



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

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

For the Years Ended December 31, 2018 and 2017



107232019005781

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines

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Barcode Page**The following document has been received:****Receiving Officer/Encoder** : Mark Anthony R. Osená**Receiving Branch** : SEC Head Office**Receipt Date and Time** : July 23, 2019 04:10:43 PM**Received From** : Head Office**Company Representative**

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SEC Registration No. 0000030939**Company Name** PHIL. NATL. CONS. CORP.**Industry Classification****Company Type** Stock Corporation**Document Information**

Document ID 107232019005781**Document Type** FINANCIAL STATEMENT-ANNUAL**Document Code** FS**Period Covered** December 31, 2018**No. of Days Late** 0**Department** CED/CRMD**Remarks**

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine National Construction Corporation (PNCC or the Corporation), 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 Corporation.

From 1987 to 2001, PNCC still engaged in some construction business but this resulted in losses. Since 2002, the Corporation 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 Corporation 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 Corporation'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.

FINANCIAL HIGHLIGHTS

Comparative Financial Position
(In thousand pesos)

| | 2018 | 2017 (As restated) | Increase (Decrease) |
|-------------|------------|-----------------------|------------------------|
| Assets | 17,968,293 | 17,805,784 | 162,509 |
| Liabilities | 14,234,949 | 13,984,075 | 250,874 |
| Equity | 3,733,344 | 3,821,708 | (88,364) |

Comparative Results of Operations
(In thousand pesos)

| | 2018 | 2017 | Increase (Decrease) |
|--------------------------|-----------|-----------|------------------------|
| Income | 293,958 | 3,241,025 | (2,947,066) |
| Personnel services | (46,359) | (41,785) | 4,574 |
| Operating expenses | (331,369) | (319,897) | 11,472 |
| Profit (loss) before tax | (83,770) | 2,879,343 | (2,963,113) |
| Income tax expense | 0 | 0 | 0 |
| Net profit (loss) | (83,770) | 2,879,343 | (2,963,113) |

SCOPE AND OBJECTIVES OF AUDIT

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

INDEPENDENT AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

We rendered an adverse opinion on PNCC's financial statements due to the recognition of the unconverted debts as equity and the non-recognition of interests and other charges thereon resulting in the understatement of total liabilities and overstatement of total equity both by P67.880 billion and P65.356 billion as of December 31, 2018 and 2017, respectively. The accumulated deficit is also understated by P62.328 billion and P59.804 billion as of December 31, 2018 and 2017, respectively.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

1. The faithful representation of the balance of Accounts Receivable amounting to P464.174 million as at December 31, 2018 could not be established due to the variance of P105.488 million between the balance per books and the confirmed amount.

We recommended that Management:

- a) Identify the cause/s of the discrepancies on the subject receivables;
- b) Coordinate with the Legal Department of Philphos in reconciling its accounts with PNCC in accordance with the court-supervised rehabilitation plan; and

- c) Intensify efforts to reconcile the variances between the balance per books and debtor's records and effect the necessary adjusting journal entries in the books, if warranted.
2. Balances of toll revenue (SLEX operation under Toll Operation Certificate) account per PNCC and Toll Regulatory Board (TRB's) books showed a variance of P566.300 million.

We recommended that Management communicate with TRB and the Bureau of the Treasury and furnish them with the documents covering the partial payment of P566.300 million pertaining to the unremitted toll revenues so that the recorded amount of PNCC and TRB will be reconciled.

3. The variance of P1.760 million between the utility vehicle account in the books and balance per Physical Inventory Report of General Services Department (GSD) cast doubt on the reliability of the account.

We recommended that Management:

- a) Locate the Deeds of Donation/Conveyance that will serve as basis for the derecognition of the transferred/donated vehicles that were still recorded in the books; if necessary, request copy of the documents from the receiving agencies;
 - b) Identify the unlocated vehicle/s amounting to P220,000;
 - c) Exclude the vehicles transferred to DCBGS in the inventory list of vehicles of GSD;
 - d) Require the GSD to record the vehicles at acquisition cost, net of input vat, in the inventory report; and
 - e) Reconcile regularly the balance of properties and equipment per accounting record with the report on physical count.
4. The Management did not conduct physical inventory count of some properties and equipment with a net book value of P0.570 million, as required under COA Circular No. 80-124 dated January 18, 1980.

We recommended that Management:

- a) Submit reconciliation report on computer instruments;
- b) Properly plan the conduct of physical inventory count of all property and equipment and conduct annual physical inventory count of all PNCC property in accordance with COA Circular No. 80-124 dated January 18, 1980 and submit the Report on Physical Count of Property and Equipment in the prescribed format not later than January 31 of the following year; and
- c) Identify the causes of the negative net book values of some property and equipment items and adjust accordingly.

5. The grant of salary adjustment at the rate of P3,700 to 42 PNCC employees lacked approval or authority from the President of the Philippines, as required under Section 9 of Executive Order (EO) No. 7, series of 2010, and Item 9 of Joint Resolution (J.R.) No. 4, series of 2009.

We recommended that Management:

- a) Stop the implementation of the salary increase/adjustment;
 - b) Cause the refund of all the amounts paid to 42 employees for the salary adjustment; and
 - c) Secure approval from the Office of the President for any salary increase pursuant to the provisions of Section 9 of EO No. 7, s. 2010 and Item 9 of J.R. No. 4, s. 2009.
6. Professional fees paid to four (4) Executive Assistants (EAs) for the Office of the Chairman and for the Office of the three Directors, at a monthly rate of P50,000 and P35,000, respectively, exceeded the prescribed rate provided under Section 210 of the Government Accounting and Auditing Manual (GAAM), Volume 1.

We recommended that Management:

- a) Review and amend the Service Contracts of the EAs taking into consideration the following:
 - i. the rates prescribed under Section 210 of the GAAM; and
 - ii. inclusion of submission of the necessary documents to support the claims for services rendered.
 - b) Cause the refund of the excess amounts paid to concerned service contract personnel, otherwise, a Notice of Disallowance will be issued.
7. The use of the Corporation's service vehicles by the three members of the Board of Directors (BOD) is not properly controlled and regulated as required in Section B, Item 2 on Specific Rules and Regulations of the Manual on Audit for Fuel Consumption of Government Motor Vehicles dated September 26, 1977.

We recommended that Management:

- a) Limit the use of the Corporation's service vehicles by members of the BOD, like attendance to Board and other meetings and in the discharge of the member's official duties;
- b) Institute measures such as requiring the immediate return of the vehicles to the carpool upon every accomplished trips as stated in the approved trip tickets, to ensure that usage of the Corporation's service vehicles by members of the BOD are properly controlled and regulated;
- c) Formulate policy on the proper use of the Corporation's service vehicles under carpool for use by PNCC employees and members of the BOD taking into consideration the provisions of Section B, Item 2 on Specific Rules and Regulations of the Manual on Audit for Fuel Consumption of Government Motor Vehicles, EO No.

24, series of 2011, GCG Memorandum Circular No. 2016-01 dated May 10, 2016, and GCG letter-reply dated January 26, 2018; and

- d) Accomplish trip tickets completely and properly by providing all the required necessary information.
- 8. Some procedures undertaken during the opening of bids/proposals for the lease of Porac Quarry Site in Pampanga were not in accordance with the negotiation procedures set forth in the Invitation to Submit Proposal.

We recommended that Management

- a) Revise the negotiation procedures by requiring the bid bond to be enclosed in the technical proposal and the same be deposited to the PNCC Cashier after the bid opening; and
- b) Strictly adhere to the procedures provided in the Invitation to Submit Proposal relative to the following:
 - i. Simultaneous submission of the eligibility, technical and financial proposals;
 - ii. Receiving of bids within the specified date, time, and place; and
 - iii. Proper sealing and marking of bid envelopes.

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

As of December 31, 2018, the unsettled Notices of Disallowance (ND) amounted to P466.519 million, as follows:

| Particulars | Quantity | Amount (in millions) |
|---|----------|----------------------|
| With Cluster decision but under automatic review by the Commission Proper | 4 | 172.468 |
| NDs affirmed in the decision rendered by the COA CGS Cluster Director. Petition for Review filed with the COA Commission Proper | 24 | 198.276 |
| 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 | 466.519 |

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 55 prior years' recommendations, 24 were implemented/reconsidered, 20 were partially implemented and 11 were not implemented. Details are presented in Part III of this Report.



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

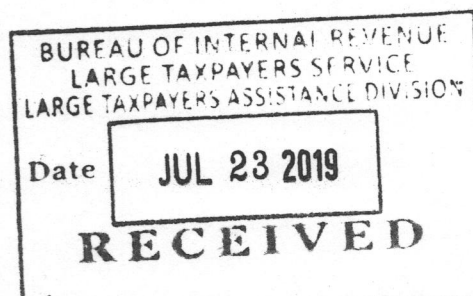
We have audited the financial statements of Philippine National Construction Corporation (PNCC), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, 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 PNCC as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Adverse Opinion

Letter of Instruction (LOI) No. 1295 issued in 1983 directed all concerned Government Financial Institutions (GFIs) to convert into shares of common stock all direct obligations of PNCC with them. However, P5.552 billion debts were not converted into equity due to insufficient authorized capital. These debts 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 the 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.



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 obligations 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 debts to equity is a remote possibility.

The unconverted debt of P5.552 billion increased to P67.880 billion and P65.356 billion as of December 31, 2018 and 2017, 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, 2018 and 2017. The increase consists mainly of interest and other charges. The said amounts were not recognized by PNCC as liability in its books resulting in the understatement of total liabilities and overstatement of total equity both by P67.880 billion and P65.356 billion as of December 31, 2018 and 2017, respectively. The accumulated deficit is also understated by P62.328 billion and P59.804 billion as of December 31, 2018 and 2017, 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 PNCC 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the PNCC's Securities and Exchange Commission (SEC) Form No. 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 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, 2018 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.

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 PNCC'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 PNCC or to cease operations, or has no realistic alternative but to do so.

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

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 PNCC'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 PNCC'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 PNCC 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.

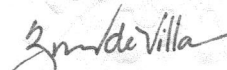
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 extreme 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 out-weigh 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 in Note 36 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of basic financial statements. Because of the significance of the matter described in the *Basis for Adverse Opinion* section, 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

May 29, 2019



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date

JUL 23 2019

RECEIVED

**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, 2018 and 2017, 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.

