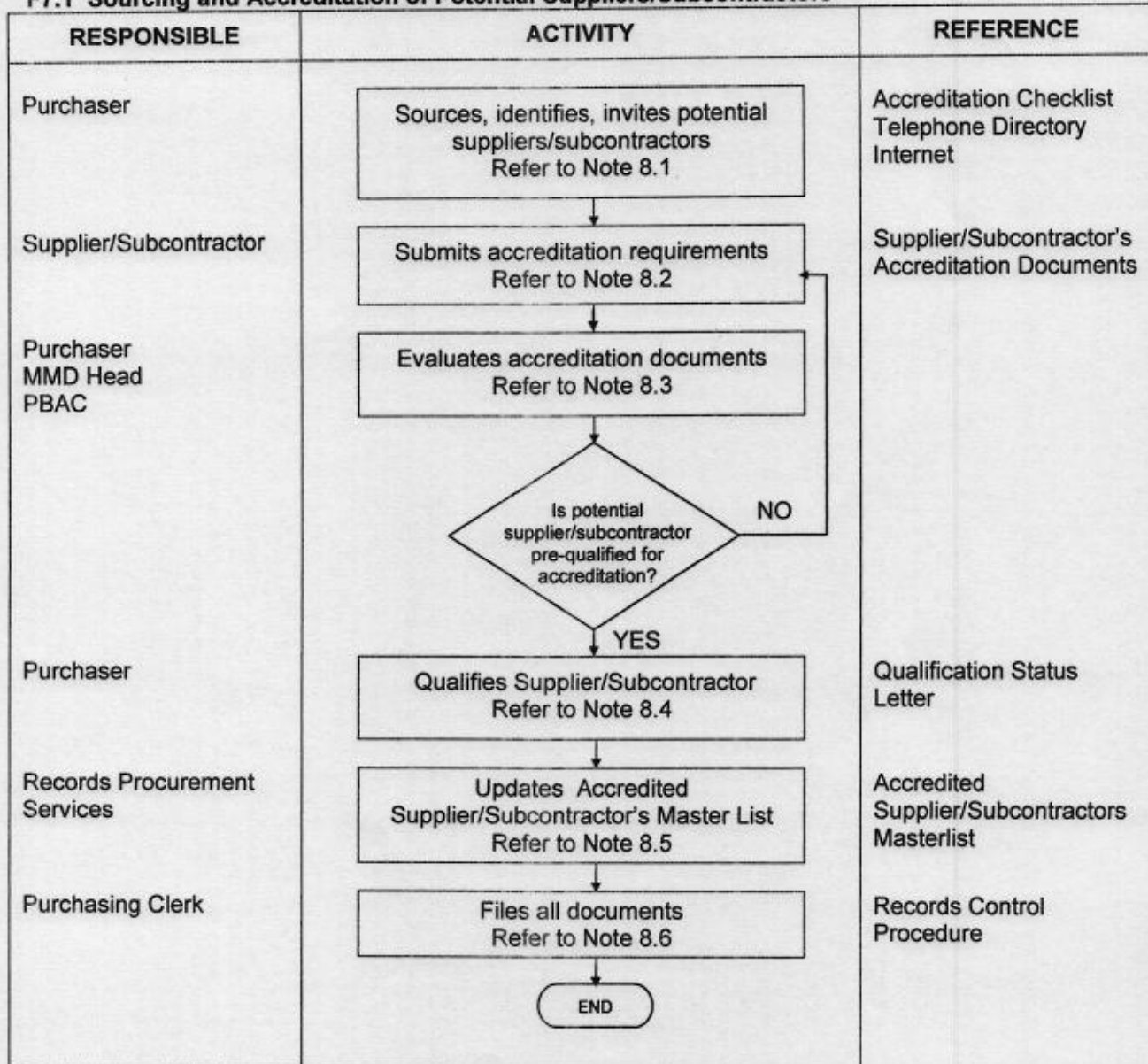
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PURCHASING PROCEDURE

7.0 PROCEDURE FLOWCHART

F7.1 Sourcing and Accreditation of Potential Suppliers/Subcontractors



8.0 NOTES

8.1 Purchaser shall source and identify potential suppliers/subcontractors.

8.1.1 He/she shall request the potential suppliers/subcontractors to fill-out and submit the Supplier/Contractor/Subcontractor's Accreditation Checklist. Refer to Appendix 1 and 2.

8.2 Supplier/Subcontractor shall submit the following requirements for accreditation:

- Filled out Accreditation Checklist;
- Company Profile; and
- Copy of International Standard Certification (ISO 9001/ISO 14001/TS16949/ISO 14001) if any.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.	5 of 29
Document Number	MMD-P-01
Revision Number	1

DEC 11 2017

Document Title:

PURCHASING PROCEDURE

8.3 Purchaser shall evaluate supplier/subcontractor credentials including the following:

- | | |
|---------------------------|---|
| a. Supplier Performance | c. Product List |
| b. Major Customer Listing | d. International Standard certification |

Note : A plant/office visit may be conducted, if necessary. Refer to Appendix 3 for Scoring Guidelines for Potential Suppliers.

8.3.1 Head MMD shall submit the accreditation documents of potential supplier /contractor/subcontractor to PBAC for final approval.

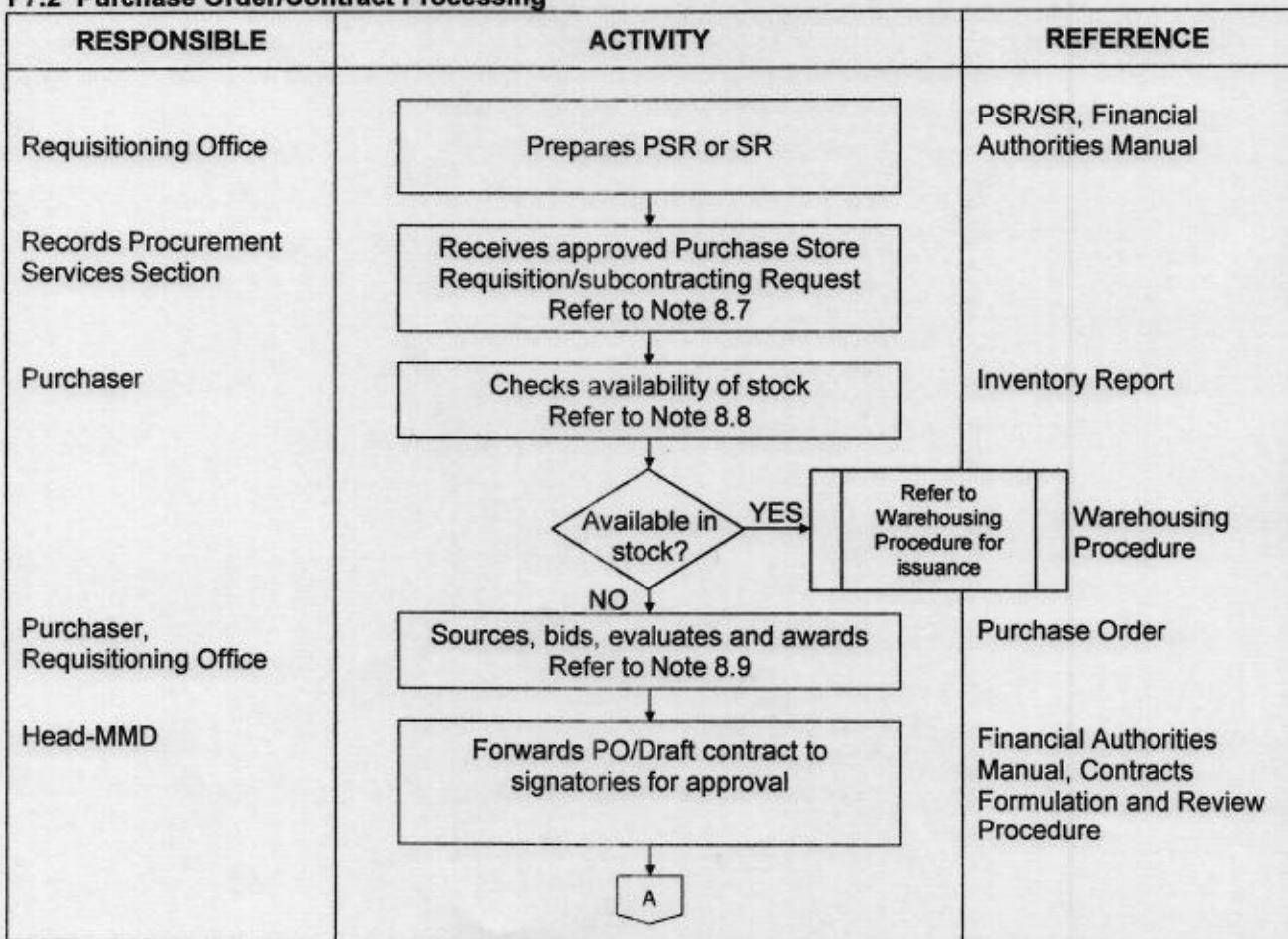
8.4 Purchaser shall prepare and issue qualification letter to Suppliers/Subcontractors.

Note : The letter shall contain the rating of the supplier/subcontractor and/or comments found during the qualification visit. If there are still documents required which the supplier/subcontractor failed to submit, said lacking documents will be itemized in the letter. Please refer to Appendix 1 and 2 and Purchasing Information described under Section 7.4.2 of Quality Manual ISO-M-01.

8.5 Records Procurement Services shall update the Suppliers/Subcontractors Masterlist everytime there is a newly accredited supplier. Refer to Appendix 4.

8.6 Purchasing Clerk shall file the documents pertaining to the qualification of the supplier/subcontractor in accordance with Records Control Procedure HRA-P-01.

F7.2 Purchase Order/Contract Processing





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Document Title:

PURCHASING PROCEDURE

RESPONSIBLE	ACTIVITY	REFERENCE
Authorized Signatory	<div style="text-align: center;">A</div> <div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 80%;">Approves PO/Contract</div>	<div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 150px; text-align: center;">Go to F7.4 for issuance of contracts</div>
Purchasing Clerk	<div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 80%;">Sends PO to supplier and confirms the receipt Refer to Note 8.10</div>	Records Control Procedure
Purchasing Clerk	<div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 80%;">Files the PO and updates PO Monitoring Sheet</div>	
Purchasing Clerk	<div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 80%;">Provides copy of PO to Warehouse and the Head of Requisitioning Unit</div>	
Purchasing Asst.	<div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 80%;">Coordinates with Warehouse staff on the status of delivery and expedites delivery with supplier when necessary</div> <div style="text-align: center;">F7.3</div>	Warehousing Procedure

8.7 Records Procurement Services Section staff receives the approved Purchase Store Requisitions *PNCC Form MMD-03 Rev 05/08*/Subcontracting Request from end-user (operation). Refer to Appendix 5.

Note :

1. Purchase store requisition is issued only for materials and supplies below the safety stock level monitored by Warehouse.
2. The Subcontracting request is required for purchases such as construction, renovation & services. It must include the following details: contract date, scope of work, contract period, Terms of Reference.

8.8 Purchaser shall check the availability of requested item.

8.8.1 If the item requested is available at Warehouse, Purchasing staff shall issue Requisition Advice Slip *PNCC Form MMD-04 Rev 05/08* (Appendix 6) to the Requesting Party. Refer to Warehousing Procedure COM-P-01 for issuance of requested item. Other cases in which a Requisition Advice Slip is issued to Requesting Party, are as follows:

- 8.7.1.1 Incomplete description of item requested
- 8.7.1.2 Part No. Incorrect / not specified;
- 8.7.1.3 A sample of requested item is required;
- 8.7.1.4 Indicate acceptable equivalent of item requested; and
- 8.7.1.5 Item requested is not available locally, and recommended for cancellation of request, for indent order or fabrication.

8.8.2 For purchase of firearms and ammunitions

8.8.2.1 Purchasing staff shall check and verify with the Armorer/Firearms Custodian the availability of the requested firearm/s or ammunition from the armory.

8.8.2.2 Purchasing staff shall also verify with the Armorer/Firearms Custodian whether the purchase of the requested firearm/ammunition conforms with government laws and regulation.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.	7 of 29
Document Number	MMD-P-01
Revision Number	1



Document Title:

PURCHASING PROCEDURE

8.8.2.3 Certainty of non-availability shall be made by simply indicating the words "Not available at the armory." and "Purchase in accordance with government laws and regulation" in the lower portion of the description space provided in the PSR with the initial of the Armorer/Firearm custodian above his printed name.

8.9 Sourcing/Bidding/Evaluation

8.9.1 Purchaser/Purchasing Assistant shall canvass the current prices of requested item. If the requested items/services are re-order, confirm the price from previous supplier. If the price is still applicable proceed to step 8.9.3 otherwise, proceed to 8.9.1.1.

8.9.1.1 He/she shall check the Accredited suppliers/subcontractors Masterlist and fill-out Sourcing Information Sheet *PNCC Form MMD-05 Rev 05/08*. Refer to Appendix 7.

8.9.1.2 He/she shall coordinate with the supplier/subcontractor listed in SIS and invite them to submit their quotation on the involved item/s or service/s.

Note:

1. A Request for Quotation or Invitation to Bid shall be distributed to suppliers/subcontractors listed in SIS for price quotation. Refer to Appendix 8 and 12.
2. Open canvass shall be conducted if the total amount involved will not exceed ₱ 50,000, or the amount involved of each item will not exceed ₱ 5,000.
3. Sealed bidding if the total amount of involved item exceeds P 50,000.
4. Consumable items, services rendered for maintenance and other related items are preferably but not necessarily to be purchased from an accredited supplier as long as the item or services sought to engage are of quality and in the specification or standard set by end-user.

8.9.2 Purchaser/Purchasing Assistant shall prepare Abstract of Bids *PNCC Form MMD-07 Rev 05/08* upon receipt of quotation from supplier/subcontractor. Refer to Appendix 9.

8.9.2.1 Abstract of Bids shall be forwarded to end-user for confirmation. End-user shall select/recommend the best offer based on the provided specification/s.

8.9.2.2 MMD Head shall certify/approve the Abstract of Bids. Refer to Financial Authorities Manual.

8.9.3 Records Procurement Services Section staff shall prepare Purchase Order *PNCC Form MMD-08 Rev 05/08* based on the approved Abstract of Bids or previous Purchase Order if a reorder. Refer to Appendix 10.

Note:

1. The PO shall contain pertinent information such as part name, part number and/or other specification sufficient to establish the identity of the item to be purchased. A certification of Conformity may be requested from supplier in cases where technical inspection is not necessary.
2. A controlled copy of drawings and specifications shall be given to the supplier/subcontractor. To ensure that suppliers/subcontractors receive the document, a transmittal slip shall be prepared and issued, together with the drawings.

8.9.4 MMD Head shall sign/approve the Purchase Order and forward same to the authorized signatories for approval, refer to Financial Authorities Manual.

8.10 Purchaser shall issue the approved PO to accredited suppliers

8.10.1 In case of revisions, he/she shall issue another PO for additional orders or cancellation memo for cancellation or reduction of ordered quantity, to include revised delivery schedule. Refer to Purchase Order Revision/Cancellation *PNCC Form MMD-09 Rev 05/08* and Purchase Order Delivery Schedule *PNCC Form MMD-10 Rev 05/08*. Refer to Appendix 11 and 12.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.

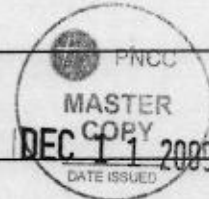
8 of 29

Document Number

MMD-P-01

Revision Number

1



Document Title:

PURCHASING PROCEDURE

F7.3 Evaluation of Supplier's Performance

RESPONSIBLE	ACTIVITY	REFERENCES
Purchasing Assistant	Monitors Supplier's Performance Refer to Note 8.17	Accreditation checklist, Delivery Inspection Report
Purchaser	Evaluates, assesses supplier's performance Refer to Note 8.18	
Head, MMD	Checks, recommends and approves Supplier's Performance Report Refer to note 8.19	
Head, MMD	Reports supplier's performance during Management Review Refer to note 8.20	Management Review Procedure
	F7.5	

8.17 Purchasing Assistant shall monitor the supplier's performance based on the accomplished Delivery Inspection *PNCC Form COM-01 Rev 05/08* submitted by authorized receiving personnel. Refer to Warehousing Procedure COM-P-01. Suppliers shall be classified according to commodity classification as follows:

8.17.1 POL & Other Related Based Products

8.17.6 Construction Materials and Hardware

8.17.2 Cement & Related Products

8.17.7 Bituminous Asphalt

8.17.3 Steel & Related Products

8.17.8 Tires & Batteries

8.17.4 General Equipment Parts & Equipment

8.17.9 Officer Equipment & Supplies

8.17.5 Aggregates & Filling Materials

8.17.10 Services

8.18 Purchaser shall evaluate the supplier's performance and prepare supplier's performance report. Refer to Appendix 13 for evaluation points. Ranking will depend on the over all rating performance of the supplier. Ranking shall be as follows:

Rank A – 91%- 100% - outstanding supplier

Rank B – 85%- 90% - very good supplier

Rank C – 71% - 84% - good supplier

Rank D – 70% - and below supplier needs improvement

8.19 MMD Head shall check the supplier's performance report and recommend/approve rating of supplier.

8.19.1 Purchaser shall disseminate the performance report to suppliers.

Note:

- Supplier shall be given their performance report on a quarterly basis showing their performance for the quarter. For suppliers who got rank D, they shall be required to submit a countermeasure report. If in case, the supplier got 3 consecutive rating of rank D, supplier's audit shall be conducted in the premises of the supplier. If, after the audit there is no improvement, a new supplier shall be sourced.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.

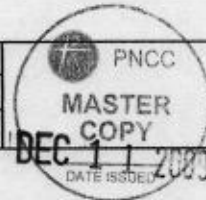
9 of 29

Document Number

MMD-P-01

Revision Number

1



Document Title:

PURCHASING PROCEDURE

2. For suppliers who are ranked A to C will also received countermeasure reports if there is a drastic drop of rating in the Delivery and Quality areas. Refer to Corrective Action Procedure ISO-P-02.

8.20 MMD Head shall report the suppliers performance during Management Review. Refer to Management Review Procedure ISO-P-06.

F7.4 Issuance of Contract

RESPONSIBLE	ACTIVITY	REFERENCES
Purchasing Assistant/ Purchaser	Prepares Notice of Award/draft contract Refer to 8.21	Appendix 15 and 16
Head, MMD, Corporate Legal Division, Signatories	Reviews and approves contract Refer to Note 8.22	Financial Authorities Manual
Subcontractor	Receives contract Refer to Note 8.23	
Purchasing Clerk	Files contract Refer to note 8.24	Records Control Procedure
	F7.5	

8.21 Purchasing Assistant/Purchaser shall prepare Notice of Award/the draft contract based on the result of bidding as evaluated/approved by signatories for Head, MMD's endorsement to the Legal Division for Review. Refer to Appendix 15 and 16.

8.22 The Head, Corporate Legal Division shall review/approve the provisions of the Notice of Award/draft contract.
The MMD Head shall then check the completeness and accuracy of attachments, then forwards same including all supporting documents to signatories based on Financial Authorities Manual.

8.23 Supplier/Subcontractor shall receive the Notice of Award/ approved contract. A copy of the notarized contract shall be distributed to concerned Department/Division, Corporate Legal Division, and Subcontractor/s.

8.24 The Purchasing clerk shall file the MMD copy of the contract in accordance with Records Control Procedure HRA-P-01.



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.

10 of 29

Document Number

MMD-P-01

Revision Number

1

DEC 11 2009

Document Title:

PURCHASING PROCEDURE

F7.5 Processing of Payment

RESPONSIBLE	ACTIVITY	REFERENCE
Purchasing clerk	Prepares request for payment Refer to Note 8.25	Financial Authorities Manual
Signatories	Approves payment Refer to Note 8.26	
Purchasing clerk	Advises supplier of availability of payment Refer to Note 8.27	
Purchasing Clerk/Purchaser MMD Head	Files report and prepares accomplishment report Refer to Note 8.28	Records Control Procedure
	END	

8.25 For items that require down payment or Cash-Before-Delivery terms:

8.25.1 Purchasing clerk shall prepare request for payment voucher. This must be based on the approved PO and contract in accordance with the Financial Authorities Manual.

8.25.2 He/she shall attach PO/contract and all supporting documents in the Request for payment voucher.

Note : For PO's/Contract with extended terms, process payment after receipt of Receiving and Inspection Report PNCC Form COM-03 Rev 05/08.

8.26 Signatories shall approve the request for payment voucher in accordance with the Financial Authorities Manual.

8.27 The Purchasing Clerk shall coordinate with Corporate Finance Group for the issuance of check. Upon advice of availability of check, he shall inform supplier/contractor.

