

COVER SHEET

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S.E.C. Registration Number

P H I L I P P I N E N A T I O N A L  
C O N S T R U C T I O N C O R P O R A T I O N  
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D E V E L O P M E N T C O R P O R A T I O N O F T H E  
P H I L I P P I N E S )

(Company's Full Name)

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

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

RENATO M. MONSANTO

Contact Person

846-2906

Company Telephone Number

1 2

Month

3 1

Day

Fiscal Year

17-A

FORM TYPE

0 3

Month

Annual Meeting

4th  
Tuesday

Day

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document ID

Cashier

STAMPS

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

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

1. For the fiscal year ended December 31, 2016

2. SEC Identification Number 30939

3. BIR Tax Identification No. 000-058-330-0000

4. Exact name of registrant as specified in its charter  
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

5. Metro Manila, Philippine  
Province, Country or other jurisdiction

6. (SEC Use Only)  
Industry Classification Code:

7. PNCC Complex, KM. 15, East Service Road, Bicutan, Parañaque City

8. (02) 846-3045 Fax: 846-1395  
Registrant's telephone number, including area code

9. \_\_\_\_\_  
Former name, former address and former year, if changed last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

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

**Note:**

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



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

Yes ☒

No ☐

12. Check whether the registrant:

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

Yes ☒

No ☐

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

Yes ☒

No ☐

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

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

# Annual Report 2016



**50**

1966-2016

**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**





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**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

# Message to Shareholders

From the President and CEO



It is my distinct honor to have carried out the desire of the shareholders to formally make representations with the Governance Commission for GOCCs (GCG) to explain PNCC's need in light of the termination of its corporate life on November 22, 2016. The GCG *en banc* thereafter endorsed the extension of the life of PNCC for another 50 years, to the President of the Philippines. His Excellency Rodrigo R. Duterte, approved the GCG's recommendation. Because of the representations, our shareholders, the biggest being the National Government, overwhelmingly voted to extend the corporate life of PNCC for another fifty (50) years during the October 17, 2016 Stockholders Meeting. The vote for extension was 99.57% of the total number of votes cast, which is a feat in itself, the vote being taken in the very first meeting

that was planned and successfully conducted after thirty three (33) long years. With this vote, our shareholders have cast a vote of confidence into a viable and strong future, believing that policies that will bear on fostering long-term success will be established and pursued by the administrators of PNCC who will succeed us.

Hence, the Fourth Article of the Amended Articles of Incorporation now read as follows: "FOURTH: That The term for which said corporation is to exist is FIFTY (50) YEARS, from November 22, 2016." Let us congratulate ourselves for this new life until Year 2066. This is our collective achievement!

I am proud to have reported to the shareholders in the same meeting what the Board and Management have achieved in the preceding years. I am pleased to share an updated report of the following financial information for the Year 2016.

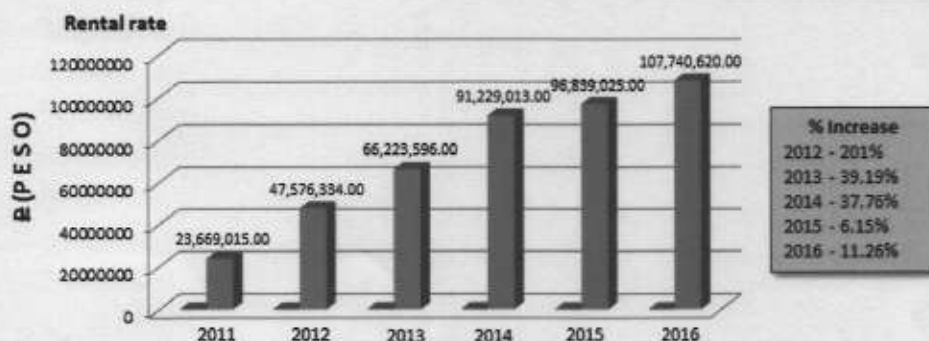
May the future not fail us.  
May God's guidance lead us.  
May His protection cover us.

PNCC received from MNTC, CMMTC and SLTC revenue share in the amounts of ₱47,337,580.93, ₱30,090,280.65 and ₱16,324,274.16, respectively, for a total of ₱93,752,135.74. This is higher by almost 11.87% over the corresponding amount of ₱83,802,795 generated in 2015. Dividend shares likewise improved in 2016 to

₱54,635,130.00, up by 50% from the corresponding amount of ₱36,423,420.00 posted in 2015.

|                       | 2016               | 2015        |
|-----------------------|--------------------|-------------|
| <b>Revenue Share</b>  |                    |             |
| MNTC                  | <b>47,337,580</b>  | 43,649,658  |
| CMMTC                 | <b>30,090,280</b>  | 27,566,205  |
| SLTC                  | <b>16,323,274</b>  | 12,586,932  |
| <b>Dividend Share</b> |                    |             |
| CMMTC                 | <b>54,635,130</b>  | 36,426,420  |
|                       | <b>148,386,264</b> | 120,229,215 |

Total lease income (net of VAT) generated in 2016 amounted to ₱105,911,455.00, up by 13.1% when compared to lease income posted for 2015 in the amount of ₱93,643,498.45



In terms of asset disposal, I am glad to report that a total of ₱20,162,251.17 was generated from our non-performing assets in 2016, which is a huge amount compared to just ₱738,605.00 generated in 2015. This is a whopping 2,730% increase over asset disposal figures posted for 2015.

PNCC has also remitted to the Bureau of Treasury the amount of ₱566,300,000.00 as partial payment of

PNCC's ₱1.5 B obligation to the National Government covering unremitted toll revenues in SLEX according to the Toll Operation Certificate granted to PNCC when its franchise under P.D. 1113 expired in 2007.

In regard to our contractual arrangements with the Skyway Operations and Maintenance Corporation (SOMCO), I am pleased to report that we have satisfied their attendant requirement for a Certificate of Compliance issued by the Department of Labor and Employment (DOLE). On December 8, 2016, the DOLE Compliance Officer has conducted the final assessment and has declared the following: PNCC is "Compliant" with the General Labor Standards (GLS) and also "Compliant" with the Occupational Safety and Health Standards (OSHS) of the Department of Labor and Employment. This assures that PNCC is qualified to continue doing business with SOMCO for its manpower requirements.

I am also hopeful that finally, the issue on the rights of PNCC based on the franchise granted under P.D. 1894 will be resolved regarding the opposition registered by would be investors in building and managing tollways infrastructure. It is because of this franchise that we insisted we can continue to be a going concern. The future is going to be bright because tollways infrastructure is key to solving the humongous traffic problem in Metro Manila. This moreover will solve to a great degree not only the movement of people and goods through Metro Manila but throughout Luzon and



connecting islands. We have started with our joint venture partnerships for new toll road projects within the purview of Section 2 of PD 1894 with (a) Skyway Stage 3 - Citra Central Expressways Corporation (CCEC) and (b) Skyway - C6 (Citra Intercity Tollways, Inc (CITI), with the first phase running from through FTI - C5 - Batasan Route (at-grade), and the second phase extending all the way to San Jose del Monte, Bulacan. Skyway Stage 3 is well on its way to becoming operation in certain segments by 2018.