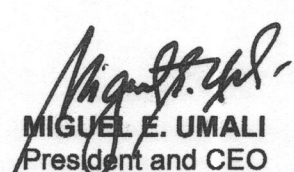
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or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

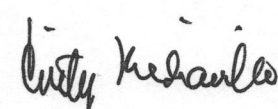
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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 International Standards of Supreme Audit Institutions, 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


MIGUEL E. UMALI
President and CEO


CRISTY M. MEDIAVILLO
Head, Treasury

MAY 29 2019

SUBSCRIBED AND SWORN to before me this _____ day of _____ affiants
exhibiting to me their Tax Identifications, as follows:

| <u>Names</u> |
|----------------------|
| Herculano C. Co, Jr. |
| Miguel E. Umali |
| Cristy M. Mediavillo |

| <u>Tax Identification No.</u> |
|-------------------------------|
| 167-383-105 |
| 106-974-003 |
| 118-060-474 |

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Series of 2019

ATTY JESUS F. APUYOD
APPOINTMENT NO. 1 (2018-2019)
NOTARY PUBLIC FOR TAGUIG
UNTIL DECEMBER 31, 2019
4140 GEN. SANTOS AVE., LOWER BICUTAN, TAGUIG CITY
ROLL NO. 12255
PTR NO. A-262187913 JUL 2019 TAGUIG CITY
IBP LIFETIME REGISTRATION AFTER
MORAL COMPLIANCE



**PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION**

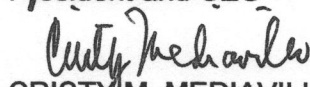
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**

The Management of the Philippine National Construction Corporation is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached *Board Approved-Audited Financial Statements* as of and for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of Philippine National Construction Corporation, complete and correct in all material respects. Management likewise affirms that:

- (a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) Any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and
- (c) the Philippine National Construction Corporation has filed all applicable tax returns, reports, and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

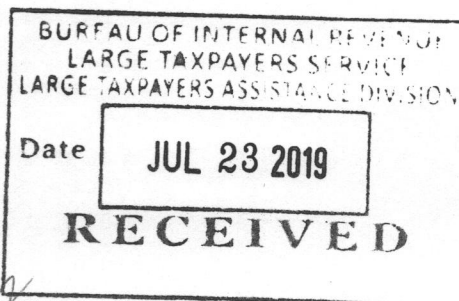

MIGUEL E. UMALI
President and CEO


CRISTY M. MEDIAVILLO
Head, Treasury

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017
(In Philippine Peso)

| | Notes | December 31, 2018 | December 31, 2017 (As restated) | January 1, 2017 (As restated) |
|---|----------|-----------------------|---------------------------------------|-------------------------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | 3.3, 6 | 205,158,385 | 145,467,935 | 173,209,406 |
| Short-term investments | 7 | 730,179,490 | 643,559,929 | 417,836,275 |
| Receivables, net | 3.3, 8 | 466,782,133 | 446,706,479 | 328,813,259 |
| Inventories | 3.8, 9 | 3,709,987 | 3,420,610 | 4,403,783 |
| Other current assets | 10 | 23,119,740 | 18,784,759 | 13,603,421 |
| Total Current Assets | | 1,428,949,735 | 1,257,939,712 | 937,866,144 |
| Non-Current Assets | | | | |
| Investment | 3.10, 11 | 926,990,952 | 926,950,952 | 926,950,952 |
| Investment property | 3.11, 12 | 14,738,325,500 | 14,738,325,500 | 10,669,948,000 |
| Property and equipment, net | 3.12, 13 | 658,570,260 | 665,179,677 | 780,275,072 |
| Deferred tax assets | 3.21, 30 | 40,978,113 | 38,731,824 | 37,339,656 |
| Other non-current assets, net | 14 | 174,478,572 | 178,656,295 | 178,653,037 |
| Total Non-Current Assets | | 16,539,343,397 | 16,547,844,248 | 12,593,166,717 |
| TOTAL ASSETS | | 17,968,293,132 | 17,805,783,960 | 13,531,032,861 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Financial liabilities | 15 | 14,680,110 | 23,324,485 | 20,889,016 |
| Other financial liabilities (Due to NG and GOCCs) | 16 | 9,548,006,516 | 9,290,004,216 | 9,032,001,816 |
| Inter-agency payables | 17 | 8,399,828 | 2,948,043 | 815,997 |
| Trust liabilities | 18 | 39,363,786 | 43,625,984 | 18,883,600 |
| Deferred credits/unearned income | 19 | 25,501,119 | 25,175,179 | 24,205,474 |
| Total Current Liabilities | | 9,635,951,359 | 9,385,077,907 | 9,096,795,903 |
| Non-Current Liabilities | | | | |
| Deferred tax liabilities | 3.21, 30 | 4,595,207,954 | 4,595,207,954 | 3,408,692,673 |
| Trust liabilities | 18 | 3,789,629 | 3,789,629 | 3,789,629 |
| Total Non-Current Liabilities | | 4,598,997,583 | 4,598,997,583 | 3,412,482,302 |
| TOTAL LIABILITIES | | 14,234,948,942 | 13,984,075,490 | 12,509,278,205 |
| EQUITY | | 3,733,344,190 | 3,821,708,470 | 1,021,754,656 |
| TOTAL LIABILITIES AND EQUITY | | 17,968,293,132 | 17,805,783,960 | 13,531,032,861 |

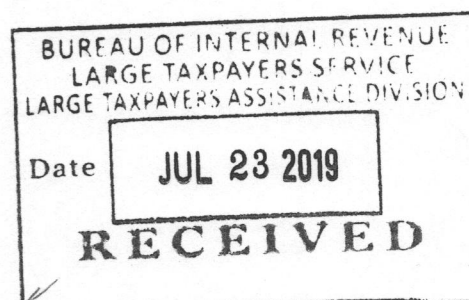
The notes on pages 10 to 80 form part of these statements.



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2018, 2017 and 2016
(In Philippine Peso)

| | Notes | December 31, 2018 | December 31, 2017 | December 31, 2016 |
|--|----------|----------------------|----------------------|----------------------|
| Income | | | | |
| Service and business income | 3.17, 23 | 291,996,301 | 328,926,052 | 308,865,842 |
| Gains | 24 | 222,907 | 2,848,475,469 | 1,071,297 |
| Other non-operating income | 3.17, 25 | 1,739,199 | 63,623,171 | 1,027,314,810 |
| Total Income | | 293,958,407 | 3,241,024,692 | 1,337,251,949 |
| Expenses | | | | |
| Personnel services | 3.18, 26 | (46,359,548) | (41,785,061) | (36,851,543) |
| Maintenance and other operating expenses | 3.18, 27 | (35,257,384) | (25,375,560) | (26,914,502) |
| Financial expenses | | | | |
| Penalty charges on unpaid concession fee | 3.19, 16 | (258,002,300) | (258,002,400) | (258,002,200) |
| Bank charges | 3.18 | 0 | (7,710) | (6,940) |
| Direct costs | 3.18, 28 | (30,688,384) | (30,371,551) | (30,036,988) |
| Non-cash expenses | 3.18, 29 | (7,420,533) | (6,139,729) | (7,192,251) |
| Total Expenses | | (377,728,149) | (361,682,011) | (359,004,424) |
| Income (Loss) Before Tax | | (83,769,742) | 2,879,342,681 | 978,247,525 |
| Income tax expense | 3.21, 30 | 0 | 0 | (69,854,862) |
| Net Income (Loss) | | (83,769,742) | 2,879,342,681 | 908,392,663 |
| Other Comprehensive income (loss) | | 40,000 | (76,559,103) | 0 |
| Total Comprehensive Income (Loss) | | (83,729,742) | 2,802,783,578 | 908,392,663 |

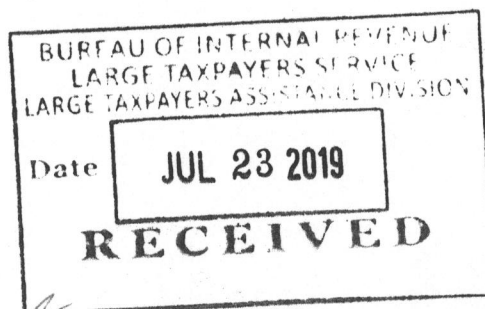
The notes on pages 10 to 80 form part of these statements.



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

| | Note | Share Capital (Notes 3.16, 20) | Share Premium (Note 3.16) | Equity Adjustment - Loans Transferred to National Gov't (Note 22) | Subscriptions Receivable (Notes 3.16, 21) | Treasury Stock (Notes 3.16, 20) | Revaluation Surplus (Note 3.12) | Retained Earnings/(Deficit) (Note 3.16) | Other Comprehensive Income | TOTAL |
|---|------|-----------------------------------|------------------------------|--|---|------------------------------------|---------------------------------------|---|----------------------------------|---------------|
| Balance at December 31, 2016 | | 2,283,758,120 | 46,137,443 | 5,551,726,307 | (56,158,831) | (16,699,918) | 534,193,246 | (7,318,550,684) | 0 | 1,024,405,683 |
| Corection of prior years' expenses | 34 | | | | | | | 922,630 | 0 | 922,630 |
| Settlement of 2009 tax deficiency assessment | 34 | | | | | | | (3,573,657) | 0 | (3,573,657) |
| Balance at January 1, 2017, as restated | | 2,283,758,120 | 46,137,443 | 5,551,726,307 | (56,158,831) | (16,699,918) | 534,193,246 | (7,321,201,711) | 0 | 1,021,754,656 |
| Changes in equity for 2017 | | | | | | | | | | |
| Add (Deduct): | | | | | | | | | | |
| Comprehensive income for the year | | 0 | 0 | 0 | 0 | 0 | 0 | 2,879,342,681 | 0 | 2,879,342,681 |
| Other comprehensive income | | | | | | | | | | |
| Movement in revaluation increment, net of tax | | 0 | 0 | 0 | 0 | 0 | (76,559,103) | 0 | 0 | (76,559,103) |
| Other adjustments | | | | | | | | | | |
| Expiration of 2014 minimum corporate income tax | | 0 | 0 | 0 | 0 | 0 | 0 | (4,016,686) | 0 | (4,016,686) |
| Piecemeal realization of revaluation increment | | 0 | 0 | 0 | 0 | 0 | (3,956,414) | 3,956,414 | 0 | 0 |
| Reduction in deferred tax liability | | 0 | 0 | 0 | 0 | 0 | 1,186,922 | 0 | 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 | (4,441,919,302) | 0 | 3,821,708,470 |
| Changes in equity for 2018 | | | | | | | | | | |
| Add (Deduct): | | | | | | | | | | |
| Comprehensive income (loss) for the year | | 0 | 0 | 0 | 0 | 0 | 0 | (83,769,742) | 0 | (83,769,742) |
| Unrealized gain on financial asset at FVOCI | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40,000 | 40,000 |
| Other adjustment | | | | | | | | | | |
| Expiration of 2015 minimum corporate income tax | | 0 | 0 | 0 | 0 | 0 | 0 | (4,634,538) | 0 | (4,634,538) |
| Balance at December 31, 2018 | | 2,283,758,120 | 46,137,443 | 5,551,726,307 | (56,158,831) | (16,699,918) | 454,864,651 | (4,530,323,582) | 40,000 | 3,733,344,190 |

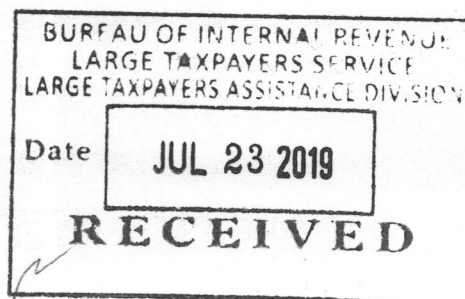
The notes on pages 10 to 80 form part of these statements.