8.28 Purchasing Clerk shall prepare accomplishment report according to commodity classification.

8.28.1 MMD Head shall submit a monthly accomplishment report to the President and CEO.

8.28.2 Purchasing Clerk shall file the accomplishment report in accordance with Records Control Procedure HRA-P-01.

9.0 ATTACHMENTS

9.1 Appendix 1 – Checklist of Pre-qualification of Supplier *PNCC Form MMD-01 Rev 05/08*

9.2 Appendix 2 – Checklist of Pre-qualification of Contractor/Subcontractor *PNCC Form MMD-02 Rev 05/08*

9.3 Appendix 3 – Scoring Guidelines for Potential Suppliers

9.4 Appendix 4 – Supplier/Contractor Masterlist

9.5 Appendix 5 – Purchase / Store Requisition *PNCC Form MMD-03 Rev 05/08*

9.6 Appendix 6 – Requisition Advise Slip *PNCC Form MMD-04 Rev 05/08*

9.7 Appendix 7 – Sourcing Information Sheet *PNCC Form MMD-05 Rev 05/08*

9.8 Appendix 8 – Request for Quotation *PNCC Form MMD-06 Rev 05/08*

9.9 Appendix 9 – Abstract of Bids *PNCC Form MMD-07 Rev 05/08*



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

Page No.

11 of 29

Document Number

MMD-P-01

Revision Number

1



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DEC 11 2009
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Document Title:

PURCHASING PROCEDURE

- 9.10 Appendix 10 – Purchase Order *PNCC Form MMD-08 Rev 05/08*
- 9.11 Appendix 11 – Purchase Order Revision/Cancellation *PNCC Form MMD-09 Rev 05/08*
- 9.12 Appendix 12 – Purchase Order Delivery Schedule *PNCC Form MMD-10 Rev 05/08*
- 9.13 Appendix 13– Supplier Performance Evaluation Guide
- 9.14 Appendix 14 – Subcontractor Performance Evaluation Form *PNCC Form MMD-13 Rev 12/09*
- 9.15 Appendix 15– Invitation to Bid
- 9.16 Appendix 16– Notice of Award
- 9.17 Appendix 17– Subcontracting Agreement/Contract

ANNEX “B”



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
 Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Type Stock Corporation

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Period Covered December 31, 2017

No. of Days Late 0

Department CED/CRMD

Remarks



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

ANNUAL AUDIT REPORT

on the

**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

For the Year Ended December 31, 2017

PNCC-CORP. CONTROLLERSHIP	
DATE:	JUL 18 2018
TIME:	9:00
REC'D BY:	<i>[Signature]</i>



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

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

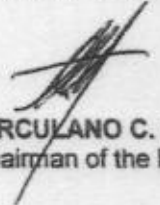
The Management of Philippine National Construction Corporation is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

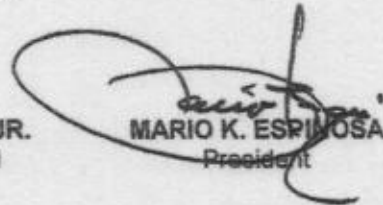
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or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


The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders of the Company.

The Commission on Audit, the independent auditor mandated by the Philippine Constitution to audit government-owned or controlled corporations, has audited the financial statements of the Company in accordance with the Philippine Public Sector Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


HERCULANO C. CO, JR.
Chairman of the Board


MARIO K. ESPINOSA
President

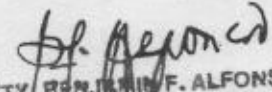

MIRIAM M. PASETES
Vice President, Head - Treasury

SUBSCRIBED AND SWORN to before me **MAR 27 2018**
exhibiting to me their Tax Identifications, as follows.

QUEZON CITY
affiants

<u>Names</u>	<u>Tax Identification No.</u>
Herculano C. Co, Jr.	167-383-105
Mario K. Espinosa	124-704-814
Miriam M. Pasetes	120-678-424

Doc. No. 35
Page No. 48
Book No. 87
Series of 2018


ATTY. BENJAMIN F. ALFONSO
NOTARY PUBLIC
Notary Public
JNTIL December 31, 2018
PIR NO. 5520234, January 3, 2018, QUEZON CITY
IBP NO. 019073 12-20-2017 - QUEZON CITY
ROLL NO. 13295
ADM. MATTER NO. NP-046-(2017-2018)
TIN NO. 177-957-519-000
MC LE III-0024526 - December 12, 2017
34 Asset's St. GSIS Village
Project 2 Quezon City

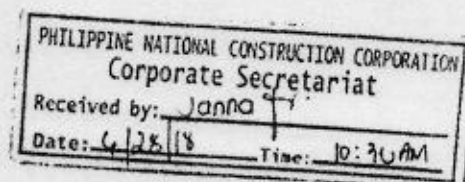


REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 27, 2018

The Board of Directors
Philippine National Construction Corporation
Parañaque 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 the Philippine National Construction Corporation (PNCC) for the year ended December 31, 2017.

We rendered an adverse opinion on the financial statements of the Company due to the recognition of the unconverted debts as equity and the non-recognition of accrued interests and other charges thereon resulting in the understatement as of December 31, 2017 and 2016, respectively, of the following: accumulated deficit by P59.804 billion and P58.060 billion and total liabilities and capital deficiency by P65.356 billion and P63.612 billion.

The following are the other significant audit observations and recommendations:

1. Results of confirmation of Accounts Receivable – Others National Labor Relations Commission (NLRC) disclosed an unreconciled variance of P5.336 million.

We recommended and Management agreed to:

- a) Coordinate with NLRC Accounting personnel in order to reconcile the book balances and effect the necessary adjustments, if warranted;
- b) Exert effort to follow-up with NLRC the release of the appeal bonds for decided cases in favor of PNCC;
- c) Request from NLRC copies of documents to support the release of bonds to claimants in various cases to which PNCC is a party thereof; and
- d) Coordinate and inform NLRC that the process of releasing the bonds to claimants should be in accordance with PD 1445 and the 2009 Revised Rules of Procedure of the Commission on Audit considering that PNCC is a Government Owned and Controlled Corporation (GOCC) covered by existing COA rules and regulations.

2. Toll revenue (SLEX operation under Toll Operations Certificate) account balance showed a variance of P566.300 million between PNCC and Toll Regulatory Board's (TRB) books.

We recommended and Management agreed to coordinate with TRB and Bureau of the Treasury (BTr) and furnish them with the documents covering the partial payment of P566.300 million pertaining to the unremitted toll revenues so that both agencies can update their records and deduct the said payment from PNCC's outstanding obligation.

3. Non-recognition and non-imposition of interest when lessees defaulted in the payment of monthly rental is disadvantageous to the Company.

We recommended that Management:

- a) Ensure that the monthly accrual of receivables from leases are recorded and collections of lease payments are timely made;
- b) Make sure that the computation of lease rental due from the lessees and the recording of corresponding interest/penalty in the books are accurate and in accordance with the terms stipulated in the contracts/agreements; and
- c) Regularly provide lessees with Statement of Accounts (SOA) including the penalties and accrued interest due to delayed payments otherwise, a Notice of Charge shall be issued by the Audit Team.

4. Cash collateral amounting to P71.072 million paid to Investor's Assurance Corporation (IAC) was not returned to PNCC despite the Supreme Court's decision in favor of PNCC.

We recommended that Management:

- a) Follow-up and request updates from Office of the Government Corporate Counsel (OGCC) on the status of the release of the appeal bond from NLRC; and
- b) While waiting for the release of the bond, discuss with IAC Management the P3.994 million for the 5-year premium on the surety bond demanded by IAC to be paid by PNCC and the return of the cash collateral amounting to P71.072 million including the interest earned since August 29, 2012.

5. Procurement activities of the Company were not in accordance with the provision of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 and Section 4 of Government Procurement Policy Board (GPPB) Resolution No. 23-2007 dated September 28, 2007.

We reiterated our prior years' recommendation that Management:

- a) Prepare an updated/ revised Procurement Manual which adheres to the provisions of 2016 RIRR of RA No. 9184; and
- b) Require PNCC personnel performing the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities/documentation with the requirements of RA 9184.

The other audit observations, together with the recommended courses of action, which were discussed with the concerned Management officials and staff during the exit conference conducted on April 4, 2018, are presented in detail in Part II of the report.

In a letter of even date, we requested the Company's President and CEO 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. MASANGGAY
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 - 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



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 4 – Industrial and Area Development

June 27, 2018

MR. MARIO K. ESPINOSA
President and CEO
Philippine National Construction Corporation
Parañaque City

Dear Mr. Espinosa:

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

We rendered an adverse opinion on the financial statements of the Company due to the recognition of the unconverted debts as equity and the non-recognition of accrued interests and other charges thereon resulting in the understatement as of December 31, 2017 and 2016, respectively, of the following: accumulated deficit by P59.804 billion and P58.060 billion and total liabilities and capital deficiency by P65.356 billion and P63.612 billion.

The following are the other significant audit observations and recommendations:

1. Results of confirmation of Accounts Receivable – Others National Labor Relations Commission (NLRC) disclosed an unreconciled variance of P5.336 million.

We recommended and Management agreed to:

- a) Coordinate with NLRC Accounting personnel in order to reconcile the book balances and effect the necessary adjustments, if warranted;
- b) Exert effort to follow-up with NLRC the release of the appeal bonds for decided cases in favor of PNCC;
- c) Request from NLRC copies of documents to support the release of bonds to claimants in various cases to which PNCC is a party thereof; and
- d) Coordinate and inform NLRC that the process of releasing the bonds to claimants should be in accordance with PD 1445 and the 2009 Revised Rules of Procedure of the Commission on Audit considering that PNCC is a Government Owned and Controlled Corporation (GOCC) covered by existing COA rules and regulations.

2. Toll revenue (SLEX operation under Toll Operations Certificate) account balance showed a variance of P566.300 million between PNCC and Toll Regulatory Board's (TRB) books.

We recommended and Management agreed to coordinate with TRB and Bureau of the Treasury (BTr) and furnish them with the documents covering the partial payment of P566.300 million pertaining to the unremitted toll revenues so that both agencies can update their records and deduct the said payment from PNCC's outstanding obligation.

3. Non-recognition and non-imposition of interest when lessees defaulted in the payment of monthly rental is disadvantageous to the Company.

We recommended that Management:

- a) Ensure that the monthly accrual of receivables from leases are recorded and collections of lease payments are timely made;
 - b) Make sure that the computation of lease rental due from the lessees and the recording of corresponding interest/penalty in the books are accurate and in accordance with the terms stipulated in the contracts/agreements; and
 - c) Regularly provide lessees with Statement of Accounts (SOA) including the penalties and accrued interest due to delayed payments otherwise, a Notice of Charge shall be issued by the Audit Team.
4. Cash collateral amounting to P71.072 million paid to Investor's Assurance Corporation (IAC) was not returned to PNCC despite the Supreme Court's decision in favor of PNCC.

We recommended that Management:

- a) Follow-up and request updates from Office of the Government Corporate Counsel (OGCC) on the status of the release of the appeal bond from NLRC; and
 - b) While waiting for the release of the bond, discuss with IAC Management the P3.994 million for the 5-year premium on the surety bond demanded by IAC to be paid by PNCC and the return of the cash collateral amounting to P71.072 million including the interest earned since August 29, 2012.
5. Procurement activities of the Company were not in accordance with the provision of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 and Section 4 of Government Procurement Policy Board (GPPB) Resolution No. 23-2007 dated September 28, 2007.

We reiterated our prior years' recommendation that Management:

- a) Prepare an updated/ revised Procurement Manual which adheres to the provisions of 2016 RIRR of RA No. 9184; and
- b) Require PNCC personnel performing the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities/documentation with the requirements of RA 9184.

The other audit observations, together with recommended courses of action, which were discussed with the concerned Management officials and staff during the exit conference conducted on April 4, 2018, are presented in detail in Part II of the report.

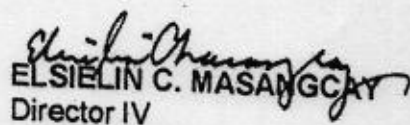
We request that appropriate actions be taken on observations and recommendations and that we be informed of the actions taken thereon by submitting the duly accomplished Agency Action Plan and Status of Implementation form (copy attached) within 60 days from date of receipt.

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:


ELSIE L. 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 - 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 Philippine National Construction Corporation (PNCC or the Company), previously known as the Construction Development Corporation of the Philippines (CDCP), was granted the franchise to construct, operate and maintain the North Luzon Expressway (NLEX), South Luzon Expressway (SLEX) and Metro Manila Expressway by virtue of Presidential Decree (PD) No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. The debt-to-equity conversion pursuant to and under the directives of Letter of Instruction 1295 promulgated on February 23, 1983 gave the Government majority ownership of the Company.

From 1987 to 2001, PNCC still engaged in some construction business but this resulted in losses. Since 2002, the Company has veered away from active involvement in construction operations, and focused more on the operation and maintenance of its tollways. However, further financial difficulties prevented PNCC from operating and maintaining its tollways in a manner required of a public utility. Therefore, starting in 1995, PNCC entered into Joint Venture Agreements (JVAs) that resulted in the division of the Tollways into three portions, the North Luzon Expressway (NLEX), the South Luzon Expressway (SLEX), and the South Metro Manila Skyway (SMMS).

On February 10, 2005, PNCC turned over the Operation and Maintenance (O&M) of the North Luzon Tollways to the Manila North Tollways Corporation (MNTC), while the O&M for the South Metro Manila Skyway was turned over to the Skyway Operation and Maintenance Corporation on December 31, 2007.

Prior to the expiration of the franchise of PNCC on April 30, 2007, the Company submitted to Congress all the requirements needed for the renewal of the same, but it was not able to get the required Senate approval. The Toll Regulatory Board (TRB) issued a Toll Operation Certificate to PNCC on April 30, 2007 for the O&M of the SLEX and to collect toll fees, in the interim, after its franchise expiration. The PNCC handed over the O&M of the SLEX to Manila Toll Expressway System Inc. on May 2, 2010.

On June 22, 2016 and October 17, 2016, the Company's Board of Directors and its Shareholders, respectively, approved the amendment to the 4th Article of the Articles of Incorporation to extend the corporate term for fifty (50) years from November 22, 2016, which amendment was approved by Securities and Exchange Commission on November 21, 2016.

Scope and Objectives of Audit

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

Financial Highlights

Comparative Financial Position (In thousand pesos)

	2017	2016	Increase (Decrease)
Assets	17,804,665	13,530,533	4,274,132
Liabilities	13,980,306	12,506,127	1,474,179
Equity	3,824,359	1,024,406	2,799,953

Comparative Results of Operations (In thousand pesos)

	2017	2016	Increase (Decrease)
Income	3,241,025	1,337,252	1,903,773
Personnel services	41,785	36,852	4,933
Operating expenses	319,897	322,153	(2,256)
Profit before tax	2,879,343	978,247	1,901,096
Income tax expense	0	69,855	(69,855)
Net profit	2,879,343	908,392	1,970,951

Independent Auditor's Report on the Financial Statements

We rendered an adverse opinion on PNCC's financial statements due to the recognition of the unconverted debts as equity and the non-recognition of accrued interests and other charges thereon resulting in the understatement as of December 31, 2017 and 2016, respectively, of the following: accumulated deficit by P59.804 billion and P58.060 billion, total liabilities by P65.356 billion and P63.612 billion, and capital deficiency by P65.356 billion and P63.612 billion.

Summary of Observations and Recommendations

The following are the other significant observations and the corresponding recommendations:

1. Results of confirmation of Accounts Receivable – Others National Labor Relations Commission (NLRC) disclosed an unreconciled variance of P5.336 million.

We recommended and Management agreed to:

- a) Coordinate with NLRC Accounting personnel in order to reconcile the book balances and effect the necessary adjustments, if warranted;

- b) Exert effort to follow-up with NLRC the release of the appeal bonds for decided cases in favor of PNCC;
 - c) Request from NLRC copies of documents to support the release of bonds to claimants in various cases to which PNCC is a party thereof; and
 - d) Coordinate and inform NLRC that the process of releasing the bonds to claimants should be in accordance with PD 1445 and the 2009 Revised Rules of Procedure of the Commission on Audit considering that PNCC is a Government Owned and Controlled Corporation (GOCC) covered by existing COA rules and regulations.
2. Toll revenue (SLEX operation under Toll Operations Certificate) account balance showed a variance of P566.300 million between PNCC and Toll Regulatory Board's (TRB) books.

We recommended and Management agreed to coordinate with TRB and Bureau of the Treasury (BTr) and furnish them with the documents covering the partial payment of P566.300 million pertaining to the unremitted toll revenues so that both agencies can update their records and deduct the said payment from PNCC's outstanding obligation.

3. Non-recognition and non-imposition of interest when lessees defaulted in the payment of monthly rental is disadvantageous to the Company.

We recommended that Management:

- a) Ensure that the monthly accrual of receivables from leases are recorded and collections of lease payments are timely made;
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4. Cash collateral amounting to P71.072 million paid to Investor's Assurance Corporation (IAC) was not returned to PNCC despite the Supreme Court's decision in favor of PNCC.

We recommended that Management:

- a) Follow-up and request updates from Office of the Government Corporate Counsel (OGCC) on the status of the release of the appeal bond from NLRC; and
- b) While waiting for the release of the bond, discuss with IAC Management the P3.994 million for the 5-year premium on the surety bond demanded by IAC to be paid by PNCC and the return of the cash collateral amounting to P71.072 million including the interest earned since August 29, 2012.

5. Procurement activities of the Company were not in accordance with the provision of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184 and Section 4 of Government Procurement Policy Board (GPPB) Resolution No. 23-2007 dated September 28, 2007.

We reiterated our prior years' recommendation that Management:

- a) Prepare an updated/revised Procurement Manual which adheres to the provisions of 2016 RIRR of RA No. 9184; and
- b) Require PNCC personnel performing the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities/documentation with the requirements of RA 9184.

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

As of December 31, 2017, the unsettled Notices of Disallowance (ND) amounted to P522.447 million, as follows:

Particulars	Quantity	Amount (in millions)
With Cluster decision but under automatic review by the Commission Proper	4	228.351
NDs affirmed in the decision rendered by the COA CGS Cluster Director. Petition for Review filed with the COA Commission Proper	24	198.321
With Petition for Certiorari filed with the Supreme Court	1	90.785
NDs with Notice of Finality of Decision (NFD) and COA Order of Execution (COE)	6	4.990
	35	522.447

Status of Implementation of Prior Years' Audit Recommendations

Out of the 33 prior year's recommendations, 17 were implemented, 8 were partially implemented and 8 were not implemented.



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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

Philippine National Construction Corporation
Km. 15, East Service Road
Bicutan, Parañaque City

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of Philippine National Construction Corporation (PNCC or the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, 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, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Adverse Opinion

Letter of Instruction (LOI) No. 1295 issued in 1983 directed all concerned Government Financial Institutions (GFIs) to convert to shares of common stock certain obligations of PNCC with them. Substantial portion of these liabilities were, however, not converted. These were eventually transferred to the National Government (NG) thru the Asset Privatization Trust, now Privatization Management Office (PMO), pursuant to Proclamation No. 50 issued in 1986 and serviced by the Bureau of the Treasury (BTr). It is PNCC's position that these unconverted debts have effectively been converted to equity and, therefore, should no longer bear interest and other charges. Accordingly, it recognized in equity the unconverted debts in the total amount of P5.552 billion and no longer recognized the interest and other charges thereon. The NG, however, has a contrary position.

Due to their conflicting positions, the parties submitted the issue to the Department of Justice (DOJ) in 2012 for arbitration. In 2014, the DOJ dismissed PNCC's petition against the PMO and ordered the former to pay the latter its due and demandable obligation inclusive of interests and penalties until actually paid. PNCC's Motion for Reconsideration (MR) and Supplement to the MR were, likewise, denied by DOJ in 2015. Accordingly, PNCC filed an Appeal Memorandum with the Office of the President of the Philippines on July 27, 2015, which, to date, is still pending with the Office of the President.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date JUL 23 2018

RECEIVED
KARL AARON D. GACUTAN

Earlier, the Office of the Government Corporate Counsel, in its Opinion No. 245 dated November 15, 2007, opined that PNCC may enter into an agreement with PMO for the conversion of PNCC's remaining liabilities into PNCC's shares of common stock and that after the completion of the equity conversion, PNCC shall no longer have any remaining obligations with the NG and PMO under LOI No. 1295, subject to the approval by higher authorities as may be required by law or regulation.

On April 15, 2015, the Department of Finance (DOF) served to PNCC a Statement of Account informing that its outstanding obligations were due and demandable, and that there is no longer any basis to consider the conversion into equity of the subject obligation under LOI 1295.