Other issues that remain unresolved include the (1) Conversion of ₱5.552B Debt into equity and the (2) Payment of Company Obligation to the National Government in the amount of ₱7.9 B. We have always signified our intentions to pay recognized obligations, but the manner and determination of final amounts remain to be a contentious issue. The resolution of these two issues has been requested from the Office of President. To date, the same remain undecided upon by the Office of the President.

Another issue that remains pending is the disagreement by PNCC with the claim of the National Government that PNCC shares in CMMTC should be turned over to the NG. PNCC has always objected to the turn over pursuant to the clear provisions of the STOA approved by then President FVR in 1995. The matter is not <sup>now</sup> before the DOJ and is expected to be likewise elevated to the highest authorities for final resolution. The share in the gross proceeds of the toll reserves in the CMMTC are also subject to the same issues as the shares and will most likely be fought all the way to the SC. PNCC intends to pursue this until final resolution. The amount involved is around ₱260 M per annum arising out of

the revenues from Stage 1 and Stage 2 of Skyway.

Overall, regardless of these issues, I am confident that nothing will prevent the ability of PNCC to overcome, and to prosper. The stage has been set, the priorities have shifted to revival and growth, and we are ready to embrace our entitlements to the fruits of diligent work and good judgment.

As a stockholder myself, this is my prayer: "May the future not fail us. May God's guidance lead us. May His protection cover us." Thank you.



LUIS F. SISON  
President & CEO



## Business Development



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

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

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

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

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

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

In 1983, LOI 1295 was issued directing lender/guarantor government financial institutions to convert PNCC debts into equity in PNCC. However, only P1.4 billion of the estimated ₱7 billion debt was converted to equity and the balance of ₱5.5 billion remain unconverted due to Central Bank intervention.

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

The Company's debt of ₱5.552 billion which remained unconverted to equity is treated as part of equity in the Company's books, instead of a liability with the interest and penalties unilaterally charged thereon by the PMO/BTr amounting to ₱52.066 billion and ₱52.482 billion as of December 31, 2014 and 2013, respectively, are not considered or taken up in the Company's books. The Company maintains the position that the account/amount shall be booked as equity and not as a liability (inclusive of interests and penalty charges). The assertion that the ₱5.552 billion should be part of equity is supported by a Supreme Court ruling that recognizes the validity of LOI 1295 confirming that the ₱5.552 billion is no longer a debt but equity. The Office of the Government Corporate Counsel, and a private firm engaged by PMO have concurred with this ruling. Pursuant to the mutual agreement between the Company and the PMO, the option/authority to convert the mentioned debt into equity was submitted to the Department of Justice (DOJ) on June 21, 2012 for arbitration. In DOJ decision dated February 18, 2014 dismissing the Company's petition against the PMO, the former filed a Motion for Reconsideration (MR) at the DOJ on March 14, 2014. On January 22, 2015, the DOJ denied the Company's MR.

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

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

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

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

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

For the South Luzon Tollways, PNCC entered into a partnership with Indonesia's P.T. Citra Lamtoro Gung Persada to build the elevated toll road or Skyway System from Nichols to Alabang and to upgrade the at-grade portion for the same stretch. Citra Metro Manila Tollways Corporation (CMMTC) is the Joint Venture Company and concessionaire, and has been running these segments since 1999. The PNCC Skyway



Corporation (PSC) originally managed the operation and maintenance of the Skyway System and its corresponding at-grade section, but due to operational inefficiencies, PSC suffered financial losses. The Skyway Operation and Maintenance Corporation (SOMCO) took over the operations and maintenance of the Skyway Systems in 2008. PNCC has 11% share in CMMTC (also diluted from 20%) and a 20% share in SOMCO, which up to this day remains unissued to PNCC because of legal disputes with CMMTC.

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

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

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

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

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

Meanwhile, pursuant to Executive Order No. 605 which directed all government agencies to install a Government-wide quality management program, and prior to the above turn-over to MATES, PNCC has acquired and maintained an ISO 9001 Certification to cover its expressway operations in the SLEX. The company, with the full support of its Board, adopted and implemented its Quality Management System Manual. On December 15, 2009, Stage 1 (Documentation) Certification Audit was conducted by a Certification

Body, the SGS Philippines. Before the end of the first quarter of 2010, SGS Philippines, Inc. granted to PNCC the ISO 9001:2008 Quality Management System Certificate for Tollway Management. The certificate was valid from 18 March 2010 until 17 March 2013.

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

PNCC through the Office of Government Corporate Counsel (OGCC) filed a Motion for Clarification with the Supreme Court (SC) asking for definition of "Net Income". The SC resolved to grant the Motion of PNCC. In addition, it ordered the Toll Regulatory Board (TRB) with the assistance of Commission on Audit (COA) to formulate the Guidelines to determine what can be retained by PNCC to determine the Net Income to be remitted to NG. Due to inevitable delays and in fairness to PNCC, the TRB on 22 March 2012, issued "Interim Guidelines" that determined amounts to be remitted to the NG and PNCC "by the JV Companies in relation to the operation of the NLEX and SLEX projects respectively." Detailed discussion on revenue and dividend share from joint venture companies were described in Notes 21 of Audited Financial Statement (AFS), page 56 of AFS.

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

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

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

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

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

On September 26, 2013, the Supplemental Toll Operation Agreement (STOA) governing the design, construction, operation and maintenance of the MMS Stage 3 was approved by the Office of the President of the Philippines. Under the STOA, the Company is provided with 20% equity in CCEC, 10% is free carry and can never be diluted while the other 10% is to be paid for. In 2015, when the call was made for a capital increase investment in CCEC, the Company waived its subscription rights for the 10%. PNCC's 10% investment in CCEC



amounted to ₱620 million as of December 31, 2016. The Company waived its right in the Operation and Maintenance (O&M) company in exchange for the shares in gross revenues. The start of commercial operations of the MMS Stage 3 Project is expected in 2018.