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018, 2017 and 2016
(In Philippine Peso)

| | Note | December 31, 2018 | December 31, 2017 (As restated) | December 31, 2016 (As restated) |
|--|------|----------------------|---------------------------------------|---------------------------------------|
| CASH INFLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash Inflows | | | | |
| Collection of income/revenue | | 196,369,967 | 224,190,956 | 264,709,195 |
| Reversion of restricted cash used as collateral | | 0 | 0 | 100,327,360 |
| Other receipts | | 38,065,494 | 37,811,511 | 40,103,409 |
| Total Cash Inflows | | 234,435,461 | 262,002,467 | 405,139,964 |
| Cash Outflows | | | | |
| Payment of expenses | | (145,204,453) | (126,015,141) | (119,587,269) |
| Release of inter-agency fund transfers | | (4,503,212) | (3,292,028) | (3,502,324) |
| Total Cash Outflows | | (149,707,665) | (129,307,169) | (123,089,593) |
| Net Cash Provided by Operating Activities | | 84,727,796 | 132,695,298 | 282,050,371 |
| CASH INFLOWS FROM INVESTING ACTIVITIES | | | | |
| Cash Inflows | | | | |
| Receipt of cash dividends | 23.4 | 55,570,010 | 58,755,216 | 55,012,640 |
| Receipt of interest earned | | 6,738,925 | 6,056,200 | 10,913,760 |
| Proceeds from sale of property and equipment | | 0 | 1,194,311 | 23,283,267 |
| Proceeds from sale of other assets | | 0 | 0 | 92,671,235 |
| Total Cash Inflows | | 62,308,935 | 66,005,727 | 181,880,902 |
| Cash Outflows | | | | |
| Placement in money market | | (86,619,562) | (225,723,654) | (417,836,275) |
| Purchase of property and equipment | | (726,719) | (718,842) | (326,083) |
| Total Cash Outflows | | (87,346,281) | (226,442,496) | (418,162,358) |
| Net Cash Used in Investing Activities | | (25,037,346) | (160,436,769) | (236,281,456) |
| CASH INFLOWS FROM FINANCING ACTIVITIES | | | | |
| Cash Outflows | | | | |
| Payment of long-term liabilities | | 0 | 0 | (566,300,000) |
| Net Cash Used in Financing Activities | | 0 | 0 | (566,300,000) |
| NET INCREASE (DECREASE) IN CASH | | 59,690,450 | (27,741,471) | (520,531,085) |
| CASH AT BEGINNING OF THE YEAR | | 145,467,935 | 173,209,406 | 693,740,491 |
| CASH AT END OF YEAR | 6 | 205,158,385 | 145,467,935 | 173,209,406 |

The notes on pages 10 to 80 form part of these statements.



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Corporation 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 Corporation 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 Corporation another period of 30 years "from the completion of the project."

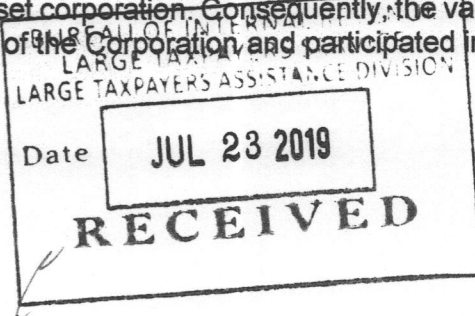
On May 7, 1981, Letter of Instruction (LOI) 1136 was issued mandating the National Development Company (NDC) to invest in the Corporation by way of capital infusion in the amount of P250 million.

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 Corporation'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 (the 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 Corporation and participated in its management.



In 1986, under Proclamation No. 50, the Corporation 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 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 Corporation's equity was held by the 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 Corporation'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 Corporation to the Republic of the Philippines which in turn conveyed them to the APT (now PMO) for disposition to the private sector pursuant to the government's privatization program.

From 1987 to 2001, the Corporation 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 Corporation entered into a Business and Joint Venture Agreement (BJVA) with Indonesia's P.T. Citra Lamtoro 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 Corporation 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 Corporation 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 Corporation was placed under and attached to the Department of Trade and Industry (DTI) "pending privatization".

In February 2006, the Corporation 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 Corporation, 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 Corporation for the O&M of the SLEX. The said authority from TRB, pursuant to its powers under its charter (PD 1112), allowed the Corporation 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 Corporation entered into a Memorandum of Agreement (MOA) with CMMTC and PSC where the Corporation was to have been provided P2 million by CMMTC in order for the Corporation to subscribe to the par value up to 20 per cent of the total outstanding capital stock of the Skyway Operation and Maintenance Corporation (SOMCO), the O&M company. PSC turned over the operation and maintenance of the SMMS 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), NDC and the Corporation, wherein the Corporation 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 then wholly-owned subsidiary of NDC which was incorporated to undertake the Daang Hari-SLEX connector road. On December 3, 2010, the SEC approved the application for increase in capital of ASDI, and on the same year, the Corporation subscribed 51 per cent shares of ASDI, making ASDI its subsidiary.

In 2009, a MOA for the Advance Works on the Daang Hari-SLEX Link Road Project (DHSLRP) was entered by and between ASDI and the Corporation. The Corporation 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 Daang Hari 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 SMMS 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 Corporation's franchise, the toll assets and facilities of the Corporation 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 Corporation'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 Corporation 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 Corporation 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 Corporation'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, New Projects and Other Significant Information).

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

In 2013, the Corporation 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 Corporation entered into Joint Venture Projects with P.T. Citra Lamtoro Gung Persada (CITRA) for the implementation of the Metro Manila Skyway (MMS) Stage 3 Project and the Metro Manila Expressway (MME), or C-6 Project (Note 2, New Projects and Other Significant Information).

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 Corporation, 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), which was approved by the President through a memorandum from

the Executive Secretary dated August 7, 2014. The Corporation 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 Corporation, MNTC and MATES, seeking the remittance of revenues and dividends on the toll road projects to the Corporation 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 SC 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 National Government (NG).

On March 3, 2015, the Corporation submitted its Performance Agreement to 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 Corporation's Board of Directors from implementing the said Performance Agreement. The Corporation is not impleaded as a party to the case filed by Forum.

In January 2016, three (3) GSIS members filed a case against the Corporation'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 SC. On February 22, 2017, the SC issued a Resolution denying the petition and upholding the dismissal of the suit by the Parañaque RTC.

Pursuant to Republic Act 10149, the Corporation 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 Corporation'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 Securities and Exchange Commission on November 21, 2016.

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

2. NEW PROJECTS AND OTHER SIGNIFICANT INFORMATION

The Corporation holds updated partnerships for new Toll Road projects. The projects will enable the Corporation 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 (MMS) Stage 3 Project is an elevated expressway which starts from Buendia, Makati City to Balintawak, Quezon City and will be extended and eventually connected to the North Luzon Expressway (NLEX).

The project will connect the South Luzon Expressway (SLEX) and the North Luzon Expressway (NLEX) with a length of about 18.68 kilometers. The MMS Stage 3 elevated expressway intends to ease and decongest traffic through its designed access ramps and interchanges strategically located as follows: Buendia Avenue (South Super Highway, Makati City), Pres. Quirino Avenue (Malate, Manila), Plaza Dilao (Paco Manila), Nagtahan/Aurora Boulevard (Manila), E. Rodriguez Avenue (Quezon City), Quezon Avenue (Quezon City), Sgt. Rivera St. (Quezon City) and in the NLEX.

The construction implementation of the MMS Stage 3 was designed and divided into five (5) sections as described below:

| Project Sections | | Approximate Length (kms) |
|-------------------------|--|---------------------------------|
| 1 | Buendia/Makati to Quirino Ave./Plaza Dilao | 3.76 |
| 2a | Plaza Dilao to Tomas Claudio | 0.96 |
| 2a1 | Tomas Claudio to Old Sta Mesa | 1.30 |
| 2b | Tomas Claudio to Aurora Blvd | 3.93 |
| 3 | Aurora Blvd to Quezon Avenue | 2.71 |
| 4 | Quezon Avenue to EDSA Balintawak | 4.46 |
| 5 | EDSA Balintawak to NLEX/Balintawak Rampway | 1.56 |
| | | 18.68 |

On May 3, 2011, P.T. Citra Lamtoro Gung Persada (CITRA) and the Corporation submitted to Toll Regulatory Board (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 Presidential Decree 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 Corporation 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 Corporation 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 Corporation and can never be diluted; while the other 10 per cent is to be paid for. In case of the Corporation's inability to fund the 10 per cent, CITRA needs to get the Corporation'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; and
- Membership in all Board Committees and Chairmanship of the Board's Audit Committee.

The Corporation agreed to forego any equity share in the operation and maintenance (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 on-going and the overall accomplishment as of December 31, 2018 is 53.54 per cent. Section 1 (Buendia to Quirino Ave./Plaza Dilao) and Section 4 (Quezon Ave. to EDSA Balintawak) are projected to be operational by third quarter of 2019.

Metro Manila Expressway (MME) or C-6 Project

The Metro Manila Expressway (MME) is a combination of mostly at-grade/elevated expressway with a total length of approximately 79.74 km, three lanes on both direction and is divided in three phases as described below:

| Phase | | Approximate Length (km) |
|--|--|-------------------------|
| Phase 1 – South East Metro Manila Expressway (SEMME) | Skyway (FTI) to Batasan Complex | 32.67 |
| Phase 2 – East Metro Manila Expressway (EMME) | San Mateo to San Jose Del Monte, including Access to Lower Bicutan Batasan Complex to Luzon Avenue | 24.07 |
| Phase 3 – North East Metro Manila Expressway (NEMME) | San Jose Del Monte to NLEX | 23.00 |

Phase 1 Project Description:

The South East Metro Manila Expressway (SEMME) or MME Phase 1 is a 2 x 3 lanes toll road project approximately 32.67 km in length that is intended to run from Skyway/FTI in Taguig City to Batasan Complex in Quezon City. The Project is divided into 6 Sections as follows:

1. Section 1: FTI to C-5

Section 1 connects to the existing Skyway at FTI and ends in C-5 with a total length of 2.39 km and all are elevated.

2. Section 2: C-5 to C-6

The Section 2 of the project (C-5/Diego Silang to C-6/Taguig) designed alignment was changed and realigned due to Right of Way (ROW) issue. A conceptual design of the proposed realignment, transferring Section 2 of the SEMME project to pass along the Circumferential Road 5 (C-5/C.P. Garcia Ave.) and Pasig River from the original alignment that traverses residential areas in Brgy. Pinagsama in Taguig City. The realignment will start from the end of Section 1 marked by the C-5 Interchange in the area of Pamayanang Diego Silang, and shall continue along C.P. Garcia Ave. towards the area of Kalayaan Ave., where it turns right coursing along Pasig River and continues until Circumferential Road 6 (C-6) in the area of Napindan in Taguig.

3. Section 3: C-6 to Ortigas Ave. Extension

Section 3 is mixed elevated and at-grade, which connects C-6/Taguig to Ortigas Avenue Extension in Taytay, passing through the Manggahan Floodway with a total length of 11.783 km including a 3.076 km viaduct.

4. Section 4: Ortigas Ave. Extension to Marcos Highway

Section 4 is at-grade and connects Ortigas Avenue Extension in Taytay to Marcos Highway in Antipolo, with a total length of 5.337 km.

5. Section 5: Marcos Highway to JP Rizal Street in San Mateo

Section 5 is at-grade and connects Marcos Highway in Antipolo to JP Rizal Street in San Mateo, with a total length of 6.90 km.

6. Section 6: JP Rizal Street in San Mateo to Batasan Complex

Section 6 is mixed elevated and at-grade which connects JP Rizal Street in San Mateo to the Batasan Complex with a total length of 3.055 km including 1.511 km viaduct.

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 Corporation with the following:

- 20 per cent equity in CITI, 10 per cent of which is "Free Carry" i.e. not paid for by the Corporation and can never be diluted. In case of the Corporation's inability to fund the 10 per cent, CITRA needs to get the Corporation'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; and
- 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).

Project Status:

- On-going cutting of trees at Section 1
- On-going coordination with utility companies for relocation
- On-going securing of permits/clearances and ROW acquisition.
- Section 2 (C-5/Diego Silang – C-6/Taguig) – Detailed Engineering Design for the realignment is on-going.

Revenue Shares from New Projects

The Corporation 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 Toll Regulatory Board (TRB) issued interim rules and guidelines covering the amount of money the Corporation will receive in order to cover operating expenses in relation to the *Francisco and Radstock Cases*. Both the TRB and the Corporation agreed to a 10 per cent revenue share from toll collection fees and declared dividends from JVCs.

The Corporation 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 Corporation earned total revenue shares from the abovementioned JVCs in the amounts of P115.871 million, P99.623 million and P93.572 million in 2018, 2017 and 2016, respectively, while it earned dividends from CMMTC amounting to P55.187 million, P57.946 million and P54.635 million in 2018, 2017 and 2016, respectively (Note 23).