Taking into consideration the time that had elapsed, together with the DOJ opinion, the OGCC opinion and the DOF demand, we believe that the planned conversion of liabilities to equity is a remote possibility.

The unconverted debt of P5.552 billion increased to P65.356 billion and P63.612 billion as of December 31, 2017 and 2016, respectively, as shown in the Statement of Accounts issued by PMO and the Status of BTr Advances issued by the BTr both as of December 31, 2017 and 2016. The increase consists mainly of interest and other charges. The said amounts were not recognized by PNCC as liability in its books understating the total liabilities and capital deficiency by P65.356 billion and P63.612 billion as of December 31, 2017 and 2016, respectively, and understating the accumulated deficit by P59.804 billion and P58.060 billion as of December 31, 2017 and 2016, respectively.

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

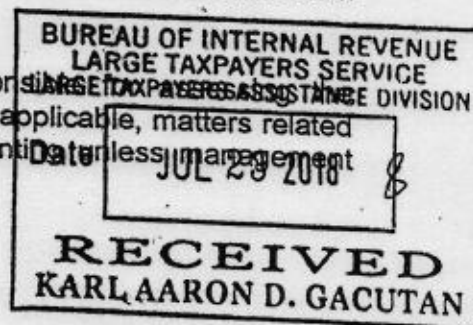
Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management



either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form No. 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017 but does not include the financial statements and our auditor's report thereon. The SEC Form No. 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

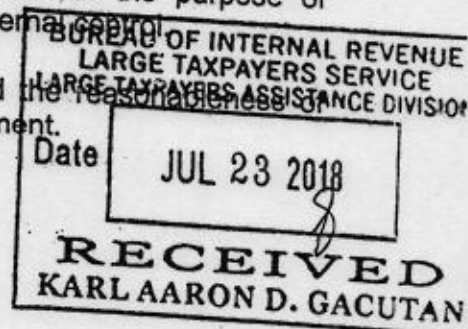
In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Auditor's Responsibilities 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 the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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

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

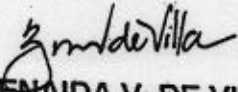
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

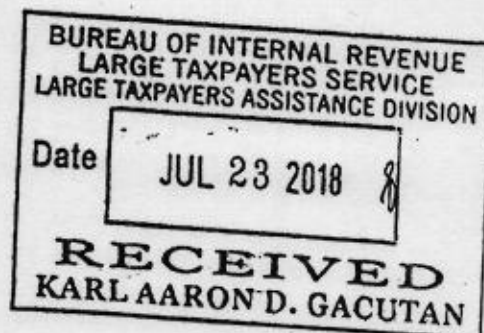
Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 34 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. Such supplementary information is the responsibility of management. Because of the significance of the matter described in the *Basis for Adverse Opinion* paragraph, it is inappropriate to and we do not express an opinion on the information referred to above.

COMMISSION ON AUDIT


ZENAIDA V. DE VILLA
 OIC, Supervising Auditor

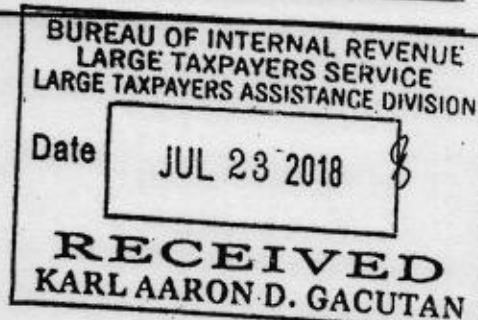
March 27, 2018



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Notes	December 31, 2017	December 31 2016 (As Restated)	January 1 2016 (As Restated)
ASSETS				
Current Assets				
Cash and cash equivalents				
Receivables, net	4.3, 6	789,027,864	591,045,681	693,740,491
Inventories	4.3, 7	446,206,479	328,313,259	367,297,140
Other current assets	4.7, 8	3,420,610	4,403,783	3,658,426
Total Current Assets	9	18,784,759	13,603,421	9,239,804
		1,257,439,712	937,366,144	1,073,935,861
Non-Current Assets				
Investments				
Investment property	4.9, 10	926,950,952	926,950,952	172,444,252
Property and equipment, net	4.10, 11	14,738,325,500	10,669,948,000	10,669,948,000
Deferred tax assets	4.11, 12	665,179,677	780,275,072	787,180,979
Other non-current assets, net	4.20	26,946,039	26,092,495	96,601,999
Total Non-Current Assets	13	189,823,329	189,900,198	290,218,697
		16,547,225,497	12,593,166,717	12,016,393,927
TOTAL ASSETS		17,804,665,209	13,530,532,861	13,090,329,788
LIABILITIES				
Current Liabilities				
Financial liabilities				
Other financial liabilities (Due to NG and GOCCs)	14	20,173,458	17,737,989	10,094,647
Inter-agency payables	15	9,290,004,216	9,032,001,816	9,340,299,616
Trust liabilities	16	2,948,043	815,997	4,253,158
Deferred credits/unearned income	17	43,625,984	18,883,600	13,048,984
Total Current Liabilities		24,556,428	24,205,474	23,066,061
		9,381,308,129	9,093,644,876	9,390,762,466
Non-Current Liabilities				
Deferred tax liabilities	4.20, 28	4,595,207,954	3,408,692,673	3,409,933,250
Trust liabilities	17	3,789,629	3,789,629	174,861,629
Total Non-Current Liabilities		4,598,997,583	3,412,482,302	3,584,794,879
TOTAL LIABILITIES		13,980,305,712	12,506,127,178	12,975,557,345
EQUITY				
Revaluation surplus	4.11	454,864,651	534,193,246	537,087,927
Deficit	4.15	(4,439,268,275)	(7,318,550,684)	(8,231,078,605)
Stockholders' equity	4.15	7,808,763,121	7,808,763,121	7,808,763,121
Total Equity		3,824,359,497	1,024,405,683	114,772,443
TOTAL LIABILITIES AND EQUITY		17,804,665,209	13,530,532,861	13,090,329,788

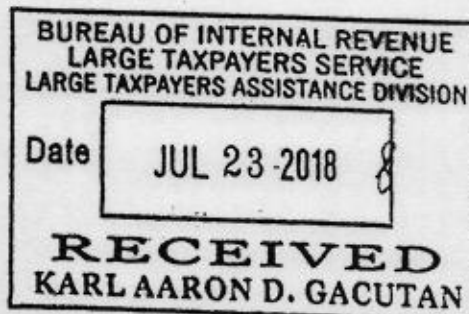
See accompanying Notes to Financial Statements.



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017, 2016 and 2015
(In Philippine Peso)

	Notes	December 31, 2017	December 31, 2016 (As restated)	December 31, 2015
Income				
Service and business income				
Gains	4.16, 21	328,926,052	308,865,842	239,614,315
Other non-operating income	4.16, 22	2,848,475,469	1,071,297	227,749,845
Total Income	4.16, 24, 32	63,823,171	1,027,314,810	6,053,293
		3,241,024,692	1,337,251,949	473,417,453
Expenses				
Personnel services	4.17, 24	(41,785,061)	(36,851,543)	(32,472,335)
Maintenance and other operating expenses	4.17, 25	(25,375,560)	(26,914,502)	(26,234,380)
Financial expenses				
Penalty charges on unpaid concession fee	4.18, 15	(258,002,400)	(258,002,200)	(258,002,200)
Bank charges	4.17	(7,710)	(6,940)	(6,079)
Direct costs	4.17, 26	(30,371,551)	(30,036,988)	(8,213,446)
Non-cash expenses	4.17, 27	(8,139,729)	(7,192,251)	(5,420,139)
Total Expenses		(361,682,011)	(359,004,424)	(330,348,579)
Profit Before Tax		2,879,342,681	978,247,525	143,068,874
Income tax expense	4.20, 28	0	(69,854,862)	(68,324,953)
Net Income		2,879,342,681	908,392,663	74,743,921
Other Comprehensive Income/(loss)	4.11, 28	(76,559,103)	0	160,434,195
Comprehensive Income		2,802,783,578	908,392,663	235,178,116

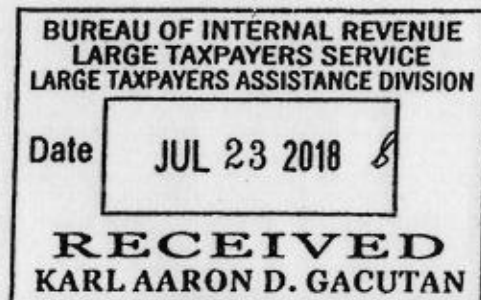
See accompanying Notes to Financial Statements.



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

	Share Capital (Notes 4.15, 18)	Share Premium (Note 4.15)	Equity Adjustment - Loans Transferred to National Gov't (Note 20)	Subscriptions Receivable (Notes 4.15, 19)	Treasury Stock (Notes 4.15, 18)	Revaluation Surplus (Note 4.11)	Retained Earnings/(Deficit) (Note 4.15)	TOTAL
Balance at January 1, 2016	2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	537,087,927	(8,231,078,605)	114,772,443
Changes in equity for 2016								
Add/(Deduct):								
Comprehensive income for the year	0	0	0	0	0	0	737,320,663	737,320,663
Other adjustments								
Piecemeal realization of revaluation increment	0	0	0	0	0	(4,135,258)	4,135,258	0
Reduction in deferred tax liability	0	0	0	0	0	1,240,577	0	1,240,577
Balance at December 31, 2016, as previously reported	2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	534,193,246	(7,489,622,684)	853,333,683
Derecognition of accounts payable (Note 32)	0	0	0	0	0	0	171,072,000	171,072,000
Balance at December 31, 2016, as restated	2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	534,193,246	(7,318,550,684)	1,024,405,683
Changes in equity for 2017								
Add/(Deduct):								
Comprehensive income for the year	0	0	0	0	0	0	2,879,342,681	2,879,342,681
Other comprehensive income								
Movement in revaluation increment, net of tax	0	0	0	0	0	(76,559,103)	0	(76,559,103)
Other adjustments								
Expiration of 2012 minimum corporate income tax	0	0	0	0	0	0	(4,016,686)	(4,016,686)
Piecemeal realization of revaluation increment	0	0	0	0	0	(3,956,414.28)	3,956,414	0
Reduction in deferred tax liability	0	0	0	0	0	1,186,922	0	1,186,922
Balance at December 31, 2017	2,283,758,120	46,137,443	5,551,726,307	(56,158,831)	(16,699,918)	454,864,651	(4,439,268,275)	3,824,359,497

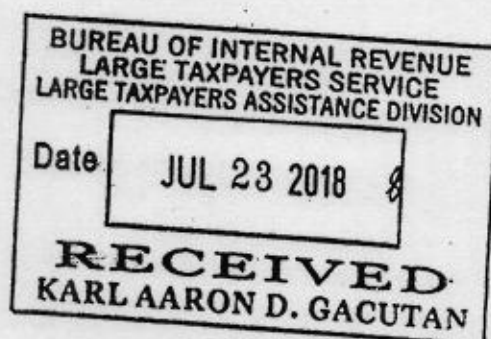
See accompanying Notes to Financial Statements



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017, 2016 and 2015
(In Philippine Peso)

	Note	December 31, 2017	December 31, 2016 (As restated)	December 31, 2015
CASH INFLOWS FROM OPERATING ACTIVITIES				
Cash Inflows				
Collection of income/revenue		224,190,956	264,709,195	192,901,137
Reversion of restricted cash used as collateral		0	100,327,360	0
Other receipts		37,811,511	40,103,409	6,923,342
Total Cash Inflows		262,002,467	405,139,964	199,824,479
Cash Outflows				
Payment of expenses		(126,015,141)	(119,587,269)	(78,732,225)
Release of inter-agency fund transfers		(3,292,028)	(3,502,324)	(3,348,016)
Total Cash Outflows		(129,307,169)	(123,089,593)	(82,080,241)
Net Cash Provided by Operating Activities		132,695,298	282,050,371	117,744,238
CASH INFLOWS FROM INVESTING ACTIVITIES				
Cash Inflows				
Receipt of cash dividends		58,755,216	55,012,640	42,617,712
Receipt of interest earned		6,056,200	10,913,760	5,463,149
Proceeds from sale of property and equipment		1,194,311	23,283,267	905,605
Proceeds from sale of other assets		0	92,671,235	128,400,000
Total Cash Inflows		66,005,727	181,880,902	177,386,466
Cash Outflows				
Purchase of property and equipment		(718,842)	(326,083)	(34,810)
Total Cash Outflows		(718,842)	(326,083)	(34,810)
Net Cash Provided by Investing Activities		65,286,885	181,554,819	177,351,656
CASH INFLOWS FROM FINANCING ACTIVITIES				
Cash Outflows				
Payment of long-term liabilities		0	(566,300,000)	0
Net Cash Used in Financing Activities		0	(566,300,000)	0
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		197,982,183	(102,694,810)	295,095,894
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		591,045,681	693,740,491	398,644,597
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2017	6	789,027,864	591,045,681	693,740,491

See accompanying notes to Financial Statements



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
NOTES TO FINANCIAL STATEMENTS**

1. CORPORATE INFORMATION

The Company was originally incorporated under the name of Construction Development Corporation of the Philippines (CDCP) in 1966 for a term of 50 years. Its Articles of Incorporation and By Laws were approved by the Securities and Exchange Commission (SEC) on November 22, 1966 under SEC Registration No. 30939 and its actual operation started on April 16, 1967. The primary purpose of the Company is to undertake general contracting business with private parties, government agencies, and instrumentalities relative to the construction of infrastructure projects and to engage in other related services in a manner that will contribute to the economic development of the country. CDCP eventually rose to be one of the country's foremost construction companies with extensive operations in the Philippines, the Middle East, and other ASEAN countries.

On March 31, 1977, Presidential Decree (PD) 1113 granted CDCP the franchise to operate, construct, and maintain toll facilities in the North and South Luzon Tollways for a period of 30 years. (That franchise expired on May 1, 2007.) PD 1113 was amended by PD 1894 in 1983 to include, among others, the Metro Manila Expressway (MME) to serve as an additional artery in the transportation of trade and commerce in the Metro Manila Area and gave the Company another period of 30 years "from the completion of the project."

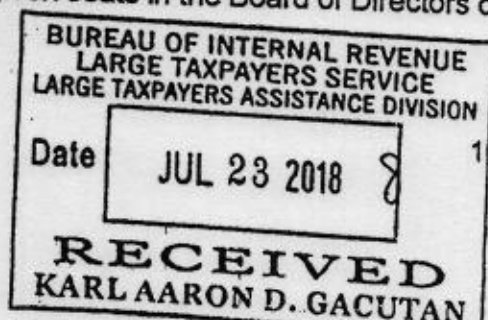
On May 7, 1981, Letter of Instruction (LOI) 1136 was issued mandating the National Development Company (NDC) to invest in the Company by way of capital infusion in the amount of P250 million.

On February 23, 1983, then President Ferdinand E. Marcos issued LOI 1295, directing the creditor Government Financial Institutions (GFIs) to convert into CDCP shares of stock the following: (1) all of the direct obligations of CDCP and those of its wholly-owned subsidiaries, including, but not limited to loans, credits, accrued interests, fees and advances in any currency outstanding as of December 31, 1982; (2) the direct obligations of CDCP maturing in 1983; and (3) obligations maturing in 1983 which were guaranteed by the GFIs. With the implementation of LOI 1295, the GFIs became the majority stockholder of CDCP.

The amount of the debt to be converted into equity was around P7 billion. However, only P1.4 billion of the debt was issued shares of stocks while the remaining P5.6 billion was left unconverted.

On December 7, 1983, SEC approved the increase of the Company's authorized capital stock from P1.6 billion to P2.7 billion in accordance with LOI 1295.

CDCP was later renamed as Philippine National Construction Corporation to reflect the Philippine Government's stockholding, and became a government-acquired asset corporation. Consequently, the various GFIs were given seats in the Board of Directors of the Company and participated in its management.



In 1986, under Proclamation No. 50, the Company was placed under the Committee on Privatization (COP) and the Asset Privatization Trust (APT). Also in 1986, under Administrative Order No. 64, certain assets of the Philippine Export and Foreign Loan Guarantee Corporation (Philguarantee) and the National Development Company (NDC) were transferred to the National Government (NG) which also assumed certain liabilities of both Philguarantee and NDC. A total of P1.918 billion was transferred to the NG.

By virtue of LOI 1136 and 1295, 55.72 per cent of the Company's equity was held by the Asset Privatization Trust (APT) (now the Privatization Management Office or PMO), which was created on December 8, 1986 by virtue of Proclamation No. 50. The other 21.25 per cent was held by the Government Service Insurance System (GSIS) and the Land Bank of the Philippines (LBP) with 20.96 per cent and 0.29 per cent, respectively. The remaining 23.03 per cent of the Company's equity is under private ownership.

In 1988, pursuant to Administrative Order Nos. 14 and 64, Development Bank of the Philippines (DBP), Philippine National Bank (PNB), Philguarantee, and NDC transferred their interests in the Company to the Republic of the Philippines which in turn conveyed them to the APT (now the PMO) for disposition to the private sector pursuant to the government's privatization program.

From 1987 to 2001, the Company still engaged in construction business but this resulted in losses. It veered away from active involvement in construction operations, and focused more on the operation and maintenance of its tollways. It entered into Joint Venture Agreements (JVAs) that resulted in the division of the Tollways into the South Luzon Expressway (SLEX), the North Luzon Expressway (NLEX) and the Skyway.

In August 1995, the Company entered into a Business and Joint Venture Agreement (BJVA) with Indonesia's P.T.CitraLamtora Gung Persada (CITRA) and formed the joint venture company, Citra Metro Manila Tollways Corporation (CMMTC), which was granted the Supplemental Toll Operation Agreement (STOA) to finance, design and construct the South Metro Manila Skyway (SMMS) Project. The project covered the construction of the 9.5-kilometer elevated road from Bicutan, Parañaque City to the Makati Central Business District, as well as the rehabilitation of the 13.5-kilometer section of the SLEX from Alabang to Magallanes. The PNCC's wholly-owned subsidiary, PNCC Skyway Corporation (PSC), originally managed the operation and maintenance of the SMMS Project. October 1999 marked the start of the full operation of the entire Skyway Stage 1.

In 1997, the Company entered into a JVA with the First Philippine Infrastructure Development Corporation (FPIDC) for the rehabilitation of the NLEX. The Manila North Tollways Corporation (MNTC) was incorporated as its joint venture company. MNTC was granted the STOA in June 1998 to finance, design, construct, operate and maintain the toll roads, toll facilities and other facilities generating toll-related income in respect of the NLEX. The FPIDC was acquired by the Metro Pacific Investments Corporation (MPIC) in 2008. The operation and maintenance (O&M) of the NLEX is with the Tollways Management Corporation (TMC). Following the issuance of the Toll Operation Permit (TOP), commercial operations started on February 1, 2005.

In 2002, by virtue of Executive Order No. 148, the Company was attached, "for policy and program coordination and for general supervision", to the Department of Public Works and Highways (DPWH), "with which it has allied functions, especially in the development of road networks within the country".

In 2004, as per Executive Order No. 331, the Company was placed under and attached to the Department of Trade and Industry (DTI) "pending privatization".

In February 2006, the Company entered into a JVA with Malaysian Corporation MTD Manila Expressways, Inc. (MTDME) and formed its joint venture company South Luzon Tollway Corp (SLTC). By virtue of the STOA entered into with the Toll Regulatory Board (TRB) and the Company, SLTC committed to undertake all works required for the SLEX Project including its total financing without sovereign guarantees and with the recovery of its investment being in the form of the collection of toll by the Manila Toll Expressway Systems, Inc. (MATES), its O&M company. The SLEX Rehabilitation and Upgrading Project consisted of the rehabilitation and expansion of the existing toll road from Alabang to Calamba (28.53 km) and the construction of the extension of the SLEX to Sto. Tomas, Batangas (5.81 km.) with the associated spur to the Southern Tagalog Arterial Road (1.79 km.). SLTC was granted a 30-year concession period from February 2006 to February 2036. It includes the period of construction which began in June 2006.

On April 27, 2007, TRB issued a Toll Operation Certificate (TOC) to the Company for the O&M of the SLEX. The said authority from TRB, pursuant to its powers under its charter (PD 1112), allowed the Company to operate and maintain the SLEX and to collect toll fees, in the interim, after its franchise expiration on April 30, 2007. The effective date of the TOC commenced on May 1, 2007, but in no case to exceed the date of substantial completion of the SLEX Project Toll Roads under the STOA dated February 1, 2006, or unless sooner revoked by TRB. In 2010, the operation was officially turned over to SLTC and MATES.