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

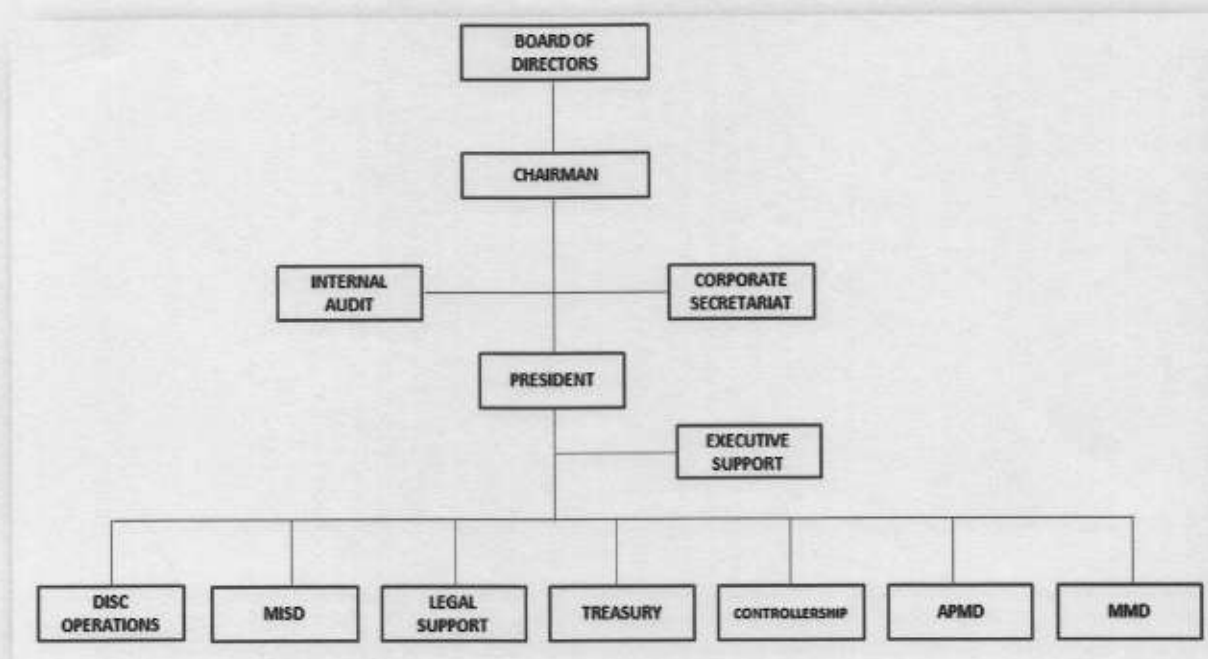
In January 2014, the Restated Supplement to the BJVA for MME was executed. The MME or C6 Project or the Stage 4 of SMMS will stretch from Bicutan to San Jose Del Monte and then will connect to the proposed MRT7 Project which will extend to the NLEX. The toll road will have a length of 34.33 km. Patterned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

On August 11, 2014, the Supplemental Toll Operation Agreement was approved by the Office of the President of the Philippines. The start of commercial operations of the MME-C6 Project is expected in 2020.

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

The Securities and Exchange Commission has issued the Certificate of Registration for the extension of the company's corporate term for another 50 years on November 21, 2017.

## Organizational Setup for 2016



Total Number of PNCC Employees Per Sector as of December 31, 2016

| Sector       | Regular   | Fixed Term | Project Employee | Total      |
|--------------|-----------|------------|------------------|------------|
| Rank & File  | 13        | 124        | 19               | 156        |
| Supervisor   | 11        | 1          | 4                | 16         |
| Manager      | 9         |            |                  | 9          |
| Executive    | 6         |            |                  | 6          |
| <b>TOTAL</b> | <b>39</b> | <b>125</b> | <b>23</b>        | <b>187</b> |

## Business Development and Description of Subsidiaries

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

In September 2013, the Governance Commission for GOCC's (GCG) recommended the abolition of the following PNCC subsidiaries:

1) Alabang-Sto Tomas Development, Inc. (ASDI); 2) DISC Contractors, Builders and General Services, Inc. (DCBGSI); 3) Traffic Control Products Corporation (TCPC); 4) CDCP Farms Corporation (CDCP-FC), and Tierra Factors Corporation (TFC). Furthermore, GCG recommended the creation of a Technical Working Group (TWG) to coordinate the implementation of said abolition. The TWG shall be composed of the GCG, together with the representatives of the following government agencies, as regular members: 1) Department of Trade and Industry; 2) Securities and Exchange Commission, and 3) PNCC. Special members are composed of: 1) ASDI; 2) DCBGSI; 3) TCPC; 4) CDCP-FC, and 5) TFC.

Meanwhile, the PNCC Management has been undertaking the necessary steps to finally dissolve these inactive subsidiaries.

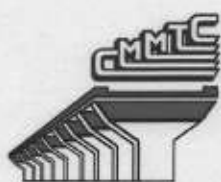
DCBGSI ceased its operations on September 30, 2015 pursuant to Shareholder's Resolution dated August 7, 2015. PNCC assumed DCBGSI's business contractual obligations with SOMCO and PHILPHOS. on October 1, 2015.

## Business Development of Affiliates

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

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

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



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

### ***Citra Metro Manila Tollways Corporation and Skyway Operation and Maintenance***

Citra Metro Manila Tollways Corporation (CMMTC), a Joint Venture Company or the Investor Company was incorporated on 27 November 1995 to pursue the South Metro Manila Skyway Project (SMMS), i.e., the present at-grade level and Skyway stretching from Nichols to Alabang, southbound, and to Buendia, northbound. CITRA has a 30-year



concession period which commenced in December 1998. Originally, PNCC owned 20% of CMMTC with ₱551 million infused as equity. As of 2008, however, following the exercise of pre-emptive rights to which PNCC issued a waiver, PNCC's equity participation was reduced to 11%. PNCC continues to hold two board seats in CMMTC.

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

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



### ***Citra Central Expressway Corporation***

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

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

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

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

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

In 2015, when the call was made for a capital increase investment in CCEC, the Company waived its subscription rights for the 10%. The initial 10% investment in CCEC amounted to ₱12.5 million.

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

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

The start of commercial operations of the MMS Project is expected in 2018.





**CITI**  
CITRA INTERCITY TOLLWAYS, INC.

***Citra Intercity Tollways, Inc.***

Citra Intercity Tollways, Inc. (CITI) was incorporated on February 17, 2014, a joint Venture Company between the Company and PT Citra Lamtoro Gung Persada to be the vehicle to implement the financing, design and construction of the Metro Manila Expressway – C6 (MME).