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 P72.798 million, P125.386 million, and P107.741 million in 2018, 2017 and 2016, respectively (Note 23).

Equity Participation in CMMTC

It is the position of the Corporation that it has equity participation in CMMTC on the basis of Presidential Decree (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 Corporation'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 Corporation 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 Corporation requested CMMTC to refrain from transferring the shares of the Corporation 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 Corporation.

The Corporation 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 2018 amount to P4.718 billion of which the Corporation received 10 per cent or P471.806 million pursuant to the interim rules and guidelines issued by the TRB. However, it is the position of the Corporation that all revenue and dividends arising from its investment in CMMTC belong to the Corporation.

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 Corporation'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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 the Corporation's position on the computation of the net income to be remitted to the NG was sent. The Corporation has booked penalty charges on unpaid concession fees from 2010 to 2018 amounting to P4.984 billion.

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

Debt of P5.552 Billion Remained Unconverted to Equity

The Corporation's debt of P5.552 billion which remained unconverted to equity is treated as part of equity in the Corporation'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 P62.328 billion and P59.804 billion as of December 31, 2018 and 2017 were not taken up in the Corporation'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 Corporation 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 Corporation's petition against the PMO. The Corporation 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 Corporation 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 Corporation 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 Corporation is awaiting the resolution of the OP on its appeal.

Payment of Corporation's Obligation to the National Government

The Corporation 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 Corporation is awaiting the decision of the OP. In December 2016, the Corporation 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 16.3).

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Presentation of Financial Statements

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

3.2 Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Corporation were 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, 2018 and 2017 and for the years ended December 31, 2018 and 2017 were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on May 29, 2019.

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

The Corporation 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 (FVPL), the initial measurement of financial instruments includes transaction costs.

'Day 1' Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Corporation recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Corporation determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets

The Corporation classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI) and financial assets at FVPL. The classification depends on the business model of the Corporation for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to initial recognition unless the Corporation changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

Financial Assets at Amortized Cost

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

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

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

The Corporation's cash, short-term investments, and receivables are included under this category (Notes 6, 7 and 8).

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 Corporation has no financial assets classified as financial assets as at FVOCI and at FVPL as at December 31, 2018 and 2017.

Cash

Cash includes cash on hand and in banks which are stated at face value.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Allowance for credit loss accounts is provided based on an evaluation of expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

Financial Liabilities

The Corporation classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Corporation determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at

every reporting date. All financial liabilities are recognized initially at fair value, and, in case of loans and borrowings, net of directly attributable transaction costs.

Other financial liabilities

Other financial liabilities pertain to issued financial instruments that are not designated or classified as at FVPL 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 15, 16, 17 and 18).

3.4 Impairment of Financial Assets at Amortized Cost and FVOCI

The Corporation records an allowance for "expected credit loss" (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Corporation has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The Corporation has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Corporation compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

3.5 Derecognition of Financial Assets and liabilities

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

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

When the Corporation has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Corporation's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Corporation could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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 the statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Corporation could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

3.6 Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset 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.

3.7 Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Corporation; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Corporation does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

3.8 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.

3.9 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.

3.10 Investments

The Corporation accounts for its investments in wholly-owned/controlled subsidiaries at cost while other investments classified as financial assets are measured at fair value. Allowance for impairment loss is provided for investment in subsidiaries while market adjustment is accounted for financial assets measured at fair value and recognized as other comprehensive income or loss.

The Corporation believes that the effects of not consolidating the subsidiaries are not material to the financial statements because these subsidiaries are no longer operating, resulting in accumulated deficit. In 2015, the Corporation 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 Corporation operations, PNCC assumed the operations of DCBGSi which now operates as a separate division of the Corporation.

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.

3.11 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 Corporation as an owner-occupied property becomes an investment property, the Corporation accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

3.12 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.

There was no revaluation increment realized in 2018, while P3.956 million was realized in 2017 which is 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.

3.13 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.

3.14 Fair Value Measurement

The Corporation 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 Corporation.

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 Corporation 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 Corporation 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 Corporation has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

3.15 Provisions

Provisions are recognized only when: (a) the Corporation 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.

3.16 Equity

Capital stock and Additional Paid-in Capital

The Corporation 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 Corporation.

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 Corporation'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.

3.17 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Corporation 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 Corporation 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 Corporation 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 Corporation for its administrative expenses, the Corporation 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 Corporation'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 Corporation as a lessor, is recognized on a straight-line basis over the term of the relevant lease. The lease income is derived from the Corporation'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.

3.18 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.

3.19 Borrowing Costs

Borrowing costs are expensed as incurred. These costs represent the two per cent penalty charges imposed by TRB on unpaid concession fees.

3.20 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 Corporation as a Lessee. Leases which do not transfer to the Corporation 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 Corporation as a Lessor. Leases where the Corporation 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.

3.21 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 Corporation takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Corporation 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 Corporation 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.

3.22 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 "Accounts Payable and Accrued Expenses" accounts in the statements of financial position.

3.23 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 Corporation less allowance for probable losses. CWT are deductible from income tax payable.

3.24 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.

3.25 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 Corporation, 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 Corporation 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, 2018 and 2017, the Corporation has no dilutive equity instruments.

3.26 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.

3.27 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 Corporation'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.

4. 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 that are relevant to the Corporation effective beginning January 1, 2018:

- 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 these are held and its contractual cash flow characteristics.

- For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.
- For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
- The derecognition provisions are carried over almost unchanged from PAS 39.

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

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

| | Classification under PAS 39 | Classification under PFRS 9 | Carrying Amount under PAS 39 | Carrying Amount under PFRS 9 |
|------------------------|-------------------------------------|---|------------------------------|------------------------------|
| Cash | Loans and receivables | Financial assets at amortized cost | 145,467,935 | 145,467,935 |
| Short-term investments | Held to maturity | Financial assets at amortized cost | 643,559,929 | 643,559,929 |
| Receivables | Loans and receivables | Financial assets at amortized cost | 446,706,479 | 446,706,479 |
| Investments | Available for sale financial assets | Financial assets at fair value through other comprehensive income | 2,552,927 | 2,552,927 |

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

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and their related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).
- Amendments to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.
- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Measuring an Associate or Joint Venture at Fair Value* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, mutual fund, unit trust or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- Amendments to PAS 40, *Investment Property - Transfers of Investment Property* – The 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.

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

Effective in 2018 that are not relevant to the Corporation

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions, the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and the effect of a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* – The amendments give all insurers the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9, *Financial Instruments* is applied before implementing PFRS 17, *Insurance Contracts* ('the overlay approach'). Also, entities whose activities are predominantly connected with insurance are given an optional temporary exemption (until 2021) from applying PFRS 9. Thus, continuing to apply PAS 39, *Financial Instruments: Recognition and Measurement* instead ('the deferral approach').
- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Deletion of Short-term Exemptions for First-time Adopters* – The amendment is part of the Annual Improvements to PFRS 2014-2016 Cycle and deleted the short-term exemptions in paragraph E3-E37 of PFRS 1, because it has now served its intended purpose.
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

New and Revised PFRSs Not Yet Adopted

Relevant new and revised PFRSs, which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements, are summarized in the next page:

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

- PFRS 16, *Leases* – This standard will replace PAS 17, *Leases* and its related interpretations. The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.
- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial assets with negative compensation at amortized cost or at fair value through other comprehensive income (instead of at fair value through profit or loss) if a specified condition is met. It also clarifies the requirements in PFRS 9,

Financial Instruments for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

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

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

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

Deferred effectivity –

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

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the accompanying financial statements in conformity with PFRSs 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 Corporation'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 Corporation as a Lessor/Lessee. The Corporation has entered into various lease agreements either as a lessor or a lessee. The Corporation 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 P72.798 million and P125.386 million in 2018 and 2017, respectively (Note 23.2).

Rent expense recognized in profit or loss amounted to P91,304 and P104,348 in 2018 and 2017, respectively.

Contingencies. The Corporation is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Corporation. The Corporation'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 Corporation 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 32).

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 as follows:

Estimating allowance for impairment losses on loans and receivables

The Corporation 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 Corporation reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Corporation provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Corporation 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 Corporation recognized reversal of allowance for impairment losses on loans and receivables amounting to P300,000 and P0.644 million in 2018 and 2017, respectively (Note 25).

6. CASH

This account consists of:

| | 2018 | 2017 (As restated) |
|-------------------------------|--------------------|-----------------------|
| Cash in bank – local currency | 204,708,385 | 145,117,935 |
| Petty cash | 450,000 | 350,000 |
| | 205,158,385 | 145,467,935 |

Cash in bank – local currency earns interest at the respective bank deposit rates.

Restricted cash

The Corporation has P100.327 million restricted cash held in custody by the Corporation'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 account in 2017. On February 7, 2018, the Corporation filed a Motion to Release Bond and declared the case closed and terminated with the Labor Arbiter.

7. SHORT-TERM INVESTMENTS

This consists of short-term investments that are made for varying periods of 91 days or more depending on the immediate cash requirements of the Corporation and earn interest at the prevailing short-term investment rates ranging from 1.70 per cent to 1.825 per cent. Placements made amounted to P730.179 million and P643.560 million in 2018 and 2017, respectively.

Interest income earned on bank deposits amounted to P10.187 million, P5.975 million and P10.914 million in 2018, 2017 and 2016, respectively (Note 23.5).

8. RECEIVABLES

This account consists of the following:

| | 2018 | 2017 (As restated) |
|---------------------------------------|----------------------|------------------------------|
| Accounts receivable | 383,127,073 | 380,730,428 |
| Inter-agency receivables | 152,401,346 | 150,949,951 |
| Interest receivable | 3,588,535 | 163,499 |
| Contributions and premiums receivable | 5,255 | 116,290 |
| Other receivables | 105,281,538 | 92,367,925 |
| | 644,403,747 | 624,328,093 |
| Allowance for impairment losses | (177,621,614) | (177,621,614) |
| | 466,782,133 | 446,706,479 |

An allowance for impairment losses is provided for Accounts Receivable and Interest Receivable amounting to P177.458 million and P163,499, respectively.

Accounts Receivable mainly consists 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 Corporation was rendered by the Department of Justice on August 2, 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 OGCC was requested to file

a Petition for money claims with the Commission on Audit (COA) in behalf of the Corporation. On November 7, 2018, the Petition was filed with the COA. The COA has already directed the PMMA to file its Answer to PNCC's Petition. The PNCC is still awaiting PMMA's answer.

- 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 Corporation against MIAA, ordering the latter to pay the Corporation 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.

On October 3, 2018, PNCC sent formal and final demand to MIAA requiring payment and reiterating the Notice of Finality of Decision issued by COA.

On March 20, 2019, PNCC collected from MIAA the subject receivables amounting to P100.059, net of initial payment, pursuant to the aforementioned COA Decision.

8.1 Breakdown of the Inter-agency receivables account:

| | 2018 | 2017 |
|---|--------------------|-------------|
| Due from National Government Agencies | 150,000,000 | 150,000,000 |
| Due from subsidiaries/associates/affiliates | 2,401,346 | 949,951 |
| | 152,401,346 | 150,949,951 |

Due from National Government Agencies consist of remittances to Bureau of Treasury (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 BTr to have been applied against outstanding NG advances to the Corporation. 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 Corporation (Notes 15 and 20).

Due from Subsidiaries/Associates/Affiliates totaling P2.401 million and P0.950 million as of December 31, 2018 and 2017, respectively, represent various accommodations to the Corporation's subsidiaries.