In December 2007, the Company entered into a Memorandum of Agreement (MOA) with CMMTC and PNCC Skyway Corporation (PSC) where the Company was to have been provided P2 million by CMMTC in order for the Company to subscribe to the par value up to 20 per cent of the total outstanding capital stock of the O&M company, Skyway Operation and Maintenance Corporation (SOMCO). PSC turned over the operation and maintenance of the South Metro Manila Skyway Project to SOMCO which operates the 16.2-kilometer elevated tollway from Buendia to Alabang and the 13.5-kilometer at-grade toll road from Magallanes to Alabang.

On November 14, 2008, a Subscription Agreement was executed by and among the Alabang-Sto. Tomas Development Inc. (ASDI), the National Development Company (NDC), and the Company, wherein the Company subscribed to 12,500 shares from the unissued portion of the 150,000 shares authorized capital stock (with par value of P1,000 per share) of ASDI, a wholly-owned subsidiary of NDC which was incorporated to undertake the Daang Hari-SLEX connector road.

In 2009, a MOA for the Advance Works on the DaangHari-SLEX Link Road Project (DHSLRP) was entered by and between ASDI and the Company. The Company was designated as the Main Turnkey Contractor responsible for undertaking the Advance Works and for the implementation of the design and the construction of the Road Project, which consists of a toll road facility connecting DaangHari Road in Cavite to the SLEX near Susana Heights Interchange. The project was 25 per cent complete when the DPWH, pursuant to its Public Private Partnership (PPP) mandate, took over the project for the purpose of bidding it out. ASDI was to be reimbursed with its cost plus a premium. Bidding of the road project was undertaken by DPWH in December 2011 and was

subsequently awarded to Ayala Corporation (AC) in the same month. On April 2, 2012, a Deed of Absolute Sale was executed between ASDI and AC for the turnover of the project.

On April 27, 2009, CMMTC received the Notice to Proceed (NTP) from TRB and it officially started the South Metro Manila Skyway Project Stage 2, the 6.8 kilometer elevated expressway from Bicutan to Alabang. In May 2011, Skyway Stage 2 was completed with toll facilities and other ancillary requirements already in place.

In 2009 and 2010, in the case of Ernesto B. Francisco vs. TRB, PNCC et al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010 or the *Francisco Case*) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et al. (G.R. No. 178158, December 4, 2009 or the *Radstock Case*), the Supreme Court (SC) ruled and declared that with the expiration of the Company's franchise, the toll assets and facilities of the Company were automatically turned over, by operation of law, to the NG at no cost and consequently, this inevitably resulted in the NG owning too the toll fees and the net income derived, after May 1, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the Joint Venture Companies (JVCs) currently operating the tollways, including NLEX and Skyway.

The Supreme Court, in its resolution dated April 12, 2011 and in connection with the *Francisco Case*, directed TRB, with the assistance of the Commission on Audit (COA), to prepare and finalize the Implementing Rules and Guidelines (IRG) relative to the determination of net income remittable by the Company to the NG. An interim rules and guidelines was issued on March 9, 2012, for the remittance by the JVCs to the National Treasury of the net income that are supposed to be remitted by the JVCs from the revenues of the SLEX, NLEX and Skyway in accordance with the *Francisco Case*. The Company has been receiving 10 per cent of the revenue and dividend shares from the JVCs, while 90 per cent is remitted by the JVCs to the National Treasury.

In February 2012, the Company's shares in JVCs, i.e. CMMTC, MNTC, TMC, SLTC and MATES, were turned over to the government through a Deed of Compliance to Transfer Shares of Stocks to the NG in compliance with the SC decision in the *Francisco Case* (Note 2, Going Concern - Equity Participation in CMMTC).

The impact of the aforesaid SC Decision on the *Radstock and Francisco Cases* has been appropriately reflected in the financial statements.

In 2013, the Company was attached and placed under the Office of the President of the Republic of the Philippines (OP) from DTI per Executive Order No. 141. The Company entered into Joint Venture Projects with Citra Central Expressway Corporation (CCEC) for Metro Manila Skyway (MMS) Stage 3 Project, and with Citra Intercity Tollways Inc. (CITI) for the Metro Manila Expressway (MME), or C-6 Project, (Note 2, Going Concern - New Projects).

The Governance Commission for GOCCs (GCG), in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five (5) subsidiaries of the Company, namely: Alabang-Sto. Tomas Development, Inc. (ASDI), DISC Contractors, Builders and General Services, Inc. (DCBGS), Traffic Control Products Corporation (TCPC), CDCP Farms Corporation (CDCP FC) and Tierra Factors Corporation (TFC), which was approved by the President through a memorandum from

the Executive Secretary dated August 7, 2014. The Company is in the process of abolishing the five (5) subsidiaries.

In August 2013, CDCP founder, Rodolfo M. Cuenca, filed a case against the TRB, COA, the Company, MNTC and MATES, seeking the remittance of revenues and dividends on the toll road projects to the Company alleging that TRB has not finalized the IRG. The Makati Regional Trial Court (RTC) "enjoined petitioner TRB and PNCC from implementing the TRB's Interim Rules and Guidelines dated 22 March 2012." In a resolution dated August 4, 2014, the Supreme Court issued a Temporary Restraining Order (TRO) against the Makati RTC's TRO, thus sustaining the status quo that revenues and dividends be remitted directly to the NG.

On March 3, 2015, the Company submitted its Performance Agreement to the GCG. On December 1, 2015, the Makati RTC issued a Writ of Preliminary Injunction for Civil Case No. 15-384 in favor of Forum Holdings Corporation restraining the GCG, its representatives and officers, and the Company's Board of Directors from implementing the said Performance Agreement. The Company is not impleaded as a party to the case filed by Forum.

In January 2016, three (3) GSIS members filed a case against the Company's Board of Directors, Members of the Board of Trustees of the GSIS and GCG seeking to enjoin the implementation of the Performance Agreement. On February 12, 2016, the Parañaque RTC ordered the re-raffle of the case to a commercial court. On July 12, 2016, the Parañaque RTC Branch 258 ordered the dismissal of the case for being a nuisance or harassment suit. The three (3) GSIS members filed a Petition for Review on Certiorari dated September 12, 2016 with the Supreme Court. On February 22, 2017, the Supreme Court issued a Resolution denying the petition and upholding the dismissal of the suit by the Parañaque RTC.

Pursuant to RA 10149, the Company is listed as a non-chartered Government-Owned or Controlled Corporation (GOCC) under the supervision of the GCG, which is the central advisory, monitoring, and oversight body of the NG under the OP.

On June 22, 2016 and October 17, 2016, the Company's Board of Directors and its Shareholders, respectively, approved the amendment to the 4th Article of the Articles of Incorporation to extend the corporate term for fifty (50) years from November 22, 2016, which amendment was approved by the SEC on November 21, 2016.

The registered office address of the Company is Km. 15, East Service Road, Bicutan, Parañaque City.

2. GOING CONCERN

New Projects

The Company holds updated partnerships for new Toll Road projects. The projects will enable the Company to generate sufficient cash flow from dividends and revenue shares from the JVCs for the next 30 years.

Metro Manila Skyway (MMS) Stage 3 Project

The Metro Manila Skyway Stage 3 Project starts from the existing Buendia interchange and will be extended and eventually connected to the North Luzon Expressway (NLEX) at the Balintawak-EDSA Interchange. The project is 14.80 kilometers in length.

On May 3, 2011, CITRA and the Company submitted to TRB an Updated Joint Venture Investment Proposal for the said project pursuant to one of the "Whereas Clauses" of the South Metro Manila Skyway (SMMS) Supplemental Tollway Operation Agreement (STOA) dated November 27, 1995, as amended on July 18, 2007. Pursuant to its mandate and authority granted under PD No. 1112, TRB reviewed, evaluated and approved the Updated Joint Venture Investment Proposal for MMS Stage 3 Project.

On January 9, 2012, CITRA and the Company executed a Supplement to the Business and Joint Venture Agreement (Supplement to BJVA) which governs the implementation of the MMS Stage 3 Project and Stage 4 Project also known as the Metro Manila Expressway (MME). The parties also executed the Second Supplement to the Business and Joint Venture Agreement (Second Supplement to BJVA) which contains the terms and conditions for the implementation of both MMS and MME.

On September 6, 2012, the Restated Second Supplement to the Business and Joint Venture Agreement (Restated Second Supplement to BJVA), which contains the entire agreement of the parties and embodies the final terms and conditions for MMS, was executed.

On November 16, 2012, following Section 1 of the Restated Second Supplement to BJVA, Citra Central Expressway Corporation (CCEC), the joint venture company, was incorporated as the vehicle to implement the financing, design, and construction of the MMS.

Under this agreement, the Company is provided with the following:

- 20 per cent equity in CCEC, 10 per cent of which is "Free Carry" i.e. not paid for by the Company and can never be diluted; while the other 10 per cent is to be paid for. In case of the Company's inability to fund the 10 per cent, CITRA needs to get the Company's approval to nominate another shareholder. The 10 per cent initial investment in CCEC amounted to P12.5 million.
- Projected share in gross revenues amounting to about P35.06 billion for the duration of the operation period (30 years);
- Projected share in net profits amounting to about P21.42 billion for the duration of the operation period (30 years);
- One permanent seat with one non-voting director to the Board of CCEC, regardless of its shareholdings;
- Membership in all Board Committees and Chairmanship of the Board's Audit Committee.

The Company agreed to forego any equity share in the O&M provided the CCEC remains a cost center and not a profit center.

On September 26, 2013, the STOA governing the design, construction, operation and maintenance of the SMMS-Stage 3 Project was approved by the Office of the President of the Republic of the Philippines. The construction of the project is ongoing (37 per cent completed) as of December 31, 2017.

Metro Manila Expressway (MME) or C-6 Project

The Metro Manila Expressway (MME), or C-6 Project, is actually Stage 4 of the SMMS. This toll road will stretch from Bicutan to San Jose Del Monte and will then connect to the proposed MRT7 Project which will extend to the NLEX. The toll road will have a length of 34.33 km, 7.62 km of which is the elevated portion, six lanes, with six interchanges and 20 ramps, and a close toll collection system. The construction cost is estimated at P19.76 billion out of the total P29.84 billion project cost.

On February 14, 2014, the Restated Supplement to the Business and Joint Venture Agreement (Restated Supplement to BJVA) for the MME Project was executed.

On February 17, 2014, following Section 1 of the Restated Supplement to BJVA, Citra Intercity Tollways Inc. (CITI), the joint venture company, was incorporated as the vehicle to implement the financing, design, and construction of the MME.

Patterned from the MMS Project, the MME Project will provide the Company with the following:

- 20 per cent equity in CITI, 10 per cent of which is "Free Carry" i.e. not paid for by the Company and can never be diluted. In case of the Company's inability to fund the 10 per cent, CITRA needs to get the Company's approval to nominate another shareholder;
- Projected share in gross revenues amounting to about P43.86 billion for the duration of the operation period (30 years);
- Projected share in net profits amounting to about P27.21 billion for the duration of the operation period (30 years);
- One permanent seat and one non-voting director to the Board of CITI, regardless of its shareholdings;
- Membership in all Board Committees and Chairmanship of the Board's Audit Committee.

On August 11, 2014, the STOA was approved by the Office of the President of the Republic of the Philippines (OP). A groundbreaking ceremony was held on January 8, 2018 with government agencies led by the Department of Transportation (DOTr) and Department of Public Works and Highways (DPWH). The project is expected to be completed in August 2020.

Revenue Shares from New Projects

The Company will earn revenue shares on net toll revenue from the new projects at the following rates: 2.5 per cent for the 1st 4 years; 3 per cent from the 5th to the 7th year; 3.5 per cent from the 8th to the 10th year; and 4 per cent from the 11th year onwards.

10 per cent Revenue Share from Toll Fee Collections and 10 per cent Share in Declared Dividends from Joint Venture Companies (JVCs)

On March 22, 2012, the TRB issued interim rules and guidelines covering the amount of money the Company will receive in order to cover operating expenses in relation to the *Francisco and Radstock Cases*. Both the TRB and the Company agreed to a 10 per cent revenue share from toll collection fees and declared dividends from JVCs.

The Company receives the following revenue shares:

- 10 per cent of 6 per cent share on the Manila North Tollways Corporation (MNTC) Gross Revenue;
- 10 per cent of 3.5 per cent share on the Citra Metro Manila Tollways Corporation (CMMTC) Gross Revenue; and
- 10 per cent of 1.75 per cent share on the South Luzon Tollway Corporation (SLTC) Gross Revenue.

The Company earned total revenue shares from the abovementioned JVCs in the amounts of P99.623 million, P93.752 million and P83.803 million in 2017, 2016 and 2015, respectively, while it earned dividends from CMMTC amounting to P57.946 million, P54.635 million and P36.423 million in 2017, 2016 and 2015, respectively (Note 22).

Lease Income

Lease income is derived from renting out investment property which includes the Financial Center Area (FCA) in Pasay City and a property in Porac, Pampanga.

In 2017, the Board approved the minimum rental rates of P240 and P200 per square meter for the covered portion and open space, respectively, of the FCA Property. Total rent income amounted to P125.386 million, P107.741 million and P96.839 million in 2017, 2016 and 2015, respectively (Note 22).

Equity Participation in CMMTC

It is the position of the Company that it has equity participation in CMMTC on the basis of PD 1894 and pursuant to the provisions of the SMMS Supplemental Tollway Operation Agreement (STOA) dated November 27, 1995, which was approved by then President Fidel V. Ramos. While the Company's franchise expired on May 1, 2007, Section 2 of PD 1894 provides that the "franchise granted for the Metro Manila Expressway and all extensions, linkages, stretches and diversion that may be constructed after the date of approval of this decree shall likewise have a term of thirty (30) years commencing from date of completion of the project" which the Supreme Court affirmed in the *Francisco Case*.

The Office of the Government Corporate Counsel (OGCC) rendered its opinion that the PD 1894 projects (namely the SMMS – Skyway Stage 1 and 2 and MMS Stage 3 and MME Stage 4) are "clearly covered by a still existing congressional franchise. For the same reason, too, the PD 1894 assets, facilities and shares are still held by PNCC." It is also the opinion of the Department of Justice (DOJ) that the Company still has a subsisting non-exclusive legislative franchise under PD 1894 and that only assets "that are related to its franchise under PD 1113 have accrued to the National Government (NG) and thus, ought to be turned over to the NG."

The shares in CMMTC were turned over to the NG by way of a Deed of Compliance of Shares of Stock to the NG in February 2012. However, in 2013, after having secured the opinions of both the OGCC and the DOJ regarding the validity of PD 1894, the Company requested CMMTC to refrain from transferring the shares of the Company to the NG and refrain from remitting the dividends and share in gross revenues of CMMTC to the NG. The matter is still awaiting actions from CMMTC, who has referred the matter to their legal counsel. On the other hand, the Department of Finance (DOF) has requested for clarification on the matter from the DOJ. Meanwhile, the shares still remain in the name of the Company.

The Company shares in CMMTC are worth P551.87 million which is equivalent to 8.11 per cent of total outstanding shares of CMMTC. The dividends and revenue shares from 2008 to 2017 amount to P3.840 billion of which the Company received 10 per cent or P383.970 million pursuant to the interim rules and guidelines issued by the TRB. However, it is the position of the Company that all revenue and dividends arising from its investment in CMMTC belong to the Company.

Issuance of Final Implementing Rules and Guidelines by the Toll Regulatory Board (TRB)

A Supreme Court Resolution clarifying the automatic remittance to the NG of the toll fees and net income derived from the Company's toll assets and facilities was issued in relation to the *Francisco Case*. The Resolution directed the TRB, with the assistance of Commission on Audit (COA), to "prepare and finalize the implementing rules and guidelines relative to the determination of the net income remittable by PNCC to the National Government and to proceed with the same with dispatch."

On March 22, 2012, TRB issued a Director's Certificate approving the Interim Rules and Guidelines (IRG) for the remittance by the JVCs of the revenues of the SLEX, NLEX and Skyway in accordance with the *Francisco Case*. As subsequently agreed upon, the Company and TRB, as an interim arrangement, set aside 10 per cent of all amounts that are supposed to be remitted by the JVCs for remittance to the Company while 90 per cent goes to the National Treasury. The IRG also stated that if the 10 per cent is in excess of what is allowed by the guidelines, the Company shall remit to TRB for the National Treasury the excess amount. On the other hand, in case the 10 per cent is less than what is allowed under the guidelines, the shortfall shall be deducted in the next remittance to be made by the JVCs.

It is the position of the Company that the "determination of the net income remittable by it to the National Government" should deduct penalty charges on unpaid concession fee amounting to P258 million per year as part of its administrative expenses.

In March 2013, the Company proposed to TRB that overhead and administrative expenses plus the penalty charges be deducted from gross revenue from the Joint Venture Agreements Income in order to arrive at the Net Income to be remitted to the NG. A follow-up letter dated December 2, 2015 was sent. Another letter dated February 6, 2017 reiterating PNCC's position on the computation of the net income to be remitted to the NG was sent. The Company has booked penalty charges on unpaid concession fees from 2010 to 2017 amounting to P4.72 billion.

The Company is still awaiting the issuance of the Final Implementing Rules and Guidelines from TRB.

Debt of P5.552 Billion Remained Unconverted to Equity

The Company's debt of P5.552 billion which remained unconverted to equity is treated as part of equity in the Company's books, instead of a liability. The interest and penalties unilaterally charged thereon by the Privatization Management Office (PMO)/ Bureau of the Treasury (BTr) amounting to P65.376 billion and P58.060 billion as of December 31, 2017 and 2016 were not taken up in the Company's books.

The assertion that the P5.552 billion should be part of equity is supported by a Supreme Court ruling that recognizes the validity of Letter of Instruction (LOI) 1295 confirming that the P5.552 billion is no longer a debt but equity. The Office of the Solicitor General (OSG) and the Office of the Government Corporate Counsel (OGCC) have concurred with this ruling.

Pursuant to the mutual agreement between the Company and the PMO, the issue whether to convert the mentioned debt into equity was submitted to the Department of Justice (DOJ) on June 21, 2012 for arbitration.

On February 18, 2014, the DOJ dismissed the Company's petition against the PMO. The Company filed a Motion for Reconsideration (MR) with the DOJ on March 14, 2014 which was denied by the DOJ on January 22, 2015. Thereafter, the Company filed a Supplement to the MR on May 28, 2015 which was likewise denied by the DOJ in its order dated July 13, 2015.

On June 26, 2015, the Company filed a Notice of Appeal with the Office of the President of the Republic of the Philippines (OP) and filed the corresponding Appeal Memorandum on July 27, 2015.

The Company is awaiting the resolution of the OP on its appeal.

Payment of Company Obligation to the National Government

The Company sent a letter dated July 21, 2015 to the OP recognizing its liability to the NG in the amount of P7.9 billion and proposing to "pay off the recognized obligations, particularly given that the obligation to the TRB for unpaid concession fees carries with it a penalty of two per cent per month." The Company is awaiting the decision of the OP. In December 2016, the Company remitted to the NG, through the BTr, the amount of P566.3 million as partial payment for NG's outstanding share in the toll revenue for the operation of the South Luzon Expressway (SLEX) under the Toll Operation Certificate (TOC) from May 2007 to April 2010 (Note 15).

3. CHANGES IN ACCOUNTING POLICIES

Adoption of New and Revised PFRSs

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments effective beginning January 1, 2017:

- Amendment to PFRS 12, *Scope Clarification on Disclosure of Summarized Financial Information for Interest Classified as Held for Sales and Discontinued operation in accordance with PFRS 5 (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from their financing activities, including both changes arising from cash flows and non-cash flows changes. To the extent necessary, the amendment provides that an entity shall disclose the following changes in liabilities arising from financing activities: (a) changes from financing cash flows; (b) changes arising from obtaining or losing control of subsidiaries or other businesses; (c) the effect of changes in foreign exchange rates; (d) changes in fair values; and (e) other changes.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments, to address diversity in practice as follows:
 - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
 - The estimates of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences.
 - The estimates of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and

- An entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences. However, if tax law restricts the utilization of losses to deduction against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

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

New and Revised PFRSs Not Yet Adopted

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

Effective for annual periods beginning on or after January 1, 2018:

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4* – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. [The International Accounting Standards Board (IASB) issued IFRS 17, *Insurance Contracts* on May 18, 2017 and will replace IFRS 4 effective January 1, 2021. The Philippine Financial Reporting Standards Council (FRSC) has yet to adopt the said new insurance contracts standard.] The amendments allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts an option to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until January 1, 2021. The application of both approaches is optional but and an entity is permitted to stop applying them before the new insurance contracts standard is applied. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.
- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting 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 they are held and their 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; it will no longer be necessary for objective evidence of impairment to be there before a credit loss is recognized.