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

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

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

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

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

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

## Description of Properties

The list of Real Property as of December 31, 2016 are presented below:

| ITEM NO.  | LOCATION  | AREA (sq .m.)  | REGISTERED OWNER   |
|-----------|---|--|--|
| <b>A.</b> | <b>BOOKED PROPERTIES:</b>   |  |  |
| 1.        | TAGOLOAN PROPERTY<br>Bo. Casinglot, Tagoloan, Misamis Oriental  | 20,687<br>13,785<br>16,380<br>1,065<br>5,316<br>3,387<br><b>60,620</b>             | CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP                         |
| 2.        | BICUTAN PROPERTY<br>ParanaqueCity   | 107<br>54<br>27,762<br>5,123<br><b>33,046</b>                                      | CDCP<br><br>CDCP<br>CDCP   |
| 3.        | ALBAY PROPERTY (Legaspi Lot)<br>Bo. Estrella, Jovellar, Albay   | <b>1,038,821</b>   | PNCC   |
| 4.        | MABALACAT LOT<br>Bo. Maisac, Mabalacat, Pampanga  | 10,000<br>15,000<br>2,905<br><b>27,905</b>   | CDCP<br>CDCP<br>CDCP   |
| 5.        | TAGAYTAY PROPERTY<br>Bo. Tolentino, TagaytayCity  | 49,107<br>49,100<br><b>98,207</b>  | CDCP<br>CDCP   |
| 6.        | ANTIPOLO PROPERTY <ul style="list-style-type: none"> <li>VictoriaValley Subdivision</li> <li>Town &amp; Country Estate Subd.</li> </ul> | 840<br>850<br>958<br>741<br>680<br>701<br>10,000<br><b>14,770</b>                  | CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP                 |
| 7.        | MORONG LOT<br>Morong, Rizal   | 240<br>240<br>240<br>240<br>240<br>240<br>240<br>240<br>240<br>382<br><b>2,542</b> | CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP |
| 8.        | FINANCIAL CENTER AREA (FCA)<br>Pasay City   | <b>129,548</b>   | R. P.  |
| 9.        | PORAC LOT<br>Porac, Pampanga  | <b>116,591</b>   | PNCC   |

| ITEM NO.   | LOCATION  | AREA (sq .m.)   | REGISTERED OWNER   |
|------------|---|---|--|
| 11.        | STA. RITA PROPERTY<br>(NLT Office)<br>Sta. Rita, Guiguinto, Bulacan                         | 11,395<br>8,605<br><b>20,000</b>  | PNCC<br>Remedios Bengzon   |
| 12.        | BOCAUE REST AREA<br>NLEX, Bocaue, Bulacan   | 733<br>2,801<br>4,404<br>1,141<br>847<br><b>9,926</b>   | CDCP<br>CDCP<br>CDCP<br>CDCP<br>CDCP   |
| <b>B.</b>  | <b>UNBOOKED PROPERTIES</b>  |   |  |
| <b>B.1</b> | <b>PNCC LISTED PROPERTIES</b>   |   |  |
| 1.         | PILILLA PROPERTY<br>Pililla, Rizal  | 500<br>500<br>500<br>500<br>500<br>500<br>459<br>702<br>607<br>500<br>500<br>500<br>500<br>500<br>500<br><b>7,768</b> | M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone<br>M. de Jesus & P. Castalone |
| 2.         | GULOD RESORT CONDOMINIUM<br>Nasugbu, Batangas<br><br>• Apartment 5-102<br>• Apartment 5-302 | <br><br>34.65<br>34.65<br><b>69.30</b>  | <br><br>Land Bank<br>Land Bank   |
| <b>B.2</b> | <b>CDCP FARMS CORP. PROPERTIES</b>  |   |  |
| 1.         | TABANG PROPERTY<br>Tabang, Guiguinto, Bulacan   | 4,945<br>678<br><b>5,623</b>  | CDCP Farms Corporation<br>CDCP Farms Corporation   |
| 2.         | BUKIDNON PROPERTY<br>Bukidnon, Mindanao   | 31,600<br>52,900<br>64,600<br>129,900<br>66,100<br>56,000<br><b>401,100</b>   | Eduardo Martin<br>Leona Sumael<br>CandelarioTutanes<br>Romeo Mata<br>Romeo Mata<br>Romeo Mata  |

## Legal Proceedings

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

**G.R. No. 110263, Supreme Court**

**Date of Institution : July 14, 1988**

**Amount Involved: MYR5,200,000**

The case arose when Asiavest Merchant Bankers (M) Berhad (Asiavest), a corporation organized under Malaysian laws filed a collection suit before the High Court of Malaya against PNCC. Asiavest sought to recover the indemnity of the performance bond it put up in favor of PNCC to guarantee the completion of construction of Malaysia project, namely, Felda Project and the non-payment of the loan for the completion of Paloh Hanai and Kuantan By-Pass Project.

On 13 September 1985, the High Court of Malaya adjudged PNCC to pay \$5,108,290.23 Ringgit together with interest at 12% per annum and \$350.00 Ringgit as cost of. Thereafter, Asiavest filed a complaint to enforce the foreign judgment on 8 September 1985 with the Pasig City Regional Trial Court (PCRTC).

The PCRTC, however, dismissed Asiavest's Complaint. On appeal with the Court of Appeals (CA), the PCRTC's dismissal was affirmed. When the case was elevated to the Supreme Court, the Decisions of both the PCRTC and the CA were reversed in the 20 July 2001 Decision. Thus, the Supreme Court ordered PNCC to pay Asiavest the amounts pronounced in the foreign judgment.

The Supreme Court's Decision became final and executory on 8 November 2001. As a consequence, PCRTC's Br. 168 issued a 29 July 2002 Order for the issuance of Writ of Execution and in 8 August 2002, the Writ of Execution.

Last November 28, 2003, PNCC filed a Motion to Suspend Execution Proceedings in view of the information from the Registrar of Companies of Malaysia that Asiavest Merchant Bankers(M) Berhad no longer exists after it had gone into voluntary liquidation and winding up.

On February 13, 2006, PNCC filed a Motion to Quash Writ of Execution, before the RTC Branch 168 of Marikina City (formerly Pasig City).

On April 3, 2006, PNCC filed an Urgent Ex-Parte Motion to Temporary Stay the Enforcement of the Writ of Execution, which the Court has granted by virtue of its Order dated May 29, 2006.

On September 21, 2006, Asiavest filed a Manifestation and Urgent Motion to Lift Stay Order dated May 29, 2006.

On November 8, 2006, the Court denied the Urgent Motion to Lift Stay Order dated May 29, 2006.

On November 30, 2006, Asiavest filed a Motion for Reconsideration of the Order dated November 8, 2006.

On February 2, 2007 Asiavest filed three (3) motions namely: (1) Motion for Immediate Resolution of their Motion for Reconsideration dated November 30, 2006, (2) Motion/Application for Appointment of a Receiver of PNCC's Assets, and (3) Motion to Inhibit.



On March 4, 2008, the RTC Branch 67 of Pasig City, issued an Omnibus Order denying Asiavest's Motion for Reconsideration and Motion for Appointment of Receiver.

Asiavest filed a Petition for Certiorari with the Court of Appeals assailing the RTS's Omnibus Order. The Court of Appeals, In its Decision dated October 28, 2008, DENIED and DISMISSED Asiavest's Petition as it deemed that the trial court did not commit any grave abuse of discretion. A Motion for

Reconsideration was filed by Asiavest but the same was denied by the Court of Appeals in its Resolution dated January 8, 2009.

Asiavest appealed the Decision of the Court of Appeals by way of Petition for Review on Certiorari with the Supreme Court.

On April 15, 2009, the Supreme Court denied Asiavest's Petition on the following grounds: (1) insufficient or defective verification under Sec 4, Rule 7, 1997 Rules of Civil Procedure, as amended, and (2) defective or insufficient certification against forum shopping in violation of Sec. 5, Rule 7, 1997 Rules of Civil Procedure, as amended, having submitted a photocopy of said verification/certification of non-forum shopping and for failure to attach the special resolution appointing affiants as liquidators of petitioner.