8.2 Breakdown of the Other Receivables account:

| | 2018 | 2017 |
|--|---------------------|--------------|
| Due from officers and employees | 1,071,457 | 1,101,883 |
| Other receivables | 124,215,525 | 111,271,486 |
| | 125,286,982 | 112,373,369 |
| Allowance for impairment losses- Other receivables | (20,005,444) | (20,005,444) |
| | 105,281,538 | 92,367,925 |

Due from officers and employees mainly consist of cash advances of P0.575 million and health care insurance premium of P424,295 paid by the Corporation in 2015 and was covered by an Undertaking dated March 4, 2015, stating that the employees and officers will pay the Corporation 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 Corporation that pending the approval of the Total Compensation Framework (TCF) and Index of Occupational Services (IOS) of PNCC, the Corporation shall maintain its current compensation framework. The Corporation cannot yet grant the Healthcare Plan benefit provided for under the Compensation and Position Classification System (CPCS). In order for the Corporation 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 Corporation shall deduct the health care insurance premium in 24 equal monthly installments, through a letter from the employees and officers of the Corporation 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 P79.029 million and P62.351 million as of December 31, 2018 and 2017, respectively.

- Receivables from various tenants at Financial Center Area (FCA) amounting to P9.319 million and P16.279 million as of December 31, 2018 and 2017, respectively.
- Supersedeas/cash bonds re: various National Labor Relations Commission (NLRC) cases filed by present and former employees of the Corporation totaling P9.232 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.

9. INVENTORIES

This account consists of the following:

| | 2018 | 2017 |
|--|-------------|-------------|
| Office supplies | 466,618 | 635,003 |
| Construction materials | 543,957 | 543,957 |
| Medical, dental, and laboratory | 495,064 | 492,657 |
| Fuel, oil, and lubricants | 419,177 | 204,337 |
| Other materials and supplies | 4,778,127 | 4,760,518 |
| | 6,702,943 | 6,636,472 |
| Allowance for impairment losses – Other materials and supplies | (2,992,956) | (3,215,862) |
| | 3,709,987 | 3,420,610 |

In 2015, the Corporation failed in its attempt to bid out the remaining inventories due to lack of bidders. However, in 2016, the Corporation 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.

10. OTHER CURRENT ASSETS

This account consists of the following:

| | 2018 | 2017 |
|---------------------------|------------|------------|
| Withholding tax at source | 21,513,982 | 17,585,881 |
| Prepaid registration | 991,380 | 1,090,220 |
| Prepaid insurance | 503,901 | 24,966 |
| Creditable input tax | 74,571 | 47,786 |
| Other prepayments | 35,906 | 35,906 |
| | 23,119,740 | 18,784,759 |

11. INVESTMENTS

This account consists of the following:

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Investments in Stock | | |
| Dasmariñas 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 |
| PNCC Skyway Corporation | 125,050 | 125,050 |
| Land Management Corporation | 11,000 | 11,000 |
| | 238,380,811 | 238,380,811 |
| Allowance for impairment losses | (177,180,811) | (177,180,811) |
| | 61,200,000 | 61,200,000 |
| Financial assets at fair value through other comprehensive income | | |
| Mimosa Golf and Country Club | 3,180,000 | 3,180,000 |
| 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 |
| Puerto Azul Beach and Country Club | 100,000 | 100,000 |
| Architectural Centre, Inc. | 3,500 | 3,500 |
| | 4,292,427 | 4,292,427 |
| Market adjustment | (1,699,500) | (1,739,500) |
| | 2,592,927 | 2,552,927 |
| Other Investments | | |
| Citra Central Expressway Corporation | 620,000,000 | 620,000,000 |
| Citra Intercity Tollways, Inc. | 240,816,700 | 240,816,700 |
| CDCP Employees Savings & Loan Association | 2,094,725 | 2,094,725 |
| Others | 286,600 | 286,600 |
| | 863,198,025 | 863,198,025 |
| | 926,990,952 | 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 Corporation, 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).

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 Corporation 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 P127.5 million. On December 15, 2016, the Corporation 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 the Department of Public Works and Highways (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.
- Except for the Corporation's investment in ASDI, 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 Corporation'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 Corporation's share in the joint venture company as follows: March 9, 2016 - 400,000 shares and December 1, 2016 - 2,008,167 shares.

12. INVESTMENT PROPERTY

This account consists of the following:

| | Land | Buildings and Improvements | Total |
|------------------------------|-----------------------|-------------------------------|-----------------------|
| 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 |
| At December 31, 2018 | | | |
| 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 | 14,408,259,199 | 259,294,000 | 14,667,553,199 |
| Appraisal Adjustment | 0 | 0 | 0 |
| Balance at end of year | 14,408,259,199 | 259,294,000 | 14,667,553,199 |
| At December 31, 2018 | | | |
| 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 |

12.1 Financial Center Area (FCA) in Pasay City

In 1973, a contract was entered into by and between the Corporation and the Republic of the Philippines (RP), represented by the then Department of Public Highways (now DPWH), 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 Corporation's expense.

In compensation for the work accomplishments, the Corporation 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 RP as of report date, the Office of the Government Corporate Counsel (OGCC) issued an opinion on April 21, 2001 that the Corporation 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 Corporation 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 Corporation may only sell it to Filipino citizens subject to the 12-hectare Constitutional limitation. Under these circumstances, the Corporation 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 Corporation 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 P72.362 million and P124.950 million in 2018 and 2017, respectively (Note 23.2).

However, in a Regular Board meeting on April 17, 2018, the PNCC Board of Directors approved Board Resolution No. BD 069-2018 which resolved not to extend the lease contracts of various leases effective May 31, 2018 in view of the planned development of the subject property.

- 12.2 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 Corporation 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 Corporation.

The Dasmariñas property is located within the First Cavite Industrial Estate (FCIE), a joint venture project of the National Development Corporation (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 Corporation and NDC on April 7, 1983, which covers the sale of the Corporation'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 Dasmarinas property is supported by Transfer Certificate of Title (TCT) No. T-98739 which was cancelled after the sale in April 1983. The Corporation 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 Corporation, in its Motion for Reconsideration dated March 13, 2014, prayed that the Department of Justice (DOJ) order NDC to pay the Corporation the value of the 75,000 sq.m. of Dasmarinas 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 Corporation. On June 26, 2015, the Corporation appealed the decision of the DOJ with the Office of the President of the Republic of the Philippines (OP).

The Corporation is awaiting the decision of the OP on the matter.

13. PROPERTY AND EQUIPMENT

This account includes the following:

| | Land & Land Improvements | Buildings & Improvements | Construction Equipment | Transportation Equipment | Others | Total |
|------------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|----------------|--------------------|
| At December 31, 2017 | | | | | | |
| Cost as previously reported | 10,115,936 | 36,800,884 | 20,236,310 | 34,437,173 | 38,730,912 | 140,321,215 |
| Adjustment | 0 | 0 | 0 | (1,243,668) | (1,631,454) | (2,875,122) |
| Cost as restated | 10,115,936 | 36,800,884 | 20,236,310 | 33,193,505 | 37,099,458 | 137,446,093 |
| Accum. Dep. as previously reported | (2,291,836) | (30,515,068) | (19,439,232) | (34,255,941) | (38,446,109) | (124,948,186) |
| Adjustment | 0 | 0 | 0 | 1,243,668 | 1,631,454 | 2,875,122 |
| Accum. Dep. as restated | (2,291,836) | (30,515,068) | (19,439,232) | (33,012,273) | (36,814,655) | (122,073,064) |
| | 7,824,100 | 6,285,816 | 797,078 | 181,232 | 284,803 | 15,373,029 |
| Revaluation Increment | 654,517,569 | 72,277,023 | 7,827,127 | 84,609 | 1,701,463 | 736,407,791 |
| Accumulated Depreciation | (21,271,590) | (55,716,540) | (7,826,972) | (84,609) | (1,701,432) | (86,601,143) |
| | 633,245,979 | 16,560,483 | 155 | 0 | 31 | 649,806,648 |
| Net Book Value | 641,070,079 | 22,846,299 | 797,233 | 181,232 | 284,834 | 665,179,677 |
| At December 31, 2018 | | | | | | |
| Cost | | | | | | |
| Opening Net Book Value | 7,824,100 | 6,285,816 | 797,078 | 181,232 | 284,803 | 15,373,029 |
| Additions | 0 | 0 | 2,143 | 0 | 601,245 | 603,388 |
| Disposals/Write off | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the Year | (26,240) | (1,572,980) | (2,808) | (108,213) | (290,185) | (2,000,426) |
| Closing Net Book Value | 7,797,860 | 4,712,836 | 796,413 | 73,019 | 595,863 | 13,975,991 |

| | Land & Land Improvements | Buildings & Improvements | Construction Equipment | Transportation Equipment | Others | Total |
|-------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|----------------|--------------------|
| Revaluation Increment | | | | | | |
| Opening Net Book Value | 633,245,979 | 16,560,483 | 155 | 0 | 31 | 649,806,648 |
| Appraisal Adjustment | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals/Write off | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the Year | 0 | (5,212,379) | 0 | 0 | 0 | (5,212,379) |
| Closing Net Book Value | 633,245,979 | 11,348,104 | 155 | 0 | 31 | 644,594,269 |
| At December 31, 2018 | | | | | | |
| Cost | 10,115,936 | 36,800,884 | 20,238,453 | 33,193,505 | 37,700,703 | 138,049,481 |
| Accumulated Depreciation | (2,318,076) | (32,088,048) | (19,442,040) | (33,120,486) | (37,104,840) | (124,073,490) |
| | 7,797,860 | 4,712,836 | 796,413 | 73,019 | 595,863 | 13,975,991 |
| Revaluation Increment | 654,517,569 | 72,277,023 | 7,827,127 | 84,609 | 1,701,463 | 736,407,791 |
| Accumulated Depreciation | (21,271,590) | (60,928,919) | (7,826,972) | (84,609) | (1,701,432) | (91,813,522) |
| | 633,245,979 | 11,348,104 | 155 | 0 | 31 | 644,594,269 |
| Net Book Value | 641,043,839 | 16,060,940 | 796,568 | 73,019 | 595,894 | 658,570,260 |

13.1 Revaluation

The Corporation 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 Appraisal & Management, Inc. |
| 2015 | 456.941 | CAL-FIL Appraisal & Management, Inc., Asset Consult, Top Consult & Royal Asia |
| 2017 | 109.370 | CAL-FIL Appraisal & Management, Inc. and Top Consult |

13.2 Others

The Corporation 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 Corporation is working on the transfer of title to its name.

14. OTHER NON-CURRENT ASSETS

This account consists of the following:

| | 2018 | 2017 |
|--|-----------------|-----------------|
| Guaranty deposits | 71,072,000 | 71,072,000 |
| Receivables from former employees and consultants, net of allowance for impairment losses | 50,901,589 | 55,091,589 |
| Accounts receivables-trade | 50,879,182 | 50,879,182 |
| Other deposits | 1,181,088 | 1,181,088 |
| Other assets | 444,713 | 432,436 |
| | 174,478,572 | 178,656,295 |
| 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 | 659,495,246 |
| Allowance for impairment losses | (659,495,246) | (659,495,246) |
| | 0 | 0 |
| Deferred charges | 6,802,733 | 6,802,733 |
| Allowance for impairment losses | (6,802,733) | (6,802,733) |
| | 0 | 0 |
| | 174,478,572 | 178,656,295 |

14.1 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 Corporation filed a Motion to Release Bond and declared the case closed and terminated with the Labor Arbiter.