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 nonfinancial risk exposures.

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

- PFRS 15, *Revenue from Contracts with Customers* – PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede the following current revenue recognition standards under PFRSs: PAS 11, *Construction Contracts*; PAS 18, *Revenue*; IFRIC 13, *Customer Loyalty Programmes*; IFRIC 18, *Transfer of Assets from Customers*; and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The amendment clarify that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

- PFRS 16, *Leases* – 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.

Deferred effectivity –

- Amendments to PFRS 10 and PAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council (FRSC) postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRSs is not expected to have any material effect on the Company's financial statements. Additional disclosures will be included in the financial statements, as applicable.

4. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Presentation of Financial Statements

The financial statements of the Company are prepared using the historical cost basis. The financial statements are presented in Philippine Peso, which is the Company's functional currency. All amounts rounded off to the nearest peso except otherwise indicated.

4.2 Statement of Compliance with Philippine Financial Reporting Standards

The financial statement of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 19, 2018.

4.3 Recognition, Measurement and Classification of Financial Assets and Financial Liabilities

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

All financial instruments are initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial assets and financial liabilities designated as at fair value through profit or loss (FVTPL), the initial measurement of financial instruments includes transaction costs.

The Company classifies its financial assets, at initial recognition in the following categories: financial assets at FVTPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. The Company classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVTPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The Company has no financial assets classified as financial assets as at FVTPL and HTM investments as at December 31, 2017 and 2016.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVTPL or AFS financial assets.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method (EIR), less 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. The amortization is included in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the reporting date. Otherwise, these are classified as non-current assets.

Cash

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

The Company's cash and cash equivalents and receivables are included under this category (Notes 6 and 7).

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories.

The Company's available for sale equity securities (club shares) included under "Investments" account are classified under this category (Note 10) and are recorded/ measured/presented at fair market value as provided for under Philippine Interpretations Committee (PIC) Q&A 6-02.

Other financial liabilities

Other financial liabilities pertain to issued financial instruments that are not designated or classified as at FVTPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and any directly attributable transaction costs that are an integral part of the effective interest rate.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through amortization process.

This accounting policy applies primarily to financial liabilities (other than statutory liabilities), long-term debt and other noncurrent liabilities (Notes 14, 15, 16, 17 and 18).

4.4 Derecognition of Financial Instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- a. the right to receive cash flows from the asset has expired;
- b. the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- c. the Company has transferred its right to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Company has retained.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

4.5 Impairment of Financial Assets

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Loans and receivables

For loans and receivables, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment for impairment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, or the probability that they will enter bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, future cash flows are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as past-due status and term.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset.

Authority to request for write-off of receivables is requested from the Commission on Audit when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

4.6 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

4.7 Inventories

Inventories consist principally of construction materials, spare parts, and supplies which are stated at cost, generally determined by the average cost method for a significant portion of domestic inventories and by the first-in, first-out method for other inventories. Allowance for inventory write-down is provided for all non-moving/obsolete items.

4.8 Prepayments

Prepayments are expenses paid in advance and recorded as assets before these are utilized. These are comprised of insurance premiums, other prepaid items, and creditable withholding taxes. Prepayments that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other non-current assets.

4.9 Investments

The Company accounts for its investments in wholly-owned/controlled subsidiaries at cost. Allowance for impairment is provided.

The Company believes that the effects of not consolidating the subsidiaries are not material to the financial statements because these subsidiaries are no longer operating, except for DISC Contractors, Builders and General Services, Inc. (DCBGSI) which has been incurring losses, resulting in accumulated deficit. In addition, in 2015, the Company has initiated the process of closing its subsidiaries that are no longer operating and those that are losing. On October 1, 2015, as part of the reorganization and streamlining of Company operations, PNCC assumed the operations of DCBGSI which now operates as a separate division of the Company.

In a regular board meeting held on November 14, 2011, the PNCC Board resolved to comply with the ruling of the Supreme Court to transfer and turn over to the National Government (NG) the shares of stock in tollway Joint Venture Companies (JVCs) which PNCC is holding in trust for the NG.

4.10 Investment Property

Investment property is comprised of land or building or both held to earn rentals or for capital appreciation or both. Investment property is recognized as an asset when and only when it is probable that future economic benefits associated with the property flows to the entity and the cost of the property can be measured reliably.

Investment property is initially measured at cost. Subsequent to initial recognition, the account is stated at fair value, which has been determined based on the valuations performed by independent firms of appraisers. The changes in fair value from year to year are recognized in profit or loss.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement and/or disposal of investment property is recognized in profit or loss in the period of retirement and/or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

4.11 Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Property and equipment are subsequently carried at revalued amounts.

The increase in the property and equipment's carrying amount as a result of revaluation is credited to equity under the heading of "Revaluation Increment in Property". The revalued asset is being depreciated and, as such, part of the revaluation increment is being realized as the asset is used. Piecemeal realization of the revaluation increment is effected on a yearly basis. Realization of the revaluation increment is credited to "Retained Earnings" account.

The revaluation increment realized amounting to P3.956 million and P4.135 million in 2017 and 2016, respectively, are reflected in the statements of changes in equity.

Depreciation commences once the property and equipment are available for their intended use and is computed using the straight-line method over the following estimated useful lives:

Asset Type	Estimated Useful Lives (in years)
Land improvements	10
Buildings and improvements	10 to 33
Construction equipment	2 to 10
Transportation equipment	3 to 5
Office equipment, furniture and fixtures	5
Others	2 to 7

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged against operations.

When the assets are retired or otherwise disposed of, the cost and related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss.

4.12 Impairment of Non-financial Assets

The carrying amounts of investment property, property and equipment, and other non-financial assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset

is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

4.13 Fair Value Measurement

The Company measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: 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 for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

4.14 Provisions

Provisions are recognized only when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, 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 an interest expense.

Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

4.15 Equity

Capital stock and Additional Paid-in Capital

The Company records capital stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are recognized as a deduction from equity, net of any tax effects.

Deficit

Deficit pertains to accumulated losses of the Company.

Treasury Shares

Treasury shares are own equity instruments which are reacquired, are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Company's own equity instruments. When the

shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

4.16 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue and Dividend Share from Joint Venture Companies (JVCs)

Pursuant to the Supreme Court En Banc Decision, as discussed in Note 1, the Company no longer records the tollways income from the North and South Luzon Tollways (NLT and SLT).

In accordance with the interim rules and guidelines issued by the Toll Regulatory Board (TRB) for the determination of the amounts due to the Company for its administrative expenses, the Company recognized 10 per cent of its share from the gross toll revenues of the JVCs, pending issuance of the Implementing Rules and Guidelines.

Dividend income is recognized when the Company's right to receive the payment is established.

Lease Income

Lease income from operating leases, wherein substantially all the risks and rewards of ownership are retained by the Company as a lessor, is recognized on a straight-line basis over the term of the relevant lease. The lease income is derived from the Company's properties not used in business and being leased out to third parties for a certain period, renewable under such terms and conditions as may be agreed upon by both parties.

Service Income

Service income is recognized on the basis of percentage of completion method.

Other Income

Other income is recognized when earned.

4.17 Costs and Expenses

Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

4.18 Borrowing Costs

Borrowing costs are expensed as incurred. These costs represent the two per cent penalty charges imposed by TRB on unpaid concession fees.

4.19 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires 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. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Operating Lease

The Company as a Lessee. Leases which do not transfer to the Company substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

The Company as a Lessor. Leases where the Company does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

4.20 Income Taxes

Current Tax. Current income tax assets or liabilities comprise of those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period that are uncollected or unpaid at reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries and associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries and associate, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.21 Value-Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepayments" or "Vouchers Payable and Accrued Expenses" accounts in the statements of financial position.

4.22 Creditable Withholding Taxes

Creditable withholding taxes (CWT), included under "Other Assets" account in the statements of financial position, represent the amounts withheld by customers from income payments to the Company less allowance for probable losses. CWT are deductible from income tax payable.

4.23 Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may

be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

4.24 Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Company and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effect of all potential dilutive debt or equity instruments.

As at December 31, 2017 and 2016, the Company has no dilutive equity instruments.

4.25 Contingencies

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. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

4.26 Events After the Financial Reporting Date

Post year-end events up to the date when the financial statements were authorized for issue by the Board of Directors that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the financial statements. Any post year-end events that are non-adjusting events are disclosed in the notes to financial statements when material.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the accompanying financial statements in conformity with PFRS requires Management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The estimates and assumptions used in the accompanying financial statements are based upon Management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the financial statements:

Operating Lease Commitments - The Company as a Lessor/Lessee. The Company has entered into various lease agreements either as a lessor or a lessee. The Company has determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Lease income recognized in profit or loss amounted to P125.386 million and P107.741 million in 2017 and 2016, respectively (Note 21.2).

Rent expense recognized in profit or loss amounted to P104,348 and P104,349 in 2017 and 2016, respectively.

Contingencies. The Company is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Company. The Company's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as the Office of the Government Corporate Counsel (OGCC) handling the prosecution and defense of these matters and is based on an analysis of potential results. The Company currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 29).

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting dates that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimating allowance for impairment losses on loans and receivables

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by Management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the customer's and lessee's payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Company provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

The Company recognized reversal of allowance for impairment losses on loans and receivables amounting to P643,775 and P34.668 million in 2017 and 2016, respectively (Note 23).

6. CASH AND CASH EQUIVALENTS

This account consists of:

	2017	2016
Cash in bank – local currency	145,117,935	172,959,406
Time deposits – local currency	643,559,929	417,836,275
Petty cash	350,000	250,000
	789,027,864	591,045,681

Cash in bank – local currency earn interest at the respective bank deposit rates.

Time deposits – local currency are short-term investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term investment rates.

Interest income earned on bank deposits amounted to P5.975 million, P10.914 million and P5.727 million in 2017, 2016 and 2015, respectively (Note 21.5).

Restricted cash

The Company has P100.327 million restricted cash held in custody by the Company's banks, used as collateral for the issuance of the appeal bond re: Ernesto N. Valentin, et al. vs. PNCC case. On November 14, 2016, the Supreme Court rendered in PNCC's favor, denying with finality the North Luzon Tollways (NLT) Employees' Motion for Reconsideration. With such denial, the dismissal of NLT Employees' complaint for various money claims against PNCC is now final and executory, hence, the restricted cash was reverted from other assets to the cash and cash equivalents account. On February 7, 2018, the Company filed a Motion to Release Bond and declare the case closed and terminated with the Labor Arbiter.

7. RECEIVABLES

This account consists of the following:

	2017	2016
Loans and receivables	203,388,603	140,005,780
Inter-agency receivables	150,949,951	150,408,841
Other receivables	91,867,925	37,898,638
	446,206,479	328,313,259

7.1 Breakdown of the Loans and receivables account:

	2017	2016
Accounts receivable	380,730,428	317,461,975
Interest receivable	163,499	163,499
Contributions and premiums receivable	116,290	1,920
Allowance for impairment	381,010,217 (177,621,614)	317,627,394 (177,621,614)
	203,388,603	140,005,780

An allowance for impairment is provided for Accounts Receivable and Interest Receivable amounting to P177.458 million and P163,499, respectively.

Accounts Receivable mainly consist of the following:

- Accomplishment and retention receivable from the Philippine Merchant Marine Academy (PMMA) totaling P78.178 million, wherein a resolution in favor of the Company was rendered by the Department of Justice on August 02, 2006, ordering PMMA to pay the principal amount plus six per cent interest per annum from the date of first demand on June 24, 2004. The Office of the Government Corporate Counsel (OGCC) was requested to file a Petition for money claims with the Commission on Audit (COA) in behalf of the Company. The draft Petition for Money Claim is now being finalized by OGCC and PNCC is in the process of completing the required documents in support of the Petition.
- Unpaid escalation billings from the Manila International Airport Authority (MIAA) in the principal amount of P42.235 million (net of P14.181 million collection in August 2004), wherein a covering decision from the Office of the President of the Republic of the Philippines was rendered in favor of the Company against MIAA, ordering the latter to pay the Company the principal amount of P56.724 million and interest thereon at the rate of six per cent per annum from the date of first demand on January 31, 1989 until the same is fully paid.

On March 2, 2012, PNCC filed a petition for money claim against MIAA with the COA.

On June 14, 2016, the COA Commission Proper under CP Decision No. 2016-105 granted PNCC's claim against MIAA and directed MIAA to pay PNCC the balance of the principal obligation plus six percent interest per annum or in the total amount of P114.240 million less P14.181 million representing the initial payment made by MIAA on August 2, 2004.

On July 26, 2016, MIAA filed a Motion for Reconsideration (MR) with COA seeking guidance on how it will implement the foregoing decision. In the said MR, MIAA stated that in failing to adduce the existence of vital documents, it is in legal limbo to affirmatively act on what is being called upon it to perform.

The COA, in its Resolution dated April 26, 2017, denied the MR filed by MIAA. Likewise, the COA, upon motion of PNCC, issued a Notice of Finality of Decision dated November 9, 2017.

PNCC shall send demand letter to MIAA requesting payment and reiterating the Notice of Finality of Decision issued by COA.

7.2 Breakdown of the Inter-agency receivables account:

	2017	2016
Due from National Government Agencies	150,000,000	150,000,000
Due from subsidiaries/associates/affiliates	949,951	408,841
	150,949,951	150,408,841

Due from National Government Agencies consist of remittances to the BTr of P150 million (P50 million in 2008 and P100 million in 2010) originally intended for application against the unpaid concession fee, but was confirmed by the BTr to have been applied against outstanding NG advances to the Company. The account is initially recorded as Advances to BTr pending clarification on the application of payment considering that no liability to BTr is recorded in the books of the Company (Notes 15 and 20).

Due from Subsidiaries/Associates/Affiliates totaling P949,951 and P408,841 as of December 31, 2017 and 2016, respectively, represent various accommodations to the Company's subsidiaries.

7.3 Breakdown of the Other Receivables account:

	2017	2016
Due from officers and employees	1,101,883	1,120,982
Other receivables	110,771,486	56,783,100
	111,873,369	57,904,082
Allowance for impairment - Other receivables	(20,005,444)	(20,005,444)
	91,867,925	37,898,638

Due from officers and employees mainly consist of cash advances of P1.032 million which formed part of the health care insurance premium of P1.818 million paid by the Company in 2015 and was covered by an Undertaking dated March 4, 2015, stating that the employees and officers will pay the Company in 12 equal monthly installments to commence in June 2016 or after the ruling of the Governance Commission for GOCCs (GCG) on the petition filed in their office for the inclusion of the said health care benefit, whichever comes first.

The GCG, in its letter dated January 16, 2017, informed the Company that pending the approval of the Total Compensation Framework (TCF) and Index of Occupational Services (IOS) of the PNCC, the Company shall maintain its current compensation framework. The Company cannot yet grant the Healthcare Plan benefit provided for under the Compensation and Position Classification System (CPCS). In order for the Company to continue granting the said benefit, it should fully comply first with the requirements for the adoption of the CPCS.

However, on July 28, 2017, President Rodrigo Roa Duterte issued Executive Order (EO) No. 36 s. 2017 suspending the implementation of the CPCS and the IOS Framework for the GOCC Sector under EO No. 203 due to compelling reasons to revisit and/or reevaluate the said CPCS.

As a result, starting March 2018, the Company shall deduct the health care insurance premium in 24 equal monthly installments, through a letter from the employees and officers of the Company dated January 23, 2018 requesting for such payment terms.

Other Receivables mainly consist of the following:

- Uncollected Revenue shares from Joint Venture Companies (JVCs) in the amount of P62.351 million and P9.124 million as of December 31, 2017 and 2016, respectively.
- Receivables from various tenants at Financial Center Area (FCA) amounting to P16.279 million and P16.806 million as of December 31, 2017 and 2016, respectively.
- Supersedeas/cash bonds re: various National Labor Relations Commission (NLRC) cases filed by present and former employees of the Company totaling P9.223 million which consist mostly of claims for non-payment of benefits, such as mid-year bonus, exit bonus, and other benefits.

The receivables are not used as collaterals to secure obligations.

8. INVENTORIES

This account consists of the following:

	2017	2016
Office supplies	635,003	629,189
Construction materials	543,957	1,408,502
Medical, dental, and laboratory	492,657	498,917
Fuel, oil, and lubricants	204,337	198,548
Other materials and supplies	4,760,518	4,884,489
	6,636,472	7,619,645
Allowance for impairment – Other materials and supplies	(3,215,862)	(3,215,862)
	3,420,610	4,403,783

In 2015, the Company failed in its attempt to bid out the remaining inventories due to lack of bidders. However, in 2016, the Company partially sold inventories amounting to P212,266. A sixty (60) per cent allowance was provided for inventories that are due for disposal based on its appraised value.

Other materials and supplies account consists mostly of common supplies and hardware materials.

9. OTHER CURRENT ASSETS

This account consists of the following:

	2017	2016
Withholding tax at source	17,585,881	12,442,292
Prepaid registration	1,090,220	1,090,220
Creditable input tax	47,786	10,500
Prepaid insurance	24,966	40,602
Other prepayments	35,906	19,807
	18,784,759	13,603,421

10. INVESTMENTS

This account consists of the following:

	2017	2016
Investment in Stock		
Dasmarinas Industrial & Steelworks Corp.	96,413,530	96,413,530
Alabang-Sto Tomas Development, Inc.	61,200,000	61,200,000
Tierra Factors Corporation	51,635,109	51,635,109
CDCP Farms Corporation	15,120,200	15,120,200
Manila Land Corporation	10,000,000	10,000,000
Managerial Resources Corporation	1,525,922	1,525,922
San Ramon Ranch	1,100,000	1,100,000
Traffic Control Products Corporation	700,000	700,000
San Roque Ranch	550,000	550,000
Manila Electric Company	476,970	476,970
Philippine Long Distance Telephone Company	350,799	350,799
Laguna Lake Development Authority (net of subscriptions payable of P258,642)	181,158	181,158
PNCC Skyway Corporation	125,050	125,050
Land Management Corporation	11,000	11,000
	239,389,738	239,389,738
Allowance for losses	(177,180,811)	(177,180,811)
Market adjustment	(1,739,500)	(1,739,500)
	60,469,427	60,469,427
Other Investments		
Citra Central Expressway Corporation	620,000,000	620,000,000
Citra Intercity Tollways, Inc.	240,816,700	240,816,700
Mimosa Golf and Country Club	3,180,000	3,180,000
CDCP Employees Savings & Loan Association	2,094,725	2,094,725
Puerto Azul Beach and Country Club	100,000	100,000
Architectural Centre, Inc.	3,500	3,500
Others	286,600	286,600
	866,481,525	866,481,525
	926,950,952	926,950,952

The GCG, in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five subsidiaries of the Company, namely: Alabang-Sto. Tomas Development, Inc. (ASDI); DISC Contractors, Builders and General Services Inc. (DCBGSI); Traffic Control Products Corporation (TCPC); CDCP-Farms Corporation (CDCP-FC); and Tierra Factors Corporation (TFC).

Through a Memorandum from the Executive Secretary dated August 7, 2014, the GCG was informed that its recommendation to abolish the PNCC subsidiaries had been approved by His Excellency, the President of the Republic of the Philippines, subject to pertinent laws, rules, and regulations.

- On October 16, 2012, ASDI's corporate life was shortened up to December 31, 2012 pursuant to Board Resolution No. BD-04-2014. On August 7, 2014, this Board resolution was revoked. Investment in ASDI was originally 255,000 common shares with a par value of P1,000 per share representing equity ownership of the Company at 51 per cent, with the remaining 49 per cent owned by the National Development Company. On December 9, 2015, ASDI liquidated 127,500 common shares of PNCC as part of its dissolution process paying PNCC P127.5 million. On December 15, 2016, the Company received P66.3 million as additional partial liquidation of its investment in shares of ASDI. ASDI has a pending collection balance of P4.2 million from DPWH.
- On September 26, 2013, the abolition/dissolution of TCPC was approved per Board Resolution BD-006-2013. The conveyance of TCPC assets to PNCC has already been completed. Part of these assets has already been disposed through public bidding. The remaining undisposed assets are now being classified according to commodity classification for appraisal and for purposes of higher return upon sale.
- On September 30, 2015, DCBGSI was closed pursuant to DCBGSI Shareholders' Resolution dated August 7, 2015. On October 1, 2015, PNCC absorbed DCBGSI functions. On January 18, 2016, the Board of Directors of DCBGSI approved the shortening of its corporate life to January 31, 2016.
- On September 30, 2015, Special Stockholders Meetings of TFC and CDCP-FC were held to dissolve these subsidiaries. Management is still awaiting the appointment of Directors for both companies in order to call for a Board Meeting to put into effect the closure of the two companies. A letter dated March 10, 2016 has been sent to the GCG regarding this matter.
- A 100 per cent impairment loss is provided for investments in inactive and non-operating subsidiaries and affiliates, as well as investments in the remaining active wholly-owned subsidiary, due to their incurrence of losses resulting in accumulated deficit.
- On the following dates, Citra Central Expressway Corporation (CCEC) issued ten (10) per cent "free-carry" equity shares (P100 par value) as the Company's share in the joint venture company as follows: June 30, 2014 - 125,000 shares; September 15, 2014 - 275,000 shares; and December 1, 2016 - 5,800,000 shares.