On July 13, 2009, the Supreme Court (First Division) denied with finality Asiavest's Motion for Reconsideration on the following grounds: (1) insufficient or defective verification under Sec. 4, Rule 7, 1997 Rules of Civil Procedure, as amended, and (2) defective or insufficient certification against forum shopping in violation of Sec. 5, Rule 7, 1997 Rules of Civil Procedure, as amended, having submitted a photocopy of said verification/certification of non-forum shopping and for failure to attach the special resolution appointing affiants as liquidators of petitioner.

On December 7, 2011, an Order was received by PNCC denying the Motion to Declare Plaintiff's Right to Present Evidence as waived for lack of merit. Hearing for presentation of plaintiff's evidence on the lifting of the Temporary Stay Order of Execution was set on 8 February 2012 and 11 April 2012 at 8:30 a.m.

After the plaintiff presented all its witnesses, it was ordered by the Court to file its formal offer of documentary evidence while PNCC was ordered to submit its comment or opposition thereto within fifteen days from receipt of said formal offer.

After the plaintiff filed its formal offer of documentary evidence, PNCC filed its comments and opposition thereto, thereafter the parties filed their respective memoranda. The Urgent Motion to Quash Writ of Execution was then considered submitted for resolution.

On March 20, 2015, the RTC issued a Resolution denying PNCC's Urgent Motion to Quash Writ of Execution. PNCC, through the OGCC, filed a Motion for Reconsideration of said Resolution. However, the RTC likewise denied the said Motion.

On September 28, 2015, PNCC filed a Petition for Certiorari with the Court of Appeals under Rule 65 of the 1997 Rules of Civil Procedure to annul and set aside the Resolution and Order of the Pasig RTC.

#### RECENT DEVELOPMENTS:

In the meantime, Asiavest filed Ex-Parte Motion for Issuance of Alias Writ of Execution on 6 April 2016 with PCRTC. PNCC filed Comment/Opposition To the Issuance of an Alias Execution Writ on 15 April 2016

on the ground that the claims must be filed with Commission on Audit (COA) and the pending Petition for Certiorari. A clarificatory hearing was held last 13 May 2016.

Asiavest filed Reply on 2 June 2016. PNCC filed its Rejoinder with Manifestation on 23 June 2016. OGCC received plaintiff's Urgent Motion to Resolve on 9 August 2016. The case is still pending resolution.

On 7 December 2016, OGCC received a copy of the 22 November 2016 Resolution issued by the Court of Appeals that this case is submitted for Decision.

## **2. *PNCC vs. Asiavest Merchant Bankers***

***G.R. No. 172301, Supreme Court***

***CA-GR CV No. 50948, Court of Appeals***

***Civil Case No. 64367, RTC Pasig Branch 153***

***Date of Institution: April 12, 1994***

This case arose after Asiavest- CDCP, a corporation organized by both CDCP (PNCC) and Asiavest Merchant Bankers (which acted as PNCC's subcontractor in Malaysia), failed to complete the project in Malaysia. Asiavest thus sought reimbursement of the amount it paid to the State of Pahang (Malaysia) after the surety bond it issued to guarantee PNCC's project in Malaysia was called. The amount involved is 3,915,053.54 Malaysian Ringgit.

On April 12, 1994, Asiavest instituted the case before the RTC of Pasig. PNCC thru 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 same were denied.

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

A Petition for Review on Certiorari was filed before the Supreme Court. On 19 August 2015 the Supreme Court rendered a decision denying PNCC's petition. The Motion for Reconsideration of the said decision was likewise denied by the Supreme Court.

Thereafter, Asiavest filed an Urgent Motion for Execution on 9 August 2016. PNCC filed its Comment/Opposition on 18 August 2016, citing that there was a change in the parties circumstances that proved the execution inequitable and that the claim should first be referred to COA. The motion is now pending resolution in Trial Court.

## **3. *Superlines Transportation Co. Inc. vs. PNCC***

***G.R. 169596***

***Supreme Court 2<sup>nd</sup> Division***

***Date of Institution: February 22, 1991***

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

After the matter was remanded to the RTC, trial ensued and the latter issued its assailed Decision, where it recapped the series of events following the Supreme Court 2007 Decision.

Later, additional defendant Cesar Lopera filed his answer on March 31, 2008. Early on, the other defendants, i.e. Philippine National Construction Company and Pedro Balubal, were represented by private counsel. Lately though, the Office of the Government Corporate Counsel entered appearance for and in behalf of PNCC, that plaintiff even questioned, asking that said appearance be disallowed. That particular matter was addressed in this Court's order dated November 7, 2008.

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

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

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

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

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

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

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

On 9 November 2016, the SC noted STCI's Motion for Early Resolution.



## Securities of the Registrant

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

#### Market Information

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

Trading of shares was suspended on May 16, 2008, for this reason, no transaction was recorded for the last three (3) years. Last transaction date was on April 9, 2008, last closing price at ₱4.90 per share.

The Board of Directors did not declare dividends in the last three (3) years. This was due to the Company's deficit of ₱8.297 billion and ₱8.069 billion as of December 31, 2014 and 2013, respectively. Such action of the Board is supported by Article XI, Section 11.01 of the Amended By-Laws of the Company which provides that *"Dividends maybe declared annually or oftener as the Board of Directors may determine. The Board may declare dividends only from the surplus profits of the Corporation."*

A detailed discussion on this matter can be found on Notes 18 of AFS, page 52-53 of AFS.

#### Shareholders

##### TOP TWENTY (20) COMMON SHAREHOLDERS OF PNCC as of December 31, 2016

| Shareholder   | No. of Shares | % of Ownership |
|---|---------------|----------------|
| Republic of the Philippines/Privatization Management Office   | 79,271,024    | 45.44          |
| Government Service Insurance System   | 47,490,383    | 27.22          |
| Universal Holdings Corporation  | 24,780,746    | 14.20          |
| PCD Nominee Corporation - Filipino  | 12,562,537    | 7.20           |
| Cuenca Investment Corporation   | 2,088,132     | 1.19           |
| Cuenca, Rodolfo M.  | 698,116       | 0.40           |
| Land Bank of the Philippines  | 657,836       | 0.37           |
| Unigrowth Development Corporation   | 630,625       | 0.36           |
| Gow, Jimmy N.   | 274,000       | 0.15           |
| Cruz, F.F. & Co., Inc.  | 252,630       | 0.14           |
| Blue Chip Asset, Inc.   | 244,700       | 0.14           |
| Adachi, Sueo - Foreign  | 184,025       | 0.10           |
| Chung, Felix  | 173,900       | 0.09           |
| Alpapara, Johnson   | 170,000       | 0.09           |
| Go, Le Khim   | 150,000       | 0.08           |
| Benpres Corporation   | 140,000       | 0.08           |
| Cruz, Felipe F.   | 135,993       | 0.07           |
| Motelibano A. Hijos, Inc.   | 120,750       | 0.06           |
| Carnet Machineries & Invest. Corp.  | 119,842       | 0.06           |
| Filipinas Bag Corporation   | 106,936       | 0.06           |
| Total No. of Shareholders : 4,817   |               |                |
| The Privatization Management Office (PMO) holds PNCC's 25,500,000 preferred "D" shares which are also voting shares of the company. This translates to 12.75% of all voting shares. |               |                |