14.2 Receivables from former employees and consultants

The amount of P50.902 million consists of the following:

- P39.52 million represents cash advances for franchise extension granted to a former officer of PNCC which remained unliquidated and was referred by PNCC to the Office of the Government Corporate Counsel (OGCC) for legal action. Due to failure to liquidate despite written demands, on March 12, 2014, a joint-complaint was filed by former Commission on Audit - PNCC Audit Team Leader and Supervising Auditor against the said former officer before the Office of the Ombudsman in compliance with COA Circular No. 2012-004 dated November 28, 2012. The trial of the case is on-going before the 3rd Division of the Sandiganbayan.

- Cash advances granted to the former officers and employees of the Corporation in the amount of P10.849 million and former directors' car plan equity balance of P0.532 million.
- On October 9, 2017, the COA issued a Notice of Finality of Decision (NFD), covering various Notices of Disallowance for a total amount of P4.990 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.

14.3 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 informed the Corporation 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 Corporation. Payments will accordingly be made once the garnishment is lifted.

14.4 Assets for write off

This account consists of assets, the existence of which is doubtful and collectibility/realizability is uncertain:

| | (in thousand pesos) |
|-------------------------------|---------------------|
| Receivables and advances | 4,139,136 |
| Property and equipment | 2,872,888 |
| Deferred charges | 1,755,663 |
| Inventories | 511,342 |
| Investment in stocks | 179,798 |
| Pre-operating expenses | 137,323 |
| Accounts receivable-long term | 12,000 |
| Investment in joint ventures | 4,563 |
| Guarantee deposits | 812 |
| Other deposits | 1,897 |
| | 9,615,422 |

These accounts have been provided a 100 per cent allowance for impairment losses.

The Corporation, 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 Corporation that the aforementioned request has been returned pending the submission of additional documents to facilitate the processing thereof. The Corporation will resubmit the request for authority from COA to write off the accounts as soon as additional documentation is completed.

14.5 Other assets

These accounts, which have also been provided with 100 per cent allowance for impairment losses, are as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| Accounts receivable-subsidaries and affiliates | 204,974,643 | 204,974,643 |
| 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 | 659,495,246 |

The Corporation will request authority from COA to write off the accounts as soon as documentation is completed.

15. FINANCIAL LIABILITIES

This account consists of the following:

| | 2018 | 2017 (As restated) |
|------------------------|------------|-----------------------|
| Accounts payable | 2,413,362 | 7,405,748 |
| Accrued expenses | 10,462,228 | 12,478,021 |
| Other accounts payable | 1,804,520 | 3,440,716 |
| | 14,680,110 | 23,324,485 |

15.1 Accounts payable

Accounts payable are liabilities to suppliers of goods and services and to government agencies as regards the mandatory deductions from the employees' compensation and taxes withheld on income payments to suppliers of goods and services.

15.2 Accrued expenses

Accrued expenses account includes accrual of the mandatory benefits and leave credits of the Corporation'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.

15.3 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.

16. OTHER FINANCIAL LIABILITIES

This account consists of payables for the following:

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Due to National Government | | |
| Concession fees (TRB) | 6,044,437,900 | 5,786,435,600 |
| 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 |
| | 8,345,006,516 | 8,087,004,216 |
| Due to GOCC | | |
| Various advances (NDC) | 1,203,000,000 | 1,203,000,000 |
| | 9,548,006,516 | 9,290,004,216 |

16.1 Concession fees

The concession fees of P6.044 billion (principal amount of P1.06 billion plus penalty charges of P258 million in 2018, P258 million in 2017, P258 million in 2016 and P4.21 billion in 2015 and prior years) pertain to the Corporation's payable to TRB pursuant to the Toll Operation Agreement (TOA) dated October 1977. The Corporation 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 Corporation 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 BTr against an outstanding advances from the National Government (NG).

On July 16, 2010, the Corporation remitted to the NG, through BTr, the amount of P200 million to be applied to outstanding concession fees. However, BTr applied only P100 million and the other P100 million against advances from NG.

These payments bring the Corporation's total remittances to P495 million from 2006 to report date.

16.2 Joint Venture Companies' revenue/dividends

As discussed in Note 1, the expiration of the Corporation'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 Corporation'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 Corporation to the NG, the Corporation 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 Corporation is entitled for its administrative expenses.

16.3 Toll revenue (SLEX operation under TOC)

Pursuant to the Supreme Court En Banc Decision discussed in Note 1, the Corporation 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 Corporation remitted to the NG, through BTr, the amount of P566.3 million as partial payment for outstanding share in the toll revenue.

16.4 Various advances from 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 Corporation, 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 Corporation claiming payment of the various advances/loans extended to the latter pursuant to the aforesaid Consolidated Decision of the DOJ.

The Corporation, 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 Corporation 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 Corporation 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 Corporation's Motion for Reconsideration (MR). Thereafter, the Corporation filed a Supplement to the MR on May 28, 2015 which was also denied by DOJ in its order dated July 13, 2015. On June 26, 2015, the Corporation 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 Corporation is awaiting the resolution of the OP on the appeal.

17. INTER-AGENCY PAYABLES

This account consists of the following:

| | 2018 | 2017 |
|---------------------------|------------------|------------------|
| Income tax payable | 7,137,870 | 2,109,004 |
| Due to BIR | 550,079 | 704,053 |
| Due to SSS | 442,606 | 6,266 |
| Due to Pag-IBIG | 169,905 | 300 |
| Due to PhilHealth | 99,136 | 1,312 |
| Due to Subsidiary (CESLA) | 232 | 127,108 |
| | 8,399,828 | 2,948,043 |

18. TRUST LIABILITIES

This account consists of the following:

| | 2018 | 2017 |
|-------------------------------|------------|------------|
| Current | | |
| Customers' Deposits | 39,363,786 | 43,625,984 |
| Non-Current | | |
| Trust liabilities | 2,768,583 | 2,768,583 |
| Advances from contract owners | 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 Corporation'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 guarantee for construction, entrance permit and/or perimeter restoration work.

19. DEFERRED CREDITS/UNEARNED INCOME

This account pertains to the recognized value added tax on the sale of services of the Corporation. It consists of the remaining balance after offsetting of input tax/creditable input tax from purchases against VAT payable from sales of services. The Corporation's deferred credits amounted to P25.501 million and P25.175 million for 2018 and 2017, respectively.

20. 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 |
|-----------|--------|-----------------|------------|

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 | | PMO (previously under PNB) | |
|-------------------------------|--------|----------------------------|--------------------|
| 25,500,000 | Shares | | 255,000,000 |

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

| | | Formerly held by PNCC Employees Savings & Loan Association | |
|----------------|--------|--|------------------|
| 295,227 | Shares | | 2,952,270 |
| | | Formerly held by Alfredo V. Asuncion | |
| 72,168 | Shares | | 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 |
| | | Development Bank of the | |
| | | Phils. | 269,874,470 |
| 79,271,024 | Shares | NDC | 146,990,000 |
| | | Government Service Insurance | |
| | | System | 474,903,830 |
| 47,490,383 | Shares | Universal Holding Corporation | 153,608,310 |
| 15,360,831 | Shares | Various Brokers | 68,115,430 |
| 6,811,543 | Shares | Various Corporations | 45,623,840 |
| 4,562,384 | Shares | Cuenca Investment Corporation | 11,788,560 |
| 1,178,856 | Shares | 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 |
| Common 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 21) | (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 Corporation."

For purposes of the required disclosure in the financial statements, the dividends in arrears (computed from 2007 to 2018) are as follows:

| Name of Stockholders (a) | Class of Stock (b) | Shareholdings (c) | Undeclared Dividend (b x c x 12 yrs) |
|---|--|----------------------|---|
| Republic of the Phil. Through the PMO (previously under PNB) | Preferred "B" (8 per cent-17 per cent, cumulative, non-participating, non-voting) | 150,000,000 | 144,000,000 |
| Marubeni | Preferred "B" (8 per cent-17 per cent, cumulative, non-participating, non-voting) | 36,895,000 | 35,419,200 |
| Republic of the Phil. Through the PMO (previously under NDC) | Preferred "C" (14 per cent, cumulative, non- participating, non-voting) | 64,851,210 | 108,950,033 |
| Republic of the Phil. Through the PMO (previously under PNB) | Preferred "D" (8 per cent, cumulative, non- participating, non-voting) | 255,000,000 | 244,800,000 |
| | | 506,746,210 | 533,169,233 |

The above dividends in arrears are not recognized as liabilities because there is no obligating event yet.

21. SUBSCRIPTIONS RECEIVABLE

This account represents the unpaid amount due from the following subscribers on subscription of the Corporation'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 2018, there was no call made by the Board of Directors for the unpaid subscriptions.

22. EQUITY ADJUSTMENTS

Under Rehabilitation Plan-Loans Transferred to National Government (NG)

This account represents substantial portion of the Corporation'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 |
| | 5,551,727 |

The above-mentioned Corporation indebtedness remain unconverted as it is the Corporation'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 Corporation, 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 P65.149 billion as of December 31, 2018 and P62.641 billion as of December 31, 2017, inclusive of accumulated interest charges and penalties amounting to P59.597 billion and P57.089 billion, respectively. These amounts have not been recognized in the books of the Corporation. The Corporation 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 Corporation 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 Corporation's foreign obligations with creditors. It is the Corporation's position that said loans are included in the Equity Adjustments under Rehabilitation Plan which are among the accounts transferred by the Corporation 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 Corporation books. As such, the Corporation is precluded from servicing the accounts.

As discussed in Note 16, 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 Corporation 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 Corporation'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 Corporation filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014. The Corporation 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 Corporation is awaiting the resolution of the OP on the appeal.

23. SERVICE AND BUSINESS INCOME

This account consists of the following:

23.2 Service Income

| | 2018 | 2017 | 2016 |
|--|------------|------------|------------|
| Supply of manpower to Skyway O&M Corporation | 37,570,690 | 34,880,764 | 32,679,916 |
| Plantwide structural steel rehabilitation-Philphos | 0 | 4,305,887 | 8,947,384 |
| | 37,570,690 | 39,186,651 | 41,627,300 |

Starting October 1, 2015, the Corporation assumed the operations of DISC Contractors, Builders and General Services Inc. (DCBGSI), a wholly-owned subsidiary of the Corporation.

23.2 Rental/Lease Income

This account represents the revenue derived out of the Corporation's real estate properties located in the following areas:

| | 2018 | 2017 | 2016 |
|-----------------|------------|-------------|-------------|
| Pasay City | 72,361,945 | 124,950,317 | 107,305,020 |
| Porac, Pampanga | 435,600 | 435,600 | 435,600 |
| | 72,797,545 | 125,385,917 | 107,740,620 |

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 leases are as follows as of December 31:

| | 2018 | 2017 |
|---|------------|------------|
| Within one year | 57,909,563 | 50,647,667 |
| After one year but less than five years | 29,047,584 | 0 |
| | 86,957,147 | 50,647,667 |

The decrease in rental income in 2018 is due to the non-renewal of leases of the FCA, Pasay City property effective May 31, 2018 pursuant to Board Resolution No. BD 069-2018 dated April 17, 2018. The PNCC Board of Directors resolved not to extend the lease contracts of various leases upon expiration of the one-year term contracts on May 31, 2018 in view of the planned development of the subject property.

Due to non-renewal of leases, the PNCC made an order to the lessees to vacate the property. However, seven lessees did not vacate the lease premises. Of the seven lessees, only two paid rentals which PNCC treated their payments as compensation for the damage it has incurred in their continued occupation of the property.

The PNCC also filed or in the process of filing of ejectment cases against these lessees which refused to vacate the property. In spite of the cases filed, two lessees made payments to PNCC. In May 2018, PNCC received nine checks totaling P28.286 million dated December 1, 2017 to May 23, 2018 from one lessee. However, the PNCC Board of Directors instructed Management not to accept the checks and return the same as it has decided not to undergo any amicable settlement. Further, another lessee made payments to PNCC amounting to P33.050 million. However, PNCC did not accept said payments since ejectment case has already been filed against such lessee and it might affect PNCC's position in the case. The concerned lessee filed a Motion for Consignation of Rental Payments on July 11, 2018, thus, the check payments were consigned in Court.