- On the following dates, Citra Intercity Tollways, Inc. (CITI) issued ten (10) per cent "free-carry" equity shares (P100 par value) as the Company's share in the joint venture company as follows: March 9, 2016 - 400,000 shares and December 1, 2016 - 2,008,167 shares.

11. INVESTMENT PROPERTY

This account consists of the following:

	Land	Buildings and Improvements	Total
At December 31, 2016			
Cost	70,772,301	0	70,772,301
Appraisal	10,327,955,199	271,220,500	10,599,175,699
	10,398,727,500	271,220,500	10,669,948,000
At December 31, 2017			
Cost			
Opening Net Book Value	70,772,301	0	70,772,301
Additions	0	0	0
Net Book Value	70,772,301	0	70,772,301
Fair Value Adjustment			
Balance at beginning of year	10,327,955,199	271,220,500	10,599,175,699
Appraisal Adjustment	4,080,304,000	(11,926,500)	4,068,377,500
Balance at end of year	14,408,259,199	259,294,000	14,667,553,199
At December 31, 2017			
Cost	70,772,301	0	70,772,301
Appraisal	14,408,259,199	259,294,000	14,667,553,199
	14,479,031,500	259,294,000	14,738,325,500

11.1 Financial Center Area (FCA) in Pasay City

In 1973, a contract was entered into by and between the Company and the Republic of the Philippines (RP), represented by the then Department of Public Highways (now Department of Public Works and Highways), for the construction of the Manila-Cavite Coastal Road and the reclamation of some portions of the foreshore and offshore lands along Manila Bay, otherwise known as the Manila-Cavite Coastal Road Project, at the Company's expense.

In compensation for the work accomplishments, the Company obtained the 129,548 sq.m.-land, known as Lot 6, from the National Government for P64.6 million, covered by Certificate of Pledge No. 2 (P38.5 million) and Certificate of Pledge No. 3 (P26.1 million).

Administrative Order (AO) No. 397, which was signed and approved by then President Fidel V. Ramos on May 31, 1998, mandated that Lot 6 be titled in the name of PNCC.

Although the title to the property is still in the name of the Republic of the Philippines as of report date, the Office of the Government Corporate Counsel (OGCC) issued an opinion on April 21, 2001 that the Company can sell, dispose, or assign its real rights, interests, and participation over the property, which real right or interest over Lot 6 is evidenced by the aforesaid Certificates of Pledge.

On August 2, 2013, the OGCC issued another opinion that the Company may not sell or transfer its ownership of the FCA to a private corporation but may only lease it for a period not exceeding 25 years, renewable for not more than 25 years, and not to exceed 1,000 hectares in area. The Company may only sell it to Filipino citizens subject to the 12-hectare Constitutional limitation. Under these circumstances, the Company can either: (1) secure a presidential proclamation officially declaring that the FCA is no longer needed for public use; or (2) dispose it, consistent with the constitutional restriction, to a qualified Filipino citizen, but only to the extent of 12 hectares.

Independent firms of appraisers engaged by the Company to determine the fair value of the property reported a P6.63 billion appraised value in 2009, P7.462 billion in 2010, P7.434 billion in 2011, P9.72 billion in 2013, P9.987 billion in 2015, and P13.927 billion in 2017.

The subject property has been leased out and has been generating lease revenue since 2005. Lease income earned, net of VAT, amounted to P124.950 million and P107.305 million in 2017 and 2016, respectively (Note 21.2).

- 11.2 The following real estate properties (held for currently undetermined future use or held for capital appreciation) also comprise the Investment Property account:

Location	Area (in sq.m.)	Cost	Appraisal Increase/ Decrease	Fair Value
Dasmariñas, Cavite	75,000	625,800	334,374,200	335,000,000
Casinglot, Misamis Oriental	60,620	1,077,484	130,813,016	131,890,500
Rizal, Tagaytay	98,207	1,367,339	110,477,661	111,845,000
Sta. Rita, Bulacan	20,000	1,579,950	100,175,050	101,755,000
Antipolo, Rizal	14,770	1,185,531	60,396,969	61,582,500
Porac, Pampanga	116,591	145,737	27,833,763	27,979,500
Bocaue, Bulacan	9,926	162,678	26,430,322	26,593,000
Mabalacat, Pampanga	27,905	32,027	15,038,973	15,071,000
	423,019	6,176,546	805,539,954	811,716,500

In 2011, the Land Bank of the Philippines, engaged by the Company to conduct an inspection and appraisal of its properties situated in different areas in the Philippines, disclosed that the property located in Dasmariñas, Cavite with a total area of 75,000 sq.m. is not titled and registered under the name of the Company.

The Dasmariñas property is located within the First Cavite Industrial Estate (FCIE), a joint venture project of the National Development Company (NDC), Marubeni Corporation, and Japan International Development Organization (JAIDO). The 75,000-sq.m. lot was excluded from the Contract of Sale executed between the

Company and NDC on April 7, 1983, which covers the sale of the Company's several parcels of property to NDC. On April 10, 1992, the Committee on Privatization (COP) approved the sale of the property to NDC at a price not lower than P150/sq.m. The Asset Privatization Trust (APT), however, suggested that the price should instead be P180/sq.m. The sale was not consummated due to the disagreement in the price to be used. Thereafter, the property was developed by NDC, absent any contract of sale yet.

The Dasmariñas property is supported by Transfer Certificate of Title (TCT) No. T-98739 which was cancelled after the sale in April 1983. The Company was not able to acquire a new TCT under its name for the remaining lots but is conducting further negotiations with NDC for compensation on the property.

As discussed in Note 16, the Company, in its Motion for Reconsideration dated March 13, 2014, prayed that the Department of Justice order the NDC to pay the Company the value of the 75,000 sq. m. of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by NDC to locators of the FCIE, plus legal interest thereon from the time of demand up to the actual date of payment.

The DOJ issued an Order dated January 22, 2015 denying the Motion for Reconsideration filed by the Company. On June 26, 2015, the Company appealed the decision of the DOJ with the Office of the President of the Republic of the Philippines (OP).

The Company is awaiting the decision of the OP on the matter.

12. PROPERTY AND EQUIPMENT

This account includes the following:

	Land & Land Improvements	Buildings & Improvements	Construction Equipment	Transportation Equipment	Others	Total
At December 31, 2016						
Cost	10,115,936	36,800,884	20,230,598	34,437,176	38,322,133	139,906,727
Accumulated Depreciation	(2,265,597)	(28,942,088)	(19,435,798)	(33,931,298)	(38,190,084)	(122,764,865)
Net Book Value	7,850,339	7,858,796	794,800	505,878	132,049	17,141,862
Revaluation Increment	770,167,569	65,997,170	7,827,127	107,172	1,863,463	845,962,501
Accumulated Depreciation	(21,271,590)	(51,760,131)	(7,826,972)	(107,172)	(1,863,426)	(82,829,291)
Net Book Value	748,895,979	14,237,039	155	0	37	763,133,210
	756,746,318	22,095,835	794,955	505,878	132,086	780,275,072

	Land & Land Improvements	Buildings & Improvements	Construction Equipment	Transportation Equipment	Others	Total
At December 31, 2017 - Cost						
Opening Net Book Value	7,850,339	7,858,796	794,800	505,878	132,049	17,141,862
Additions	0	0	5,712	0	409,126	414,838
Disposals/Write off	0	0	0	(3)	(347)	(350)
Depreciation for the Year	(26,239)	(1,572,980)	(3,434)	(324,643)	(256,025)	(2,183,321)
Closing Net Book Value	7,824,100	6,285,816	797,078	181,232	284,803	15,373,029
Revaluation Increment						
Opening Net Book Value	748,895,979	14,237,039	155	0	37	763,133,210
Appraisal Adjustment	(115,650,000)	6,279,852	0	0	0	(109,370,148)
Disposals/Write off	0	0	0	0	(6)	(6)
Depreciation for the Year	0	(3,956,408)	0	0	0	(3,956,408)
Closing Net Book Value	633,245,979	16,560,483	155	0	31	649,806,648
At December 31, 2017						
Cost	10,115,936	36,800,884	20,236,310	34,437,173	38,730,912	140,321,215
Accumulated Depreciation	(2,291,836)	(30,515,068)	(19,439,232)	(34,255,941)	(38,446,109)	(124,948,186)
Net Book Value	7,824,100	6,285,816	797,078	181,232	284,803	15,373,029
Revaluation Increment	654,517,569	72,277,022	7,827,127	107,172	1,863,457	736,592,347
Accumulated Depreciation	(21,271,590)	(55,716,539)	(7,826,972)	(107,172)	(1,863,426)	(86,785,699)
Net Book Value	633,245,979	16,560,483	155	0	31	649,806,648
	641,070,079	22,846,299	797,233	181,232	284,834	665,179,677

12.1 Revaluation

The Company engaged the services of the following independent and recognized appraisal companies for the appraisal of some of its designated properties, structures, buildings, fence, and street lightings:

YEAR	REVALUATION INCREASE (DECREASE) (in thousand pesos)	APPRAISAL CORPORATION
1997	69.71	General Appraisal Co., Inc.
2003	1,620.00	Various
2004	0.05	Various
2006	(235.56)	Various
2010	146.208	Various
2011	(16.523)	Land Bank of the Philippines
2013	17.591	Cuervo Appraisers, Inc. and CAL-FIL
2015	456.941	Appraisal & Management, Inc.,
2017	109.370	CAL-FIL Appraisal & Management, Inc.,
		Asset Consult, Top Consult & Royal Asia
		CAL-FIL Appraisal & Management, Inc.
		and Top Consult

12.2 Others

The Company also owns some 278,477 sq.m. of property, with a total value of P174.127 million, located in different areas of the country which are not yet recorded in the books, as the same are still registered in the name of previous owners. The Company is working on the transfer of title to its name.

13. OTHER NON-CURRENT ASSETS

This account consists of the following:

	2017	2016
Guaranty deposits	71,072,000	71,072,000
Receivables from former employees and consultants	55,091,589	55,091,589
Accounts receivables-trade	50,879,182	50,879,182
Deferred charges	11,167,034	11,247,161
Other deposits	1,181,088	1,181,088
Other assets	432,436	429,178
	189,823,329	189,900,198
Assets for write off	9,615,422,219	9,615,422,219
Allowance for losses	(9,615,422,219)	(9,615,422,219)
	0	0
Other assets	659,495,246	660,139,021
Allowance for doubtful accounts	(659,495,246)	(660,139,021)
	0	0
	189,823,329	189,900,198

13.1 Guaranty deposits

This account pertains to the guarantee/collateral for the Investors Assurance Corporation (IAC) Bond No. G(16) 0015764 in favor of IAC amounting to P71.072 million. This is also in connection with the Ernesto N. Valentin, et al. vs. PNCC case. On November 14, 2016, the Supreme Court rendered in PNCC's favor, denying with finality the North Luzon Tollways (NLT) Employees' Motion for Reconsideration. With such denial, the dismissal of NLT Employees' complaint for various money claims against PNCC is now final and executory. On February 7, 2018, the Company filed a Motion to Release Bond and declare the case closed and terminated with the Labor Arbiter.

13.2 Receivables from former employees and consultants

The amount of P55.092 million consists of the following:

- P42.51 million represents cash advances for franchise extension granted to former officers and consultants, of which P2.99 million are receivables from former consultants which are covered by Notices of Disallowance with corresponding Memorandum of Appeal filed with the Commission on Audit. The balance of P39.52 million is a receivable from a former officer which was

referred to the Office of the Government Corporate Counsel (OGCC) for legal action.

- Cash advances granted to the former officers and employees of the Company in the amount of P12.498 million and former directors' car plan equity balance of P83,928.
- On October 9, 2017, the COA issued a Notice of Finality of Decision (NFD), covering various Notices of Disallowance for a total amount of P4.99 million. On December 13, 2017, a COA Order of Execution (COE), as amended by COE dated January 9, 2018, was issued in relation to the aforementioned NFD.

13.3 Accounts receivables - trade

This account pertains to operating access fees due from oil companies totaling P50.879 million, of which P46.728 million was referred to PNCC's Legal Department for appropriate action, P2.646 million is subject of an on-going reconciliation, and P1.505 million is being paid on installment basis. One of the oil companies referred to PNCC's Legal Department had informed the Company that the funds for payment of the royalty fees are in escrow because of the Writ of Garnishment issued in 2005 prohibiting it from making any payments to the Company. Payments will accordingly be made once the garnishment is lifted.

13.4 Deferred charges

This account consists mainly of the excess of the Minimum Corporate Income Tax (MCIT) over the regular corporate income tax of P11.786 million (Note 29).

13.5 Assets for write off

This account consists of assets, the existence of which is doubtful and collectibility/realizability is uncertain:

Receivables and advances	4,139,136,000
Property and equipment	2,872,888,000
Deferred charges	1,755,663,000
Inventories	511,342,000
Investment in stocks	179,798,000
Pre-operating expenses	137,323,000
Accounts receivable-long term	12,000,000
Investment in joint ventures	4,563,000
Guarantee deposits	812,000
Other deposits	1,897,000
	<u>9,615,422,000</u>

These accounts have been provided a 100 per cent allowance for losses.

The Company, in its letter of June 03, 2014, requested authority from the Commission on Audit to adjust/write off the aforesaid long-outstanding accounts in consonance with COA Circular No. 97-001 dated February 05, 1997.

On June 6, 2017, COA informed the Company that the aforementioned request has been returned pending the submission of additional documents to facilitate the processing thereof. The Company will resubmit the request for authority from COA to write off the accounts as soon as additional documentation is completed.

13.6 Other assets

These accounts, which have also been provided with 100 per cent allowance for doubtful accounts, are as follows:

	2017	2016
Accounts receivable-subsidaries and affiliates	204,974,643	205,618,418
Other accounts receivable	175,200,317	175,200,317
Billed contract receivables	90,522,501	90,522,501
Advances to joint venture, net	74,021,620	74,021,620
Accounts receivable-trade	60,149,526	60,149,526
Claims receivable	24,406,064	24,406,064
Advances to subcontractors	17,169,107	17,169,107
Deferred charges	6,802,733	6,802,733
Contract retention receivable	2,380,025	2,380,025
Advances to suppliers	2,190,126	2,190,126
Advances to contract owners	636,431	636,431
Other assets-dormant account	636,088	636,088
Unbilled contract receivable	234,456	234,456
Accounts receivable-officers & employees	171,609	171,609
	659,495,246	660,139,021

The Company will request authority from COA to write off the accounts as soon as documentation is completed.

14. FINANCIAL LIABILITIES

This account consists of the following:

	2017	2016
Vouchers payable	4,254,721	2,251,168
Accrued expenses	12,478,021	12,018,892
Other accounts payable	3,440,716	3,467,929
	20,173,458	17,737,989

14.1 Vouchers payable

Vouchers payable are liabilities to suppliers of goods and services and to government agencies as regard the mandatory deductions from the employees' compensation and taxes withheld on income payments to suppliers of goods and services.

14.2 Accrued expenses

Accrued expenses account includes accrual of the mandatory benefits and leave credits of the Company's employees, unpaid professional fees and unpaid accounts to suppliers of goods and services that are normally settled within 12 months from the reporting period.

14.3 Other accounts payable

Other accounts payable consists mostly of the proceeds from the disposal of Toll Regulation Board's (TRB's) service vehicles, net of five per cent service fee.

15. OTHER FINANCIAL LIABILITIES

This account consists of payables for the following:

	2017	2016
Due to National Government		
Concession fees (TRB)	5,786,435,600	5,528,433,200
Joint venture companies' revenue/dividends	1,329,017,649	1,329,017,649
Toll revenue (SLEX operation under TOC)	971,550,967	971,550,967
	8,087,004,216	7,829,001,816
Due to GOCC		
Various advances (NDC)	1,203,000,000	1,203,000,000
	9,290,004,216	9,032,001,816

15.1 Concession fees

The concession fees of P5.786 billion (principal amount of P1.06 billion plus penalty charges of P258 million in 2017, P258 million in 2016 and P4.21 billion in 2015 and prior years) pertain to the Company's payable to TRB pursuant to the Toll Operation Agreement (TOA) dated October 1977. The Company is being charged of two per cent penalty charges per month on unpaid concession fees which amount to over P250 million annually.

From May 2008 to March 2009, the Company made initial payments to the Bureau of the Treasury (BTr) totaling P220 million, of which the latter confirmed application of the P170 million against outstanding concession fees while the P50 million was unilaterally applied by the BTr against an outstanding advances from the National Government (NG).

On July 16, 2010, the Company remitted to the NG, through the BTr, the amount of P200 million to be applied to outstanding concession fees. However, the BTr applied only P100 million and the other P100 million against advances from NG.

These payments bring the Company's total remittances to P495 million from 2006 to report date.

15.2 Joint venture companies' revenue/dividends

As discussed in Note 1, the expiration of the Company's franchise in 2007 resulted in the NG's owning the toll fees and the net income derived from the toll assets and facilities and also the Company's percentage share in the toll fees collected by the Joint Venture Companies (JVCs) currently operating the tollways.

In line with the above and pending finalization of the Implementing Rules and Guidelines (IRG) relative to the determination of the net income remittable by the Company to the NG, the Company initially recognized its obligation to the Government in the amount of P1.329 billion (net of the direct remittance of the consigned monies of P337.94 million to the BTr on December 23, 2011).

The aforesaid amounts were computed at 90 per cent of the gross revenue share and dividends received from May 2007 to December 31, 2010. This is in accordance with the interim rules and guidelines issued by TRB in compliance with the decision of the Supreme Court (SC) in the *Francisco Case* (Note 1).

The SC directed TRB, with the assistance of the Commission on Audit, to prepare and finalize the IRG for the determination of the amounts that the Company is entitled for its administrative expenses.

15.3 Toll revenue (SLEX operation under TOC)

Pursuant to the Supreme Court En Banc Decision discussed in Note 1, the Company recognized in the books the unremitted share in the toll revenue for the operation of the South Luzon Expressway (SLEX) under the Toll Operation Certificate from May 2007 to April 2010 in the amount of P1.537 billion, based on TRB's computation, which accordingly was arrived at by deducting from gross toll revenue the allowable 40 per cent operations and maintenance (O&M) expenses or actual O&M expenses, whichever is lower.

In December 2016, the Company remitted to the NG, through the BTr, the amount of P566.3 million as partial payment for outstanding share in the toll revenue.

15.4 Various advances to NDC

This account covers various advances from the National Development Company (NDC) totaling P214 million between 1990 to 1999 for foreign and peso accounts for which PNCC issued promissory notes, and interest and penalties thereon of P989 million as of December 31, 2009. The issue covering the various advances from NDC is under arbitration before the OGCC Arbitral Tribunal:

- NDC, Petitioner vs. PNCC, Respondent (OGCC ARB Case No. 001-2000)
Based on the submitted pleadings and supporting documents, the following issues appear to be clear:
 - Whether respondent is liable to pay petitioner the principal amount of the Promissory Notes plus accrued interest and penalties as provided in the said Notes, and the Documentary Stamp Tax necessary for the execution thereof;

- Whether respondent is liable to pay/reimburse petitioner the amount of respondent's mortgage loan (including interest thereon) that petitioner paid in order to release the titles of the properties that petitioner bought from the respondent; and
- Whether petitioner must pay the value of the lot consisting of 7.5 hectares which petitioner developed with its Joint Venture partner despite the fact that said lot was specifically excluded in the Contract of Sale.

The Department of Justice (DOJ), in its February 18, 2014 Consolidated Decision, granted NDC's Petition against the Company, the dispositive portion of which follows:

"However, the Petition filed by NDC against PNCC is GRANTED. As prayed for, respondent PNCC is ordered: (1) to pay petitioner NDC the principal amount of the Promissory Notes, plus accrued interests and penalties as provided for in the said Notes; and (2) to reimburse petitioner the amount of mortgage loan including interest thereon."

On March 12, 2014, NDC wrote the Company claiming payment of the various advances/loans extended to the latter pursuant to the aforesaid Consolidated Decision of the DOJ.

The Company, in its letter of March 19, 2014, informed NDC that it cannot yet settle the account as the decision of the DOJ is not final and executory and that it had filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014.