## Security Ownership of Certain Record and Beneficial Owners and Management

| Owners of record of more than ten percent 10% of the company's voting securities<br>as of December 31, 2016 |   |                      |                   |
|---|---|----------------------|-------------------|
| <u>Title of Class</u>   | <u>Name &amp; Address of Record/Beneficial Owner</u>  | <u>No. of Shares</u> | <u>% of Class</u> |
| Common  | <b>PRIVATIZATION MANAGEMENT OFFICE</b><br>104 Gamboa Street, Legaspi Village<br>Makati City 1229, Philippines                                 | 79,271,024           | 39.64             |
| Common  | <b>GOVERNMENT SERVICE INSURANCE SYSTEM</b><br>Roxas Blvd., Manila   | 47,490,383           | 23.75             |
| Common  | <b>UNIVERSAL HOLDINGS CORP.</b><br>CVCLAW Center, 11 <sup>th</sup> Ave. cor. 39 <sup>th</sup> St. Bonifacio Global<br>City, 1634 Metro Manila | 24,780,746           | 12.39             |
| Common  | <b>VARIOUS STOCKHOLDERS</b>   | 22,900,722           | 11.47             |
| Preferred D   | <b>PRIVATIZATION MANAGEMENT OFFICE</b><br>104 Gamboa St., Legaspi Village, Makati City 1229,<br>Metro Manila<br>Philippines                   | 25,500,000           | 12.75             |

By virtue of LOI 1295 (1983) 76.14% of voting equity has been held by various government financial institutions (GFIs), namely: PNB, PhilGuarantee, NDC, DBP, GSIS, and Land Bank, under the mandated debt-to-equity conversion scheme.

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

Only 24.86% of PNCC's voting equity is strictly under private ownership and 5.44% of which is being held by PCD Nominee Corporation (Filipino).

## Security Ownership of Management

| BENEFICIAL STOCK OWNERSHIP OF EACH DIRECTORS AND OFFICERS<br>as of December 31, 2016 |                                 |  |
|--|---------------------------------|--|
| <u>Title of Class</u>  | <u>Name of Beneficial Owner</u> | <u>Amount and Nature of Beneficial Ownership</u> |
| <b>DIRECTORS</b>   |                                 |  |
| Common   | Elpidio C. Jamora, Jr.          | 1  |
| Common   | Luis F. Sison                   | 1  |
| Common   | Tomas C. Alvarez                | 101  |
| Common   | Rosendo T. Capco                | 10   |
| Common   | Antonio T. Pido                 | 50   |
| Common   | Nora O. Vinluan                 | 2  |
| Common   | Rosanna E. Velasco              | 50   |
| Common   | Cristino L. Panlilio            | 1,456  |
| Common   | Robert G. Vergara               | 50   |
| Common   | Elisea G. Gozun                 | 50   |
| Common   | Jephonie L. Agustin             | 100  |
| <b>OFFICERS</b>  |                                 |  |
| Common   | Luis F. Sison                   | 4,000  |
| Common   | Yolanda C. Mortel               | 13   |
| Common   | Janice Day E. Alejandrino       | 6  |

## Certain Relationship and Related Transactions

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

## Corporate Governance

Refer to attached Annual Corporate Governance Report for 2016 (*Annex "A"*).



## PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

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

##### Results of Operations

**Revenue.** Revenue for the year ended December 31, 2016 stood at ₱297.575 million, higher by 30.69% or ₱69.882 million compared to ₱227.693 million for the year ended December 31, 2015. The increase was mainly attributable to the recognized revenue and dividend share from the Joint Venture Companies, rental income from the leased Financial Center Area (FCA) property, and increase in service income from supply of manpower services to Skyway O&M Corporation.

**Cost of Services.** Cost of services account increased by 265.71% or ₱21.824 million from ₱8.213 million for the year ended December 31, 2015 to ₱30.037 million for the year ended December 31, 2016 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

**General and Administrative Overhead.** Overhead account increased by 11.95% or ₱7.566 million from ₱63.343 million for the year ended December 31, 2015 to ₱70.909 million for the year ended December 31, 2016 due mainly to the depreciation of property, plant and equipment and regularization of contractual employees. No major allowances were provided for 2016.

**Income from Operation.** Income from operation for the year ended December 31, 2016 increased by ₱40.492 million, higher by 25.93% or ₱196.629 million compared to the December 31, 2015 figure of ₱156.137 million. Said favorable variance was the resulting effect of the reasons discussed above.

**Other Income (Charges).** This account posted a balance of ₱868.549 million for the year ended December 31, 2016 compared to the amount of ₱244.934 million for the year ended December 31, 2015. The increase was mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).

**Comprehensive Income (Loss).** Comprehensive income for the year ended December 31, 2016 increased by 213.52% or ₱502.143 million from ₱235.178 million for the year ended December 31, 2015 to ₱737.321 million for the year ended December 31, 2016. The favorable variance was likewise mainly due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).

##### Financial Position

**Current Assets.** Current assets increased by 21.22% or ₱236.897 million from ₱1.116 billion as of December 31, 2015 to ₱879.549 million as of December 31, 2016 mainly due to the cash flows used in financing activities as partially offset by the cash flows provided by the Company's operating and investing activities.

**Current Liabilities.** Current liabilities decreased by 3.16% or ₱297.118 million from ₱9.391 billion as of December 31, 2015 to ₱9.094 billion as of December 31, 2016 mainly due to the partial payment to the Bureau of Treasury for the outstanding share in the toll revenue as offset by the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB).

**Stockholders' Equity.** Stockholder's equity improved to ₱853.334 million as of December 31, 2016 against ₱114.772 million as of December 31, 2015. The significant increase in the account is mainly attributable to the comprehensive income in 2016.