23.3 Share in Profit/Revenue of Joint Venture

This account consists of the following:

| | 2018 | 2017 | 2016 |
|---------------|-------------|------------|------------|
| Revenue Share | | | |
| MNTC | 64,688,415 | 50,948,430 | 47,203,261 |
| CMMTC | 32,649,273 | 31,367,167 | 30,044,985 |
| SLTC | 18,533,244 | 17,307,595 | 16,323,274 |
| | 115,870,932 | 99,623,192 | 93,571,520 |

As discussed in Note 16, 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 Corporation for its administrative expenses, the Corporation recognized 10 per cent of its share from the JVCs' gross toll revenues in accordance with the interim rules and guidelines issued by TRB.

The franchise of PNCC under PD 1113 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 Corporation's franchise, the toll assets and facilities of the Corporation 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 Corporation'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 Corporation, 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 Corporation 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 Corporation.

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 Corporation, 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.

23.4 Dividend Income

This account consists of the following:

| | 2018 | 2017 | 2016 |
|----------------|-------------------|-------------------|-------------------|
| CMMTC | 55,187,000 | 57,946,350 | 54,635,130 |
| ASDI and CESLA | 383,010 | 808,866 | 377,510 |
| | 55,570,010 | 58,755,216 | 55,012,640 |

23.5 Interest Income

This account consists of interest income earned on bank deposits amounting to P10.187 million, P5.975 million, and P10.914 million in 2018, 2017 and 2016, respectively.

24. GAINS

This account consists of the following:

| | 2018 | 2017 | 2016 |
|--|----------------|----------------------|------------------|
| Gain from changes in fair value of investment property | 0 | 2,847,864,250 | 0 |
| Gain on reversal of allowance for inventory write down | 222,907 | 611,219 | 1,071,297 |
| | 222,907 | 2,848,475,469 | 1,071,297 |

25. OTHER NON-OPERATING INCOME

This account consists of the following:

| | 2018 | 2017 | 2016 (As restated) |
|---|-----------|------------|-----------------------|
| Reversal of impairment loss on receivables | 300,000 | 643,775 | 34,668,047 |
| Gain on reversal of impairment - other materials and supplies | 0 | 0 | 127,360 |
| Other income – net | 1,439,199 | 62,979,396 | 992,519,403 |
| | 1,739,199 | 63,623,171 | 1,027,314,810 |

The reversal of impairment loss on receivables in 2018 was due to settlement of a disallowed cash advance granted to a former PNCC consultant which was applied against the salary payments of a former PNCC officer (the only person liable connected to the Corporation at the time the COA Order of Execution was issued). While, in 2017, it was due to the collections from the DISC Contractors, Builders and General Services, Inc. (DCBGSI) mainly arising from the proceeds from asset disposal.

The other income - net account in 2018 mainly consists of the forfeited security deposits of lessees who refused to vacate the FCA property in Pasay City upon expiration of their lease contracts on May 31, 2018, sale of bid documents and bid bond on lease of Porac, Pampanga property. In 2017, it is mainly consists of the increase in claims receivable against 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.

26. PERSONNEL SERVICES

This account consists of the following:

| | 2018 | 2017 | 2016 |
|--------------------------------|------------|------------|------------|
| Salaries and wages | 32,601,346 | 29,411,574 | 27,029,266 |
| Other compensation | 5,396,163 | 4,791,030 | 4,671,886 |
| Personnel benefit contribution | 2,325,787 | 1,921,832 | 2,178,602 |
| Other personnel benefits | 6,036,252 | 5,660,625 | 2,971,789 |
| | 46,359,548 | 41,785,061 | 36,851,543 |

27. MAINTENANCE AND OTHER OPERATING EXPENSES

This account consists of the following:

| | 2018 | 2017 | 2016 |
|--|-------------------|-------------------|-------------------|
| General services | 6,069,952 | 4,001,292 | 3,428,001 |
| Professional services | 5,816,212 | 3,478,764 | 3,064,881 |
| Taxes, insurance, and other fees | 4,934,609 | 4,342,194 | 9,252,870 |
| Transportation and traveling | 4,256,660 | 3,124,300 | 1,638,501 |
| Directors and committee members fees | 3,980,542 | 2,858,598 | 2,260,706 |
| Utility | 2,203,731 | 1,870,919 | 1,900,259 |
| Litigation expense | 1,923,470 | 2,027,330 | 1,809,877 |
| Repairs and maintenance | 1,658,504 | 857,358 | 520,682 |
| Communication | 1,356,505 | 1,092,144 | 1,039,296 |
| Representation expenses | 1,038,878 | 303,939 | 53,039 |
| Training and scholarship | 971,164 | 536,693 | 313,154 |
| Other Maintenance and Operating Expenses | 565,407 | 371,470 | 1,174,930 |
| Supplies and materials | 481,750 | 510,559 | 458,306 |
| | 35,257,384 | 25,375,560 | 26,914,502 |

28. DIRECT COSTS

This account consists of the following:

| | 2018 | 2017 | 2016 |
|----------------------------|-------------------|-------------------|-------------------|
| Labor | 30,485,584 | 28,816,597 | 27,853,528 |
| Equipment operations costs | 190,887 | 350,717 | 599,770 |
| Materials | 6,670 | 1,184,706 | 1,418,850 |
| Others | 5,243 | 19,531 | 164,840 |
| | 30,688,384 | 30,371,551 | 30,036,988 |

As stated in Note 23, starting October 1, 2015, the Corporation assumed the operations of DCBGSI, a wholly-owned subsidiary of the Corporation.

29. NON-CASH EXPENSES

This account consists of the following:

| | 2018 | 2017 | 2016 |
|--|------------------|------------------|------------------|
| Depreciation | 7,212,805 | 6,139,729 | 7,135,879 |
| Loss on sale of property and equipment | 207,728 | 0 | 0 |
| Loss on sale of assets | 0 | 0 | 46,372 |
| Loss from changes in fair value of financial instruments | 0 | 0 | 10,000 |
| | 7,420,533 | 6,139,729 | 7,192,251 |

30. INCOME TAXES

The Corporation's provision for income tax for the year 2018 is P5.029 million computed under the Minimum Corporate Income Tax (MCIT).

As of December 31, 2018, the balance of the MCIT is as follows:

| Date Incurred | Amount | Application | Expired | Balance | Expiry Date |
|---------------|-------------------|-------------|------------------|-------------------|-------------|
| 2018 | 5,028,865 | 0 | 0 | 5,028,865 | 2021 |
| 2017 | 7,151,247 | 0 | 0 | 7,151,247 | 2020 |
| 2015 | 4,634,538 | 0 | 4,634,538 | 0 | 2018 |
| | 16,814,650 | 0 | 4,634,538 | 12,180,112 | |

As of December 31, 2018, and 2017, 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:

| | 2018 | 2017 |
|---|-----------------------|----------------|
| Allowance for losses on assets for write off | 9,615,422,219 | 9,615,422,219 |
| Allowance for impairment losses | 659,495,246 | 659,495,246 |
| Allowance for impairment – other materials and supplies | 2,992,956 | 3,215,862 |
| Allowance for losses on investments | 177,180,811 | 177,180,811 |
| | 10,455,091,232 | 10,455,314,138 |

As of December 31, 2018, and 2017, the recognized deferred tax assets pertain to the following:

| | 2018 | 2017 |
|--|-------------------|------------|
| Carry forward benefit of unapplied tax credits | 28,798,001 | 26,946,039 |
| Excess of MCIT over the regular corporate income tax | 12,180,112 | 11,785,785 |
| | 40,978,113 | 38,731,824 |

As of December 31, 2018, and 2017, deferred tax liabilities pertain to the following:

| | 2018 | 2017 |
|--|----------------------|---------------|
| Fair value adjustment of investment property | 4,400,265,960 | 4,400,265,960 |
| Revaluation increment in property | 194,941,994 | 194,941,994 |
| | 4,595,207,954 | 4,595,207,954 |

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*.

31. TAX MATTERS

The Corporation 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 Corporation'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 Corporation 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 Corporation's contention meritorious.

The Corporation, 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 Corporation 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 Corporation'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 Corporation'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 Corporation'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 Corporation and BIR Examiner/s before submission of the report to the BIR Chief concerned).

No discussion happened as the Corporation 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 Corporation 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 Corporation requested reconsideration for the attendant charges of P9.763 million, in the amount equitable to both the BIR and the Corporation pursuant to Section 204 of the National Internal Revenue Code (NIRC) and the related revenue regulations.

On November 2, 2016, the Corporation 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 P15.425 million (basic tax of P8.934 million and interest/penalty charges of P6.491 million).

The Corporation, in its letter dated April 10, 2017 to the BIR, requested that the Corporation be allowed to avail of reliefs by way of reduction or abatement of the charges and a favorable consideration/reconsideration from the BIR.

On July 30, 2018, the Corporation paid P0.893 million representing 10 per cent of the basic tax relative to its application for compromise settlement of its deficiency taxes. A Board Resolution (BD 160-2018) was passed during a meeting of the PNCC Board of Directors on August 15, 2018, wherein, President and CEO Mario K. Espinosa was authorized to enter into a compromise of up to 40 per cent minimum amount of basic tax.

On September 4, 2018, the Corporation signified its intention to increase the offer of compromise from 10 per cent (P0.893 million) to 40 per cent (P3.574 million) of the basic tax.

The BIR, in its letter dated September 11, 2018 informed PNCC that pursuant to Revenue Regulation (RR) 9-2013, amending certain provisions of RR 30-2002 particularly Section 6, it is expressly stated that:

"The compromise offer shall be paid by the taxpayer upon filing of the application for compromise settlement. No application for compromise settlement shall be processed without the full settlement of the offered amount. In case of disapproval of the application for compromise settlement the amount paid upon filing of the aforesaid application shall be deducted from the total outstanding tax liabilities."

32. CONTINGENT LIABILITIES/CONTINGENT ASSETS

PENDING LAWSUITS/LITIGATIONS

Contingent Liabilities

The Corporation has contingent liabilities with respect to claims and lawsuits. Management believes that the final resolution of these issues will materially affect the Corporation'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 (CA) but was dismissed in its Decision dated June 10, 2005. A Motion for Reconsideration (MR) 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 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 RTC.

The RTC Branch 153 denied Asiavest's Motion for Execution and its subsequent Motion for Reconsideration. Subsequently, Asiavest filed with CA a Petition for Certiorari and Mandamus, to which PNCC filed a Comment and Opposition on May 29, 2018.

On August 14, 2018, PNCC received the CA Second Division's Notice of Judgment denying and dismissing the above Petition for Certiorari and Mandamus. Asiavest filed a Motion for Reconsideration (MR), a copy of which was received by PNCC on August 30, 2018. On October 8, 2018, PNCC filed its Comments on the subject MR. In a Resolution dated November 29, 2018, the CA Former Second Division denied Asiavest's MR for lack of merit.

- *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 (CA) 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 CA and ordered the payment of the foreign award. In 2002, the Pasig City RTC issued a Writ of Execution 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 MR. PNCC has since filed a Petition for Certiorari which is pending in the CA. 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.

The RTC denied PNCC's Motion to Quash. Because of the denial of the said Motion to Quash, PNCC filed a Petition for Certiorari with the CA on the RTC's Orders. On December 18, 2017, the CA denied the Petition for Certiorari and subsequently, the Motion for Reconsideration was also denied on June 17, 2018. On August 23, 2018, the PNCC filed a Petition for Review on Certiorari with the Supreme Court.