In the said MR, the Company prayed that the DOJ consider the consolidation as not proper and decide on OGCC ARB Case No. 001-2000 separately:

- Order the dismissal of the instant Petition for lack of merit;
- Order the Petitioner to pay PNCC the amount of P3.85 million representing the unpaid balance on the Dasmariñas property, plus legal interest thereon from the time of demand up to the time of payment; and
- Order the Petitioner to pay the Company the value of the 7.5 hectares of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by Petitioner to locators of the First Cavite Industrial Estate, plus legal interest thereon from the time of demand up to the actual date of payment.

On January 22, 2015, the DOJ denied the Company's Motion for Reconsideration (MR). Thereafter, the Company filed a Supplement to the MR on May 28, 2015 which was also denied by the DOJ in its order dated July 13, 2015. On June 26, 2015, the Company filed a Notice of Appeal with the Office of the President of the Republic of the Philippines (OP) and filed the corresponding Appeal Memorandum on July 27, 2015.

The Company is awaiting the resolution of the OP on the appeal.

16. INTER-AGENCY PAYABLES

This account consists of the following:

	2017	2016
Income tax payable		
Due to BIR	2,109,004	0
Due to Subsidiary (CESLA)	704,053	815,997
Due to SSS	127,108	0
Due to PhilHealth	6,266	0
Due to Pag-IBIG	1,312	0
	300	0
	2,948,043	815,997

17. TRUST LIABILITIES

This account consists of the following:

	2017	2016
Current		
Customers' Deposits	43,625,984	18,883,600
Non-Current		
Trust liabilities		
Advances from contract owners	2,768,583	2,768,583
	1,021,046	1,021,046
	3,789,629	3,789,629

Customers' deposits account pertains to three months security deposit and three months advance rental paid by tenants from the leased FCA property and 10 per cent bid deposit posted by winning bidders with regard to the Company's disposal of assets and scrap materials.

Trust liabilities consist of bonds such as restoration bond, performance bonds, cash bonds and surety bond paid by Total Finaelf Philippines, Pilipinas Shell Petroleum Corp., and Caltex (Phils.) Inc. for their as guarantee for construction, entrance permit and/or perimeter restoration work.

18. CAPITAL STOCK

This account consists of various classes of shares of stock with authorized par value of P10 per share, details of which are presented below:

Preferred "A"

(8-16 per cent cumulative,
non-participating, non-voting)

Authorized- 1,400,000 shares

1,400,000 Shares	Treasury Stocks	14,000,000
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Preferred "B"(8-17 per cent cumulative,
non-participating, non-voting)Authorized- 42,114,879
shares**Issued and outstanding**

		Republic of the Philippines Through the APT (now PMO) – previously under PNB	
15,000,000	Shares		150,000,000
3,689,500	Shares	Marubeni	36,895,000
18,689,500			186,895,000

Preferred "C"(14 per cent cumulative, non-
participating, non-voting)

Authorized- 6,485,121 shares

Issued and outstanding

		Republic of the Philippines Through the APT (now PMO) – previously under NDC	
6,485,121	Shares		64,851,210

Preferred "D"(8 per cent cumulative,
participating, voting)Authorized-27,800,000
shares**Issued and outstanding**

25,500,000	Shares	PMO (previously under PNB)	255,000,000
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Special common(non-voting, no pre-emptive
right, participating)Authorized-10,000,000
shares**Issued and outstanding**

3,815	Shares	Carlito C. Paulino	38,150
457	Shares	Editha U. Cruz	4,570
376	Shares	Adolfo S. Suzara	3,760
129	Shares	Vicente Longkino	1,290

Treasury Stocks			
295,227	Shares	Formerly held by PNCC Employees Savings & Loan Association	2,952,270
72,168	Shares	Formerly held by Alfredo V. Asuncion	721,680
372,172			3,721,720
Subscribed-			
1,484,260	Shares	FEBTC Trustee-PNCC Stock Trust Fund	14,842,600
Common			
Authorized-182,200,000 shares			
Issued and outstanding-			
		Republic of the Philippines Through the APT (Now PMO) – previously under:	
		Phil. Export Foreign Loan Guarantee	375,845,770
79,271,024	Shares	Development Bank of the Phils.	269,874,470
		NDC	146,990,000
47,490,383	Shares	Government Service Insurance System	474,903,830
15,360,831	Shares	Universal Holding Corporation	153,608,310
6,811,543	Shares	Various Brokers	68,115,430
4,562,384	Shares	Various Corporations	45,623,840
1,178,856	Shares	Cuenca Investment Corporation	11,788,560
		Pioneer Insurance and Surety Corporation	9,648,000
964,800	Shares	Land Bank of the Philippines	6,578,360
657,836	Shares	PNCC Employees	3,353,910
335,391	Shares	Individual (Non-employees)	70,379,350
7,037,935	Shares		
163,670,983			1,636,709,830
Subscribed-			
9,419,915	Shares	Universal Holding Corporation	94,199,150
909,276	Shares	Cuenca Investment Corporation	9,092,760
149,328	Shares	Various Corporations	1,493,280
33,391	Shares	PNCC Employees	333,910
27,693	Shares	Various Brokers	276,930
234,173	Shares	Individual (Non-employees)	2,341,730
10,773,776			107,737,760
228,375,812	Shares		2,283,758,120
		Subscriptions receivable (Note 20)	(56,158,831)
			2,227,599,289

The cumulative preferred shares are those that are entitled to any dividends not declared in the prior period (dividends in arrears) such that when dividends are declared in the current period, the dividends in arrears are to be satisfied first.

Dividends (in arrears) on cumulative preferred shares are not recognized in the books due to the Board of Directors' non-declaration of dividends. Such action of the PNCC Board is supported by Article XI, Section 11.01 of the Amended Corporate By-Laws which provides that "Dividends maybe declared annually or oftener as the Board of Directors may determine. The Board of Directors may declare dividends only from the surplus profits of the Company."

For purposes of the required disclosure in the financial statements, the dividends in arrears (computed from 2007 to 2017) are as follows:

Name of Stockholders (a)	Class of Stock (b)	Shareholdings (c)	Undeclared Dividend (b x c x 11 yrs)
Republic of the Phil. Through the PMO (previously under PNB) Marubeni	Preferred "B" (8 per cent-17 per cent, cumulative, non-participating, non-voting)	150,000,000	132,000,000
	Preferred "B" (8 per cent-17 per cent, cumulative, non-participating, non-voting)	36,895,000	32,467,600
Republic of the Phil. Through the PMO (previously under NDC)	Preferred "C" (14 per cent, cumulative, non- participating, non-voting)	64,851,210	99,870,863
Republic of the Phil. Through the PMO (previously under PNB)	Preferred "D" (8 per cent, cumulative, non- participating, non-voting)	255,000,000	224,400,000
		506,746,210	488,738,463

The above dividends in arrears are not recognized as liabilities because there is no obligating event yet.

19. SUBSCRIPTIONS RECEIVABLE

This account represents the unpaid amount due from the following subscribers on subscription of the Company's shares of stock, the due dates of which are, by agreement, of valid call by the Board of Directors:

Universal Holding Corporation	48,302,274
Cuenca Investment Corporation	5,145,287
Other Corporations	966,630
Individuals	1,744,640
	56,158,831

As of the end of 2017, there was no call made by the Board of Directors for the unpaid subscriptions.

20. EQUITY ADJUSTMENTS

Under Rehabilitation Plan-Loans Transferred to National Government (NG)

This account represents substantial portion of the Company's liabilities to Government Financial Institutions (GFIs) which should have been converted into equity pursuant to Presidential Letter of Instruction (LOI) 1295 dated February 23, 1983, and liabilities to the government agencies transferred to the Government pursuant to Proclamation No. 50 issued by the President of the Philippines on December 8, 1986.

	(In thousand pesos)
Philippine National Bank	2,865,445
National Development Company	1,356,693
Philguarantee	1,204,311
Central Bank of the Philippines	75,654
Bureau of the Treasury	39,991
Development Bank of the Philippines	9,633
	<u>5,551,727</u>

The above-mentioned Company indebtedness remain unconverted as it is the Company's position, as supported by the Office of the Solicitor General (OSG) opinion dated August 23, 2007, that based on LOI 1295, which was a special law promulgated to rehabilitate the Company, the debts have effectively been converted to equity and, therefore, should no longer incur interest charges.

The Privatization Management Office (PMO), however, still considers these unconverted debts as liabilities, claiming the total amount of P62.641 billion as of December 31, 2017 and P60.907 billion as of December 31, 2016, inclusive of accumulated interest charges and penalties amounting to P57.089 billion and P55.395 billion, respectively. These amounts have not been recognized in the books of the Company. The Company did not recognize the disputed interest charges and penalties based on the following:

- The Supreme Court (SC) itself had recognized the validity of LOI 1295 and that it still legally exists today;
- The failure to convert all debts to equity is considered an administrative matter; and
- The P5.552 billion is not a debt but simply represents unissued shares of stocks awaiting actual conversion to equity pursuant to LOI 1295 and, as such, continued imposition of interests and penalties is not warranted.

The above position of the Company is supported by the Office of the Solicitor General (OSG) and the Office of the Government Corporate Counsel (OGCC).

In like manner, the Bureau of the Treasury (BTr) is claiming as of December 31, 2017 the amount of P2.735 billion (inclusive of P1.327 billion interest) representing advances made by BTr to settle the Company's foreign obligations with creditors. It is the Company's position that said loans are included in the Equity Adjustments under the Rehabilitation Plan which are among the accounts transferred by the Company to the Government through the Asset Privatization Trust (APT) pursuant to PNCC's Rehabilitation Plan of 1987 and are no longer recorded as liabilities in the Company books. As such, the Company is precluded from servicing the accounts.

As discussed in Note 15, the application of the P50 million and P100 million payments in 2008 and 2010, respectively, against outstanding NG advances were already effected in the aforesaid confirmed amount of P2.735 billion.

In view of the differences on the treatment of the P5.552 billion unconverted debt to equity, the Company and the PMO resolved to submit the matter to the Department of Justice (DOJ) for arbitration:

- PNCC, Petitioner vs. PMO, Respondent (OSJ Case No. 02-2012)

The parties entered into a Joint Stipulation of Facts and Issues identifying the issues, as follows:

- Whether or not PNCC is indebted to the National Government in the amount of P5.4 billion which, inclusive of interests as of October 31, 2011, amounted to P51.060 billion;
- Whether or not the unconverted debt to equity, which is a leftover of LOI 1295, should be considered as simple loan;
- Whether or not the unconverted portion of CDCP's debts are liable for interest and penalty charges; and
- Whether LOI 1295 repealed the general provisions of RA 337 General Banking Act, as amended, the charters of DBP (RA 85, as amended), PNB (PD 694), and LBP (RA 3844), which all restricted the GFI's exposure to non-allied industries."

The DOJ, in its February 18, 2014 Consolidated Decision, dismissed the Company's Petition against PMO, the dispositive portion of which reads:

"WHEREFORE, premises considered, the Petition filed by the PNCC against the PMO, is hereby DISMISSED. As prayed for by the respondent PMO, petitioner PNCC is hereby ordered to pay respondent PMO, in behalf of the National Government, the amount of P51,060,330,392.40 as of 31 October 2011, representing its due and demandable obligation to the latter, inclusive of the interests, plus interests and penalties until actually paid."

The Company filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014. The Company prayed that the DOJ consider the consolidation as not proper and decide on OSJ Case No. 02-2012 separately:

- Render judgment declaring that the interest and penalty charges being imposed by PMO on the actual outstanding debt of PNCC to the National Government is without basis and violative of LOI 1295;
- Declare that PNCC's outstanding debt to the National Government is only in the amount of P5.4 billion, representing the value of the unconverted debt-to-equity obligation to the Government Financial Institutions (GFIs); and
- Require or direct the debt-to-equity conversion of the P5.4 billion debt of PNCC pursuant to the clear and explicit instructions under LOI 1295.

On January 22, 2015, DOJ denied PNCC's MR. PNCC filed a supplement to the MR on May 28, 2015 which was also denied by the DOJ in its order dated July 13, 2015.

On June 26, 2015, PNCC filed a Notice of Appeal with the Office of the President of the Republic of the Philippines (OP) and filed the corresponding appeal memorandum on July 27, 2015.

The Company is awaiting the resolution of the OP on the appeal.

21. SERVICE AND BUSINESS INCOME

This account consists of the following:

21.1 Service Income

	2017	2016	2015
Supply of manpower to Skyway O&M Corporation	34,880,764	32,679,916	2,549,255
Plantwide structural steel rehabilitation – Philphos	4,305,887	8,947,384	8,078,264
	39,186,651	41,627,300	10,627,519

Starting October 1, 2015, the Company assumed the operations of DISC Contractors, Builders and General Services Inc. (DCBGSI), a wholly-owned subsidiary of the Company.

21.2 Rental/Lease Income

This account represents the revenue derived out of the Company's real estate properties located in the following areas:

	2017	2016	2015
Pasay City	124,950,317	107,305,020	95,894,390
Porac, Pampanga	435,600	435,600	417,010
Bicutan, Parañaque City	0	0	527,625
	125,385,917	107,740,620	96,839,025

PNCC is the lessor under an operating lease agreement with various lessee in the FCA, Pasay City and Ply Aggregates in Porac, Pampanga. The leases have terms ranging from month to month extension agreement to one year, with renewal option and option of pre-termination upon reasonable notice by the lessor.

The future minimum lease payments under these operating lease are as follows as of December 31:

	2017	2016
Within one year	50,647,667	99,104,551
After one year but less than five years	0	50,647,667
	50,647,667	149,752,218

21.3 Share in Profit/Revenue of Joint Venture

This account consists of the following:

	2017	2016	2015
Revenue Share			
MNTC	50,948,430	47,203,261	43,649,658
CMMTC	31,367,167	30,044,985	27,566,205
SLTC	17,307,595	16,323,274	12,586,932
	99,623,192	93,571,520	83,802,795

As discussed in Note 15, pending issuance by the Toll Regulatory Board (TRB) and the Commission on Audit (COA) of the Implementing Rules and Guidelines (IRG) for the determination of the amounts due to the Company for its administrative expenses, the Company recognized 10 per cent of its share from the JVCs' gross toll revenues in accordance with the interim rules and guidelines issued by the TRB.

The franchise of PNCC under PD1113 to operate, construct, and maintain toll facilities in the North and South Luzon Tollways for a period of 30 years expired on May 1, 2007. With its expiration, the toll assets and facilities of PNCC were automatically turned over to the government at no cost. The Supreme Court (SC), in Ernesto B. Francisco vs. TRB, PNCC et al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et al. (G.R. No. 178158, December 4, 2009), ruled and declared that with the expiration of the Company's franchise, the toll assets and facilities of the Company were automatically turned over, by operation of law, to the National Government (NG) at no

cost and consequently, this inevitably resulted in the latter's owning too the toll fees and the net income derived after May 1, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the JVCs currently operating the tollways, including NLEX and Skyway.

On March 22, 2012, TRB issued an interim rules and guidelines for the remittance by the JVCs to the National Treasury of the net income that is supposed to be remitted by the JVCs from the revenues of the NLEX, SLEX and Skyway in accordance with the *Francisco Case*.

Paragraph 2 of the said guidelines provide that *"(a)s subsequently agreed upon by PNCC and TRB as an interim arrangement, 10 per cent of all amounts that are supposed to be remitted by the JV companies shall be set-aside by the JV company for remittance to PNCC. The ninety (90) per cent shall be remitted to the TRB for the National Treasury immediately."*

Relative to the aforesaid interim rules and guidelines, a complaint (entitled: Rodolfo M. Cuenca vs. Toll Regulatory Board, et al., Civil Case No. 13-919) was filed before the Regional Trial Court (RTC) of Makati Branch 132 by petitioner Rodolfo M. Cuenca, in his capacity as stockholder of the Company, against TRB, COA, Manila North Tollways Corporation (MNTC), CITRA Metro Manila Tollways Corporation (CMMTC), South Luzon Tollways Corporation (SLTC) and Manila Toll Expressways Systems, Inc. (MATES) and the Company as respondents.

In his petition, Cuenca said that *"there is the very real possibility that what the respondent corporations MNTC, CMMTC, SLTC and MATES have remitted, and will be remitting, to the NG is above or much more than what should be remitted given the actual and true financial situation of the respondent corporations. This gives rise to the unfortunate complication that such overpayments may only be reimbursed by the NG through cumbersome, to say the least, budgetary process."*

Thus, petitioner is praying for the Honorable Court that:

- The respondents TRB and COA come up with and release the final implementing rules and guidelines embodying the final formula relative to the determination of the net income remittable by respondent PNCC to the NG;
- That the respondent corporations be enjoined from remitting any and all amounts directly to the NG until respondents TRB and COA have issued the final implementing rules and guidelines; and
- The respondents be ordered to consign with the Honorable Court any and all amounts they are ready to remit to the NG until the final implementing rules and guidelines has been issued by TRB and COA.

On May 9, 2014, a Writ of Preliminary Injunction was issued by the RTC of Makati Branch 132, enjoining and restraining the TRB and PNCC from implementing the interim rules and guidelines dated March 22, 2012. The respondent corporations, namely: MNTC, CMMTC, SLTC and MATES, were directed to forward the entire amounts to be remitted by them under their respective Supplemental Toll Operations Agreement (STOA) to the Company.

It appearing that the government stands to suffer gravely and irreparably from the aforesaid ruling of the RTC as it deprives the government of income based on the government's direct ownership of the assets and facilities of the Company, the Supreme Court (SC) resolved, on August 4, 2014, to require respondents to file Comment on the petition, not a motion to dismiss, within ten (10) days from notice and to issue, effective immediately and continuing until further orders from the SC, a Temporary Restraining Order (TRO), enjoining the RTC of Makati Branch 132, the private respondent, their representatives, agents or other persons acting on their behalf from implementing the RTC Resolution dated April 30, 2014 in Civil Case No. 13-919.

The Petition is still pending resolution before the SC.

21.4 Dividend Income

This account consists of the following:

	2017	2016	2015
CMMTC	57,946,350	54,635,130	36,423,420
ASDI and CESLA	808,866	377,511	6,194,292
	58,755,216	55,012,641	42,617,712

21.5 Interest Income

This account consists of interest income earned on bank deposits amounting to P5.975 million, P10.914 million and P5.727 million in 2017, 2016 and 2015, respectively.

22. **GAINS**

This account consists of the following:

	2017	2016	2015
Gain from changes in fair value of investment property	2,847,864,250	0	227,749,845
Gain on sale of property and equipment	611,219	1,071,297	0
	2,848,475,469	1,071,297	227,749,845

23. OTHER NON-OPERATING INCOME

This account consists of the following:

	2017	2016 (As Restated - Note 32)	2015
Reversal of impairment loss on receivables	643,775	34,668,047	0
Gain on reversal of impairment - other materials and supplies	0	127,360	0
Other income - net	62,979,396	992,519,403	6,053,293
	63,623,171	1,027,314,810	6,053,293

The reversal of impairment loss on receivables in 2017 was due to the collections from DISC Contractors, Builders and General Services, Inc. (DCBGS) mainly arising from the proceeds from asset disposal while in 2016 it was due to the collections from DCBGS mainly arising from the transfer of proceeds from the retirement of a placement account, proceeds from asset disposal, and sales of club shares.

The other income - net account in 2017 mainly consists of the increase in claims receivable against the MIAA as a result of the COA Notice of Finality of Decision dated November 9, 2017 and interest/penalty charges on long overdue leases as offset by the provision recognized for petition for money claims granted by the COA while in 2016, mainly consists of the recognized "free-carry" equity shares of the Company in Citra Central Expressway Corporation (CCEC), Citra Intercity Tollways, Inc. (CITI), asset disposal related service charge and fees and reversal of recognized liability in the Ernesto N. Valentin, et al. vs. PNCC case amounting to P580 million, P240.817 million, P630,403 and P171.072 million, respectively.

24. PERSONNEL SERVICES

This account consists of the following:

	2017	2016	2015
Salaries and wages	29,411,574	27,029,266	24,579,611
Other compensation	4,791,030	4,671,886	2,212,418
Personnel benefit contribution	1,921,832	2,178,602	1,320,293
Other personnel benefits	5,660,625	2,971,789	4,360,013
	41,785,061	36,851,543	32,472,335

25. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

	2017	2016	2015
Taxes, insurance, and other fees	4,342,194	9,252,870	3,749,069
General services	4,001,292	3,428,001	3,575,128
Professional services	3,478,764	3,064,881	3,028,081
Transportation and traveling	3,124,300	1,638,501	1,833,649
Directors and committee members fees	2,858,598	2,260,706	2,143,882
Litigation expense	2,027,330	1,809,877	1,790,092
Utility	1,870,919	1,900,259	2,753,859
Communication	1,092,144	1,039,296	946,991
Repairs and maintenance	857,358	520,682	644,078
Training and scholarship	536,693	313,154	255,565
Supplies and materials	510,559	458,306	1,793,740
Other Maintenance and Operating Expense	371,470	1,174,930	3,696,922
Representation expenses	303,939	53,039	23,324
	25,375,560	26,914,502	26,234,380

26. DIRECT COSTS

This account consists of the following:

	2017	2016	2015
Labor	28,816,597	27,853,528	7,126,596
Materials	1,184,706	1,418,850	800,287
Equipment operations costs	350,717	599,770	282,828
Others	19,531	164,840	3,735
	30,371,551	30,036,988	8,213,446

As stated in Note 22, starting October 1, 2015, the Company assumed the operations of DCBGSI, a wholly-owned subsidiary of the Company.