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

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

|   |         |         |   |
|---|---------|---------|---|
| Return on Equity<br>(Net Income (Loss) Divided by Total Equity) | 152.32% | 204.91% | Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital.                      |
|   |         |         | The decrease in the ratio from 204.91% to 152.32% is attributable to the increase in stockholders' equity as a result of higher comprehensive income in 2016. |

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

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

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

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

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

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

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



- (v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- v.a The continued decline in the construction industry resulted to the Company's incurrence of severe losses from the said operation. Thus, to prevent from suffering greater losses as it had experienced for the last several years, Management decided to veer away with the construction business (since 2002) and focus on its tollways operation.
  - v.b. The turn over of the North Luzon Tollway operations to the MNTC on February 10, 2005 had affected the revenue generating capacity of the Company.
  - v.c. The hand-over of the South Luzon Tollway operation to the SLTC on May 02, 2010 likewise had an unfavorable impact on the Company's revenue.
  - v.d The Supreme Court decision, in Ernesto B. Francisco vs. TRB, PNCC et. al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al. (G.R. No. 178158, December 04, 2009), ruled and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the National Government (NG) at no cost and, consequently, this inevitably resulted in the latter's owning too of the toll fees and the net income derived after May 01, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

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

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

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

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

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

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

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

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

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

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

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

*Rental income* increased by ₱10.902 million or 11.26% from ₱96.839 million as of December 31, 2015 to ₱107.741 million as of December 31, 2016 due to increase in rental rate per sq.m. in the leased FCA property.

*Service Income* increased by ₱31.000 million or 291.69% from ₱10.628 million as of December 31, 2015 to ₱41.627 million as of December 31, 2016 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

*Cost of Services* increased by ₱21.824 million or 265.71% from ₱8.213 million as of December 31, 2015 to ₱30.037 million as of December 31, 2016 due mainly to the increase in service income from supply of manpower services to Skyway O&M Corporation.

*General and administrative overhead* increased by ₱623.615 million or 254.60% from ₱244.934 million for the year ended December 31, 2015 to ₱868.549 million for the year ended December 31, 2016 due mainly to the depreciation of property, plant and equipment and regularization of contractual employees. No major allowances were provided for 2016.

*Other income (charges)* increased by ₱223.22 million or 1028.04% from ₱21.713 million as of December 31, 2014 to ₱244.934 million as of December 31, 2015 primarily due to the recognized "free-carry" equity shares in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI).

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

### **Results of Operations**

**Revenue.** Revenue for the year ended December 31, 2015 stood at ₦227.693 million, higher by 17.91% or ₦34.581 million compared to ₦193.112 million for the year ended December 31, 2014. The increase was mainly attributable to the recognized revenue and dividend share from the Joint Venture Companies and rental income from the leased Financial Center Area (FCA) property.

**General and Administrative Overhead.** Overhead account decreased by 63.95% or ₦112.343 million from ₦175.686 million for the year ended December 31, 2014 to ₦63.343 million for the year ended December 31, 2015 due mainly to the provision of allowance for doubtful accounts made in 2014. No major allowances were provided for 2015.

**Income from Operation.** Income from operation for the year ended December 31, 2015 increased by ₦138.711 million, higher by 796.01% or ₦156.137 million compared to the December 31, 2014 figure of ₦17.426 million. Said favorable variance was the resulting effect of the reasons discussed above.

**Other Income (Charges).** This account posted a balance of ₦244.934 million for the year ended December 31, 2015 compared to the amount of ₦21.713 million for the year ended December 31, 2014. The increase was mainly due to the recognition of gain in change in fair value of investment property account in 2015.

**Net Income (Loss).** Net Comprehensive Income for the year ended December 31, 2015 amounted to ₦235.178 million compared to the net loss of ₦218.863 million for the year ended December 31, 2014. The favorable variance was likewise due to the recognition of the gain in change in fair value of investment property and the favorable increase in Revenue.

### **Financial Position**

**Current Assets.** Current assets increased by 29.26% or ₦252.757 million from ₦863.688 million as of December 31, 2014 to ₦1.116 billion as of December 31, 2015 mainly due to the cash flows provided by the Company's operating and investing activities.

**Current Liabilities.** Current liabilities increased by 2.89% or ₦263.389 million from ₦9.127 billion as of December 31, 2014 to ₦9.391 billion as of December 31, 2015 mainly due to the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB).

**Stockholder's Equity (Capital Deficiency).** Stockholder's equity improved to ₦87.272 million as of December 31, 2015 against a Capital deficiency as of December 31, 2014 of ₦146.995 million. The significant increase in the account is mainly attributable to the recognized gain in change in fair value of investment property in 2015.



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

| Performance Indicators   | As of      |                             | Explanation  |
|--|------------|-----------------------------|--|
|  | 12/31/2015 | 12/31/2014<br>(As Restated) |  |
| <b>Current/Liquidity Ratios</b>                                      |            |                             |  |
| <b>Current Ratio</b> (Current Assets Divided by Current Liabilities) | 0.12       | 0.095                       | <p>This ratio evaluates the ability of the company to pay its current debt promptly.</p> <p>Current ratio of 0.12 as of December 31, 2015 is an improvement from 2014 of 0.095 mainly due to additional operating revenues and the liquidation of 50% investment in a subsidiary.</p>  |
| <b>Solvency Ratios</b>   |            |                             |  |
| <b>Debt to Assets</b> (Total Liabilities Divided by Total Assets)    | 99.33%     | 101.18%                     | <p>Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts.</p> <p>The ratio has improved from 101.18% as of December 31, 2014 to 99.33% as of December 31, 2015. This improvement was caused by additional operating revenues that offset the yearly 2% penalty charges on unpaid concession fees.</p>  |
| <b>Debt to Equity</b> (Total Liabilities Divided by Total Equity)    | 14867.87%  | -8554.95%                   | <p>Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business.</p> <p>The ratio of 14867.87% as of December 31, 2015 vis-à-vis the negative ratio of -8554.95% as of December 31, 2014 resulted mainly from the reversal of the capital deficiency balance of ₱146,995 million as of December 31, 2014 to a positive stockholders' equity of ₱87,272 million as of December 31, 2015.</p> |
| <b>Asset to Equity Ratio</b> (Total Assets Divided by Total Equity)  | 14967.87%  | -8454.95%                   | <p>Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts.</p> <p>The significant improvement of the ratio from -8454.95% as of December 31, 2014 to a positive ratio of 14967.87% as of December 31, 2015 is due to the aforesaid reversal of the capital deficiency balance to a positive stockholder's equity.</p>   |
| <b>Interest Rate Coverage Ratio</b> (Income Before Interest/Penalty) | 1.55       | 0.15                        | <p>Determines how easily a company can pay interest on outstanding debt.</p> <p>The ratio increased from 0.15 as of December 31, 2014 to 1.55 as of December 31, 2015 due to recognition of income resulting from the gain in change in fair value of investment property for the year ended 2015.</p>   |
| <b>Profitability Ratios</b>  |            |                             |  |
| <b>Return on Assets</b> (Net Income (Loss) Divided by Total Assets)  | 1.80%      | -1.76%                      | <p>Measures the Company's earnings in relation to all the resources it had at its disposal.</p> <p>The ratio of 1.80% as of December 31, 2015 vis-à-vis the negative ratio of -1.76% resulted from the recognition of comprehensive income for the period ended December 31, 2015 in the amount of ₱235,178 million (mainly due to the gain in change in fair value of investment property and movement in revaluation increment) against the net loss of ₱218.863 as of December 31, 2014.</p>                                  |
| <b>Return on Equity</b> (Net Income (Loss) Divided by Total Equity)  | 269.48%    | -148.89%                    | <p>Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital</p> <p>The increase in the ratio from -148.89% to 269.48% is attributable to the reversal of the capital deficiency for the year ended December 31, 2014 to a positive stockholder's equity in December 31, 2015.</p>   |

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

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

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

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

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

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

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

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

(xii) There are no material commitments for capital expenditures.