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

Contingent Asset

On January 13, 2012, the Corporation 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.

The Corporation 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.

On November 26, 2018, the COA Commission Proper En Banc issued a resolution dismissing the Motion for Reconsideration of Mr. Serafin D.P. Ignacio. Accordingly, COA Decision No. 2017-310 which granted PNCC's Petition for Money Claim against MIAA is

affirmed with finality in the reduced amount of P22.368 million. A Notice of Finality of Decision shall be issued by the COA.

Pending Lawsuits/Litigations

In addition, the Corporation 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 Corporation 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 Corporation before the National Labor Relations Commission, Court of Appeals and Supreme Court.

The civil cases filed against the Corporation 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 Corporation against other individuals or companies consist of suits involving sums of money, damages, and breaches of contract which involve undeterminable amount of money.

33. RELATED PARTY TRANSACTIONS

The Corporation, 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 P20.805 million and P18.303 million in 2018 and 2017, respectively.

34. RESTATEMENT OF ACCOUNTS

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

| | December 31, 2016 (As previously reported) | Restatement/ Adjustment | January 1, 2017 (As restated) |
|--|---|----------------------------|-------------------------------------|
| STATEMENT OF FINANCIAL POSITION | | | |
| Receivables | 328,313,259 | 500,000 | 328,813,259 |
| <i>Accounts Receivables- Others</i> | | | |
| Financial Liabilities | (17,737,989) | (3,151,027) | (20,889,016) |
| <i>Accounts Payable</i> | | | |
| STATEMENT OF CHANGES IN EQUITY | | | |
| Deficit | (7,318,550,684) | (2,651,027) | (7,321,201,711) |

The Deficit at January 1, 2017 was restated as follows:

| | |
|--|-----------------|
| As previously reported | (7,318,550,684) |
| Settlement of 2009 tax deficiency assessment | (3,573,657) |
| Reclassification of disallowed gratuity pay of a former member of the PNCC Board of Directors which became final and executory | 500,000 |
| Correction of over-accrued legal expenses pertaining to Roy Pasos vs PNCC case under NLR-NCR No. 02-02242-03 | 422,630 |
| As restated | (7,321,201,711) |

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk

The Corporation'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 Corporation's operations. The Corporation 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 Corporation's financial instruments are credit risk and liquidity risk. The Corporation's Board of Directors (BOD) and Management review and approve the policies for managing each of this risk.

The Corporation 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 Corporation's risk management policies are summarized below. The exposure to risk and how they arise, as well as the Corporation'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 Corporation monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Corporation 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 Corporation's objectives, policies and processes for managing the risk and the methods used to measure the risk are the same for 2018 and 2017.

The following table summarizes the maturity profile of the Corporation's financial assets and financial liabilities as of December 31, 2018 and 2017, based on contractual undiscounted cash flows:

| | 2018 | | | Total |
|------------------------------|----------------------|----------------------|------------------------|------------------------|
| | <1 year | >1 to <5 years | >5 years | |
| Financial Assets | | | | |
| Cash | 205,158,385 | 0 | 0 | 205,158,385 |
| Short term Investment | 730,179,490 | 0 | 0 | 730,179,490 |
| Receivables | 290,917,155 | 54,905,048 | 120,959,930 | 466,782,133 |
| | 1,226,255,030 | 54,905,048 | 120,959,930 | 1,402,120,008 |
| Financial Liabilities | | | | |
| Accounts payable | 2,413,362 | 0 | 0 | 2,413,362 |
| Accrued expenses | 10,462,228 | 0 | 0 | 10,462,228 |
| Other accounts payable | 1,804,520 | 0 | 0 | 1,804,520 |
| Inter-agency payables | 8,399,828 | 0 | 0 | 8,399,828 |
| Customer deposit | 39,363,786 | 0 | 0 | 39,363,786 |
| Unearned Income | 24,882,368 | 0 | 0 | 24,882,368 |
| Other financial liabilities | 258,002,200 | 1,032,008,900 | 8,257,995,416 | 9,548,006,516 |
| Other payables | 0 | 0 | 3,789,629 | 3,789,629 |
| | 345,947,043 | 1,032,008,900 | 8,261,785,045 | 9,639,740,988 |
| Liquidity gap | 880,307,987 | (977,103,852) | (8,140,825,115) | (8,237,620,980) |

| | 2017 | | | Total |
|------------------------------|----------------------|----------------------|------------------------|------------------------|
| | <1 year | >1 to <5 years | >5 years | |
| Financial Assets | | | | |
| Cash | 145,467,935 | 0 | 0 | 145,467,935 |
| Short term Investment | 643,559,929 | 0 | 0 | 643,559,929 |
| Receivables | 272,959,914 | 52,786,636 | 120,959,929 | 446,706,479 |
| | 1,061,987,778 | 52,786,636 | 120,959,929 | 1,235,734,343 |
| Financial Liabilities | | | | |
| Accounts payable | 7,405,748 | 0 | 0 | 7,405,748 |
| Accrued Expense | 12,478,021 | 0 | 0 | 12,478,021 |
| Other accounts payable | 3,440,716 | 0 | 0 | 3,440,716 |
| Inter-agency payables | 2,948,043 | 0 | 0 | 2,948,043 |
| Customer deposit | 43,625,984 | 0 | 0 | 43,625,984 |
| Unearned Income | 25,175,179 | 0 | 0 | 25,175,179 |
| Other financial liabilities | 258,002,200 | 774,006,600 | 8,257,995,416 | 9,290,004,216 |
| Other payables | 0 | 0 | 3,789,629 | 7,230,345 |
| | 353,075,891 | 774,006,600 | 8,261,785,045 | 9,388,867,536 |
| Liquidity gap | 708,911,887 | (721,219,964) | (8,140,825,116) | (8,153,133,193) |

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 Corporation'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, 2018 and 2017:

| | 2018 | 2017 |
|-------------|-------------|-------------|
| Cash | 205,158,385 | 145,467,935 |
| Receivables | 466,782,133 | 446,706,480 |
| | 671,940,518 | 592,174,415 |

As of December 31, 2018 and 2017, the aging analysis per class of receivables is as follows:

| 2018 | 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 | 27,432,138 | 0 | 0 | 0 | 178,236,820 | 0 | 205,668,958 |
| Advances to the Bureau of the Treasury (BTr) | 150,000,000 | 0 | 0 | 0 | 0 | 0 | 150,000,000 |
| Accounts receivable - trade | 4,674,391 | 6,985 | 3,417,982 | 1,215,601 | 3,429,173 | 0 | 12,744,132 |
| Accounts receivable - subsidiaries and affiliates | 15,021,636 | 6,252,771 | 6,196,714 | 5,951,316 | 48,007,970 | 0 | 81,430,407 |
| Advances to suppliers | 93,040 | 237,310 | 28,695 | 86,800 | 182,596 | 0 | 628,441 |
| Advances to CESLA | 13,690 | 4,230 | 6,964 | 6,035 | 89,193 | 0 | 120,112 |
| Advances for SSS/EC benefits | 5,255 | 0 | 0 | 0 | 0 | 0 | 5,255 |
| Other accounts receivable | 4,340,850 | 31,510 | 0 | 0 | 10,750,790 | 0 | 15,123,150 |
| | 201,581,000 | 6,532,806 | 9,650,355 | 7,259,752 | 240,696,542 | 0 | 465,720,455 |
| Receivables from officers and employees: | | | | | | | |
| Officers and employees | 389,950 | 11,242 | 2,229 | 0 | 596,532 | 0 | 999,953 |
| Directors | 61,725 | 0 | 0 | 0 | 0 | 0 | 61,725 |
| | 451,675 | 11,242 | 2,229 | 0 | 596,532 | 0 | 1,061,678 |
| | 202,032,675 | 6,544,048 | 9,652,584 | 7,259,752 | 241,293,074 | 0 | 466,782,133 |

2017

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: | | | | | | | |
| Advances to the Bureau of the Treasury (BTr) | 65,788,920 | 3,864,285 | 457,726 | 0 | 133,161,382 | 0 | 203,272,313 |
| Contract related receivables | 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 | 116,290 |
| Other accounts receivable | 0 | 40,000 | 0 | 0 | 11,246,789 | 0 | 11,286,789 |
| | 234,503,480 | 10,208,681 | 8,565,538 | 5,890,333 | 186,446,343 | 0 | 445,614,374 |
| 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 | 1,092,105 |
| | 234,650,676 | 10,208,681 | 8,565,538 | 5,890,333 | 186,891,252 | 0 | 446,706,479 |

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, 2018 and 2017.

| | Carrying Amount | | Fair Value | |
|------------------------------|----------------------|-----------------------|----------------------|-----------------------|
| | 2018 | 2017 (as restated) | 2018 | 2017 (as restated) |
| Financial assets | | | | |
| Cash | 205,158,385 | 145,467,935 | 205,158,385 | 145,467,935 |
| Short-term investments | 730,179,490 | 643,559,929 | 730,170,490 | 643,559,929 |
| Receivables | 466,782,133 | 446,706,479 | 466,782,133 | 446,706,479 |
| | 1,402,120,008 | 1,235,734,343 | 1,402,120,008 | 1,235,734,343 |
| Financial liabilities | | | | |
| Accounts payable | 2,413,362 | 7,405,748 | 2,413,362 | 7,405,748 |
| Accrued expense | 10,402,228 | 12,478,021 | 10,402,228 | 12,478,021 |
| Other accounts payable | 1,804,520 | 3,440,716 | 1,804,520 | 3,440,716 |
| Inter-agency payable | 8,399,828 | 2,948,043 | 8,399,828 | 2,948,043 |
| Customer deposit | 39,363,786 | 43,625,984 | 39,363,786 | 43,625,984 |
| Unearned income | 25,501,119 | 25,175,179 | 25,501,119 | 25,175,179 |
| Other financial liabilities | 9,548,006,516 | 9,290,004,216 | 9,548,006,516 | 9,290,004,216 |
| Other payables | 3,789,629 | 3,789,629 | 3,789,629 | 3,789,629 |
| | 9,639,740,988 | 9,388,867,536 | 9,639,740,988 | 9,388,867,536 |

Cash and Accounts and Other Payables – carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Receivables – carrying amounts approximate fair values due to the short-term nature of the receivables.

36. SUPPLEMENTARY INFORMATION ON TAXES

In compliance with the requirements set forth by BIR Revenue Regulations 15-2010, the following are the information on taxes, duties, and licenses paid or accrued during the taxable year 2018:

36.1 The Corporation is a VAT-registered corporation with VAT output tax declaration of P25.354 million for the year based on the amount reflected in the Sales Account of P211.285 million.

36.2 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 | 634,205 |
| Capital goods subject to amortization | 0 |
| Capital goods not subject to amortization | 10,404 |
| Services lodged under cost of goods sold | 0 |
| Services lodged under other accounts | 497,860 |
| Claims for tax credit/refund and other adjustments | 0 |
| Balance at the end of the year | 1,142,469 |

36.3 Other taxes and licenses:

| | |
|---|------------------|
| Local: | |
| Real Estate Tax | 1,730,925 |
| Mayor's Permit | 1,941,767 |
| Community tax | 11,000 |
| | 3,683,692 |
| National: | |
| BIR Annual Registration | 500 |
| VAT/Percentage Taxes | 409,282 |
| Others (Capital Gains Tax/Doc. Stamp Tax) | 4,746 |
| | 414,528 |

36.4 The amount of withholding taxes paid/accrued for the year amounted to P5.875 million broken down as follows:

| | |
|----------------------------------|------------------|
| Tax on compensation and benefits | 5,049,447 |
| Creditable withholding taxes | 825,449 |
| | 5,874,896 |