27. NON-CASH EXPENSES

This account consists of the following:

	2017	2016	2015
Depreciation	6,139,729	7,135,879	4,629,779
Loss on sale of property and equipment	0	0	282,556
Loss on sale of assets	0	46,372	367,804
Loss from changes in fair value of financial instruments	0	10,000	140,000
	6,139,729	7,192,251	5,420,139

28. INCOME TAXES

The Company's provision for income tax for the year 2017 is P5.816 million computed under the Minimum Corporate Income Tax (MCIT).

As of December 31, 2017, the balance of the MCIT is as follows:

Date Incurred	Amount	Application	Expired	Balance	Expiry Date
2017	7,151,247	0	0	7,151,247	2019
2015	4,634,538	0	0	4,634,538	2018
2014	4,016,686	0	4,016,686	0	2017
	15,802,471	0	4,016,686	11,785,785	

As of December 31, 2017 and 2016, the following are the temporary differences for which no deferred tax asset was set up because Management believes that it is more likely that no future taxable income is available against which the benefit from deferred tax assets can be offset:

	2017	2016
Allowance for losses on assets for write off	9,615,422,219	9,615,422,219
Allowance for doubtful accounts	659,495,246	660,139,021
Allowance for impairment – other materials and supplies	3,215,862	3,215,862
Allowance for losses on investments	177,180,811	177,180,811
	10,455,314,138	10,455,957,913

As of December 31, 2017 and 2016, deferred tax liabilities pertain to the following:

	2017	2016
Fair value adjustment of investment property	4,400,265,960	3,179,752,710
Revaluation increment in property	194,941,993	228,939,963
	4,595,207,953	3,408,692,673

Deferred tax liabilities pertain to the deemed tax on the increase in value of investment property and property and equipment as required by PAS 12, *Income Taxes*.

29. TAX MATTERS

The Company was assessed by the Bureau of Internal Revenue (BIR) for deficiencies in various taxes. However, no provision for any liability has been made yet in the Company's financial statements.

- Deficiency internal revenue taxes for taxable year 1980 (income tax, contractor's tax, and documentary stamp tax) totaling P212.52 million.

The Company sought a reinvestigation of the case on November 8, 1995, and as a consequence, the BIR issued a final decision promulgated on September 9, 2004

ordering PNCC to pay the amount of P101.46 million, the reduction of P111.87 million represent deficiency contractor's tax which the BIR resolved to cancel and withdraw from the assessment it being bereft of merit for lack of legal basis, thus finding the Company's contention meritorious.

The Company, in its letter of February 15, 2005, informed the BIR that it had filed a Petition with the Department of Justice (DOJ) seeking the reversal of the BIR's resolution holding the Company still liable for the aforesaid tax deficiencies and has applied for an interim order or measure from the DOJ to suspend or stop the collection of subject amount pending resolution of the Petition.

- Deficiency business tax of P64 million due from the Belgian Consortium, the Company's partner in its LRT Project.
- Deficiency internal revenue taxes for taxable year 1992 (income tax, value-added tax, and expanded withholding tax) of P1.04 billion which was reduced to P709 million after the Company's written protest.

PNCC Management, however, requested for a meeting/conference for the clarification of the issue, the reduced amount still being the result of a jeopardy assessment. The BIR has not responded as of date.

- Deficiency internal revenue taxes for taxable year 2002 totaling P72.92 million.

Management, in close coordination with the concerned BIR officers, presented a more detailed analysis of the accounts. Said presentation and the Company's availment of the tax amnesty had substantially reduced the aforesaid deficiency taxes.

- Deficiency taxes for taxable year 2006 amounting to P116.141 million (inclusive of interest of P48.76 million).

Management, in its letter of October 29, 2010 to the BIR, protested the aforesaid proposed deficiency taxes pursuant to Section 203 of the NIRC of 1997 (Prescription of limitation upon assessment and collection) and Revenue Regulations (RR) No.12-99 (which requires discussion between the Company and BIR Examiner/s before submission of the report to the BIR Chief concerned).

No discussion happened as the Company came to know of the findings on the alleged deficiency taxes only on October 22, 2010, way beyond the three (3)-year prescription period of April 15, 2010.

To date, the Company has not received any formal communication from the BIR after its letter on October 29, 2010.

- Deficiency internal revenue taxes for the taxable year 2009 in the amount of P87.414 million (basic tax of P51.957 million and interest/penalty charges of P35.457 million).

After series of written protests/communications with and presentation of documentary evidences to the BIR, the proposed deficiency taxes of P87.414 million was reduced

to P21.147 million (basic tax of P11.384 million and interest/penalty charges of P9.763 million).

The basic taxes of P6.565 million (expanded withholding tax, withholding tax on compensation, and fringe benefit tax) and P4.819 million (final withholding tax) were paid on November 28, 2013 and on January 10, 2014, respectively.

On January 10, 2014, the Company requested reconsideration for the attendant charges of P9.763 million, in the amount equitable to both the BIR and the Company pursuant to Section 204 of the National Internal Revenue Code (NIRC) and the related revenue regulations.

On November 2, 2016, the Company received a Final Decision on Disputed Assessment for expanded withholding tax, withholding tax on compensation, final withholding of VAT and fringe benefit tax for a total assessed amount of P15.426 million (basic tax of P8.934 million and interest/penalty charges of P6.491 million).

The Company, in its letter dated April 10, 2017 to the BIR, requested that the Company be allowed to avail of reliefs by way of reduction or abatement of the charges and a favorable consideration/reconsideration from the BIR.

30. CONTINGENT LIABILITIES/CONTINGENT ASSETS

PENDING LAWSUITS/LITIGATIONS

Contingent Liabilities

The Company has contingent liabilities with respect to claims and lawsuits. Management believes that the final resolution of these issues will materially affect the Company's financial position.

- Asiavest Merchant Bankers (M) Berhad vs. PNCC

This case arose after Asiavest-CDCP Sdn. Bhd. (Asiavest-CDCP), a corporation organized by both CDCP (now PNCC) and Asiavest Holdings (M) Sdn. Bhd. (Asiavest Holdings), which acted as PNCC's subcontractor in Malaysia, failed to complete the project in Malaysia. Asiavest Merchant Bankers (M) Berhad (AMB), which provided various guarantees and bonds to PNCC in connection with the construction contracts in Malaysia, thus sought reimbursement of the surety bond the former paid to the State of Pahang (Malaysia). The amount involved is Malaysian Ringgit (MYR) 3,915,053.54.

On April 12, 1994, AMB instituted the case before the Pasig City Regional Trial Court (RTC). PNCC through its legal counsel, Office of the Government Corporate Counsel (OGCC), had filed four (4) motions for extension of time to file answer and/or any responsive pleading. However, PNCC was not able to file its Answer to the Complaint because the transactions were executed in Malaysia and the documents were not then immediately available. Thus a judgment by default was rendered by the trial court. Efforts were made towards lifting of the default order and reconsideration of the decision, but the same were denied.

PNCC appealed the case to the Court of Appeals but was dismissed in its Decision dated June 10, 2005. A Motion for Reconsideration was filed but the same was denied.

A Petition for Review on Certiorari was filed before the Supreme Court which eventually decided against PNCC last April 4, 2016. On April 6, 2016, OGCC received a Motion for issuance of Alias Writ of Execution filed by AMB with the RTC. On April 16, 2016, PNCC filed its opposition thereto arguing that the subject claim should be filed first with COA before a Writ of Execution can be issued by the RTC.

- *Asiavest Merchant Bankers (M) Berhad vs. Court of Appeals and PNCC*

This case involves the enforcement of a foreign judgment rendered against PNCC in Malaysia for guarantees it issued on various construction projects involving Malaysian Ringgit (MYR) 5,108,290.23. The Pasig City RTC and the Court of Appeals rendered decisions in favor of PNCC, dated October 14, 1991 and May 19, 1993, respectively.

In 2001, the Supreme Court (SC) rendered a decision reversing the decision of the Court of Appeals and ordered the payment of the foreign award. In 2002, the Pasig City RTC issued a Writ of Execution, and which was partially satisfied but PNCC later asked for its temporary suspension by moving to quash the writ because of: (a) change of the party's status making the execution inequitable; and, (b) the claim has already prescribed under Malaysian laws. In 2015, the RTC finally denied PNCC's Motion to Quash, including the subsequent Motion for Reconsideration. PNCC has since filed a Petition for Certiorari which is pending in the Court of Appeals. In April 2016, AMB's counsel filed for Ex-Parte Motion for Issuance of Alias Writ of Execution to enforce the 2002 Writ of Execution. PNCC has since opposed it, prompting AMB to file its Urgent Motion to Resolve.

In view of the foregoing, the Company, through its legal counsel, OGCC, shall continue to exhaust all legal options provided by law.

Contingent Asset

On January 13, 2012, PNCC filed a petition for money claim against the Manila International Airport Authority (MIAA) with COA, for payment of price adjustments due to variation orders in the structural repair of roof deck slabs, columns, and steel trusses project at Gate Nos. 2, 7, 9, and 15 of the Ninoy Aquino International Airport International Passenger Terminal I, in the total amount of P26.113 million.

On September 27, 2017, the COA Commission Proper under CP Decision No. 2017-310 granted with modification PNCC's claim against MIAA and directed MIAA to pay PNCC a reduced amount of P22.368 million.

PNCC filed a motion for COA to issue a Notice of Finality of Decision (NFD). However, on February 5, 2018, COA issued a resolution deferring the issuance of the NFD stating that Mr. Serafin D.P. Ignacio wrote a letter to COA regarding the matter which was treated by COA as a Motion for Reconsideration. The said letter is now under evaluation by the

Claims Adjudication Office-Corporate, Commission Proper Adjudication and Secretariat Support Services Sector of COA.

Pending Lawsuits/Litigations

In addition, the Company is involved in continuing litigations relating to labor and civil cases. The ultimate outcome of these litigations cannot be determined yet and no provision for any liability that may result can be made in the financial statements.

The labor cases consist of those filed against the Company comprised mostly of claims for illegal dismissal, backwages, separation pay, and unpaid benefits. Most of these cases have been ruled by the Labor Arbiter in favor of the complainant. However, these cases are on appeal by the Company before the National Labor Relations Commission, Court of Appeals and Supreme Court.

The civil cases filed against the Company consist of cases involving damages, collection of money, and attorney's fees, which are still in litigation before various Regional Trial Courts. On the other hand, those filed by the Company against other individuals or companies consist of suits involving sums of money, damages, and breaches of contract which involve undeterminable amount of money.

31. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, has transactions with related parties. The more significant of these transactions include compensation/other benefits of key management personnel amounting to P18.303 million and P14.719 million in 2017 and 2016, respectively.

32. RESTATEMENT OF ACCOUNTS

The 2016 financial statements were restated to reflect the following transactions/adjustments:

	December 31, 2016 (As previously reported)	Derecognition of other accounts payable	December 31, 2016 (As restated)
STATEMENT OF FINANCIAL POSITION			
Other payables			
<i>Other accounts payable</i>	174,861,629	171,072,000	3,789,629
Cash and cash equivalents			
<i>Other Assets</i>	100,327,360	100,327,360	100,327,360
STATEMENT OF COMPREHENSIVE INCOME			
Other non-operating income			
<i>Other income - net</i>	856,242,810	171,072,000	1,027,314,810
STATEMENT OF CHANGES IN EQUITY			
Net income	853,333,683	171,072,000	1,024,405,683

Other accounts payable pertains to the provision for liability of P171.072 million previously presented as part of other payables account, the details of which were not disclosed as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The said other accounts payable was derecognized effective 2016 as a result of the Supreme Court decision becoming final and executory. In addition, as discussed in Note 6, the related restricted cash amounting to P100.327 million was reverted from other assets to the cash and cash equivalents account effective 2016.

Accounts were reclassified/converted to adopt the Revised Chart of Accounts pursuant to COA Circular No. 2015-010 dated December 1, 2015.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk

The Company's principal financial instruments comprise of cash and cash equivalents, restructured debt and advances to and from related parties. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as receivables and vouchers payable and accrued expenses (excluding statutory payables), which arise directly from its operations. The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's Board of Directors (BOD) and Management review and approve the policies for managing each of this risk.

The Company monitors market price risk arising from all financial instruments and regularly report financial management activities and the results of these activities to the BOD.

The Company's risk management policies are summarized below. The exposure to risk and how they arise, as well as the Company's objectives, policies and processes for managing the risk and the methods used to measure the risk did not change from prior years.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance its cash requirements. Operating expenses and working capital requirements are sufficiently funded through cash collections.

The extent and nature of exposures to liquidity risk and how they arise as well as the Company's objectives, policies and processes for managing the risk and the methods used to measure the risk are the same for 2017 and 2016.

The following table summarizes the maturity profile of the Company's financial assets and financial liabilities as of December 31, 2017 and 2016, based on contractual undiscounted cash flows:

	2017			Total
	<1 year	>1 to <5 years	>5 years	
Financial Assets				
Cash and cash equivalents	789,027,864	0	0	789,027,864
Receivables	272,459,914	52,786,636	120,959,929	446,206,479
	1,061,487,778	52,786,636	120,959,929	1,235,234,343
Financial Liabilities				
Accounts payable	20,173,458	0	0	20,173,458
Inter-agency payables	2,948,043	0	0	2,948,043
Customer deposit	43,625,984	0	0	43,625,984
Unearned Income	24,556,428	0	0	24,556,427
Other financial liabilities	258,002,200	774,006,600	8,257,995,416	9,290,004,216
Other payables	0	0	3,789,629	3,789,629
	349,306,113	774,006,600	8,261,785,045	9,385,097,757
Liquidity gap	712,181,664	(721,219,964)	(8,140,825,116)	(8,149,863,414)
2016				
	<1 year	>1 to <5 years	>5 years	Total
Financial Assets				
Cash and cash equivalents	591,045,681	0	0	591,045,681
Receivables	193,122,252	14,231,077	120,959,930	328,313,259
	784,027,933	14,231,077	120,959,930	919,358,940
Financial Liabilities				
Accounts payable	17,737,989	0	0	17,737,989
Inter-agency payables	815,997	0	0	815,997
Customer deposit	18,883,600	0	0	18,883,600
Unearned Income	24,205,474	0	0	24,205,474
Other financial liabilities	258,002,200	774,006,600	7,999,993,016	9,032,001,816
Other payables	0	0	3,789,629	3,789,629
	319,645,260	774,006,600	8,003,782,645	9,097,434,505
Liquidity gap	464,382,673	(759,775,523)	(7,882,822,715)	(8,178,075,565)

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers and suppliers.

Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with suppliers whose paying and performance capabilities are rigorously screened.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position as of December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents	789,027,864	591,045,681
Receivables	446,206,480	328,313,259
	1,235,234,344	919,358,940

As of December 31, 2017 and 2016, the aging analysis per class of receivables is as follows:

2017							
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Total
		<30 days	30-60 days	60-90 days	>90 days		
Accounts Receivable:							
Contract related receivables	65,788,920	3,864,285	457,726	0	133,161,382	0	203,272,313
Advances to the Bureau of the Treasury (BTr)	150,000,000	0	0	0	0	0	150,000,000
Accounts receivable - trade	18,439,738	5,972,942	8,100,838	5,817,565	40,935,165	0	79,266,248
Accounts receivable - subsidiaries and affiliates	3,674	3,361	2,174	33,768	906,974	0	949,951
Advances to suppliers	141,200	312,733	0	7,000	195,903	0	656,836
Advances to CESLA	65,948	0	0	0	0	0	65,948
Advances for SSS/EC benefits	64,000	15,360	4,800	32,000	130	0	116,289
Other accounts receivable	0	40,000	0	0	10,746,789	0	10,786,789
	234,503,480	10,208,681	8,565,538	5,890,333	185,946,343	0	445,114,374
Receivables from officers and employees:							
Officers and employees	147,196	0	0	0	944,909	0	1,092,105
	147,196	0	0	0	944,909	0	1,092,104
	234,650,676	10,208,681	8,565,538	5,890,333	186,891,252	0	446,206,479
2016							
	Neither Past Due Nor Impaired	Past Due But Not Impaired				Impaired Financial Assets	Total
		<30 days	30-60 days	60-90 days	>90 days		
Accounts Receivable:							
Advances to the Bureau of the Treasury (BTr)	150,000,000	0	0	0	0	0	150,000,000
Contract related receivables	7,400,368	3,477,686	0	0	129,125,806	0	140,003,860
Accounts receivable - trade	16,546,531	1,708,779	1,353,041	1,411,056	4,910,816	0	25,930,223
Accounts receivable - subsidiaries and affiliates	2,261	2,094	2,272	2,254	399,960	0	408,841
Advances to suppliers	78,068	0	0	0	3,690	0	81,758
Advances to CESLA	15,523	0	0	0	0	0	15,523
Advances for SSS/EC benefits	1,920	0	0	0	0	0	1,920
Other accounts receivable	637,588	945,028	0	0	9,155,615	0	10,738,231
	174,682,259	6,133,587	1,355,313	1,413,310	143,595,887	0	327,180,356
Receivables from officers and employees:							
Officers and employees	140,005	0	0	0	971,197	0	1,111,202
Directors	0	0	0	0	21,701	0	21,701
	140,005	0	0	0	992,898	0	1,132,903
	174,822,264	6,133,587	1,355,313	1,413,310	144,588,785	0	328,313,259

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the statements of financial position as of December 31, 2017 and 2016.

	Carrying Amount		Fair Value	
	2017	2016 (As Restated - Note 33)	2017	2016 (As Restated - Note 33)
Financial assets				
Cash and cash equivalents	789,027,864	591,045,681	789,027,864	591,045,681
Receivables	446,206,479	328,313,259	446,206,479	328,313,259
	1,235,234,343	919,358,940	1,235,234,343	919,358,940
Financial liabilities				
Accounts payable	20,173,458	17,737,989	20,173,458	17,737,989
Inter-agency payable	2,948,043	815,997	2,948,043	815,997
Customer deposit	43,625,984	18,883,600	43,625,984	18,883,600
Unearned income	24,556,427	24,205,474	24,556,427	24,205,474
Other financial liabilities	9,290,004,216	9,032,001,816	9,290,004,216	9,032,001,816
Other payables	3,789,629	3,789,629	3,789,629	3,789,629
	9,385,097,757	9,097,434,505	9,385,097,757	9,097,434,505

Cash and cash equivalents and Accounts and other payables – carrying amounts approximate fair values due to the relative short-term maturities of these investments.

Receivables – carrying amounts approximate fair values due to the short-term nature of the receivables.

34. SUPPLEMENTARY INFORMATION REQUIRED UNDER BIR REVENUE REGULATIONS

In compliance with the requirements set forth by Revenue Regulations, hereunder are the information on taxes, duties, and licenses paid or accrued during the taxable year 2017:

34.1 The Company is a VAT-registered company with VAT output tax declaration of P26.228 million for the year based on the amount reflected in the Sales Account of P218.566 million.

34.2 The amount of VAT input taxes claimed are broken down as follows:

Beginning of the year	0
Current year's purchases:	
Goods for resale/manufacture or further processing	0
Goods other than for resale or manufacture	447,993
Capital goods subject to amortization	0
Capital goods not subject to amortization	34,038
Services lodged under cost of goods sold	0
Services lodged under other accounts	603,026
Claims for tax credit/refund and other adjustments	0
Balance at the end of the year	1,085,057

34.3 Other taxes and licenses:

Local:

Real Estate Tax	1,543,841
Mayor's Permit	1,716,044
Community tax	10,500
	<u>3,270,385</u>

National:

BIR Annual Registration	500
VAT/Percentage Taxes	6,300
Others (Capital Gains Tax/Doc. Stamp Tax)	160,472
	<u>167,272</u>

34.4 The amount of withholding taxes paid/accrued for the year amounted to P7.201 million broken down as follows:

Tax on compensation and benefits	6,445,276
Creditable withholding taxes	756,196
	<u>7,201,472</u>