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

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

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

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

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

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

(xiv) There are no significant elements of income or loss that did not arise from the Company's continuing operations.

(xv) There are no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.

(xvi) **Material changes to the Company's Statement of Financial Position as of December 2015 compared to December 31, 2014 (increased/decrease of 5% or more)**

*Cash and cash equivalents* increased by ₱295.096 million or 74.02% from ₱398.644 million as of December 31, 2014 to ₱693.740 million as of December 31, 2015 due to the cash flows provided by the Company's operating and financing activities.

*Accounts Receivable – contract related receivables* increased by ₱11.597 million or 9.63% from ₱120.413 million as of December 31, 2014 to ₱132.01 million as of December 31, 2015, due to the inclusion of the former DCBGSI, a wholly-owned subsidiary, operations giving manpower to SOMCO and construction projects for Philphos projects.



*Accounts Receivable – other accounts receivable decreased by ₱60.50 million or 86.73% from ₱69.757 million to ₱9.255 million due mainly to the reclassification of account from receivable from BIR to deferred tax assets and the reversal to prior period adjustments of 2008-2010 prescribed MCIT payments.*

*Accounts receivable-subsidaries and affiliates increased by ₱.486 million or 5.5% from ₱8.8 million as of December 31, 2014 to ₱ 9.287 million as of December 31, 2015. This is mainly due to additional accommodations to its subsidiary, DCBGSI.*

*Prepayments - prepayments increased by ₱5.521 million or 148.48% from ₱3.718 million as of December 31, 2014 to ₱9.240 million as of December 31, 2015 due to an increase of applicable creditable withholding taxes.*

*Prepayments - Inventories decreased by ₱2.690 million or 42.37% from ₱6.348 million as of December 31, 2014 to ₱ 3.658 million as of December 31, 2015 due to the recognition of Allowance for inventory write-down for obsolete and expired inventory set aside for disposal.*

*Investments – investment in stocks decreased by ₱127.5 million or 47.66% from ₱267.5 million as of December 31, 2014 to ₱140 million as of December 31, 2015 due to the liquidation of 50% investments in Alabang-Sto. Tomas Development Inc. (ASDI)*

*Property and equipment increased by ₱224.110 million or 39.80% from ₱563.070 million as of December 31, 2014 to ₱787.181 million as of December 31, 2015 due to an appraisal to fair market value of its Bicutan Property.*

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

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

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

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

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

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

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

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

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

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

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

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

## **Year End 2014(as restated)vs. Year End 2013 (as restated)**

### **Results of Operations**

**Revenue.** Revenue for the year ended December 31, 2014 stood at ₦193.111 million, higher by 31.54% or ₦46.301 million compared to ₦146.810 million for the year ended December 31, 2013. The increase was mainly attributable to the recognized revenue and dividend share from the Joint Venture Companies and rental income from the leased Financial Center Area (FCA) property.

**General and Administrative Overhead.** Overhead account increased by 136.02% or ₦101.249 million from ₦74.436 million for the year ended December 31, 2013 to ₦175.685 million for the year ended December 31, 2014 due mainly to the provision of allowance for doubtful accounts.

**Income from Operation.** Income from operation for the year ended December 31, 2014 stood at ₦17.426 million, lower by 75.92% or ₦54.948 million compared to the December 31, 2013 figure of ₦72.374 million. Said unfavorable variance was the resulting effect of the reasons discussed above.

**Other Income (Charges).** This account posted a decrease in the balance of ₦21.713 million for the year ended December 31, 2014 compared to the amount of ₦2.604 billion for the year ended December 31, 2013. This was mainly due to the recognition of gain in change in fair value of investment property account in 2013.

**Net Income (Loss).** Net loss for the year ended December 31, 2014 amounted to ₦218.863 million compared to the net comprehensive income of ₦1.653 billion for the year ended December 31, 2013. The unfavorable variance was likewise due to the recognition of the gain in change in fair value of investment property as discussed above.

### **Financial Position**

**Current Assets.** Current assets increased by 2.54% or ₦21.371 million from ₦842.317 million as of December 31, 2013 to ₦863.689 million as of December 31, 2014 mainly due to the cash flows provided by the Company's operating and investing activities.

**Current Liabilities.** Current liabilities increased by 2.84% or ₦251.801 million from ₦8.875 billion as of December 31, 2013 to ₦9.127 billion as of December 31, 2014 mainly due to the accrual of the 2% penalty charges on unpaid concession fee payable to the Toll Regulatory Board (TRB).

**Stockholder's Equity (Capital Deficiency).** Capital deficiency as of December 31, 2014 totalled ₦146.995 million vis-à-vis the stockholders' equity as of December 31, 2013 in the amount of ₦114.864 million. The significant decrease in the account is mainly attributable to the recognized gain in change in fair value of investment property in 2013.



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

| Performance Indicators  | As of      |                             | Explanation   |
|---|------------|-----------------------------|---|
|   | 12/31/2014 | 12/31/2013<br>(As Restated) |   |
| <b><u>Current/Liquidity Ratios</u></b>                                      |            |                             |   |
| <b><u>Current Ratio</u></b> (Current Assets Divided by Current Liabilities) | 0.095      | 0.095                       | This ratio evaluates the ability of the company to pay its current debt promptly.<br>Current ratio of 0.095 as of December 31, 2013 is maintained as of December 31, 2014.  |
| <b><u>Solvency Ratios</u></b>   |            |                             |   |
| <b><u>Debt to Assets</u></b> (Total Liabilities Divided by Total Assets)    | 101.18%    | 99.08%                      | Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts.<br><br>The ratio increased from 99.08% as of December 31, 2013 to 101.18% as of December 31, 2014 brought about mainly by the accrual of the 2% penalty charges on unpaid concession fee.  |
| <b><u>Debt to Equity</u></b> (Total Liabilities Divided by Total Equity)    | -8554.95%  | 10731.37%                   | Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business.<br><br>The ratio of 10731.37% as of December 31, 2013 vis-à-vis the negative ratio of 8554.95% as of December 31, 2014 resulted mainly from the reversal of the equity balance of ₱114.864 million as of December 31, 2013 to a capital deficiency of ₱146.995 million as of December 31, 2014.  |
| <b><u>Asset to Equity Ratio</u></b> (Total Assets Divided by Total Equity)  | -8454.95%  | 10831.37%                   | Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts.<br><br>The significant decrease of the ratio from 10831.37% as of December 31, 2013 to a negative ratio of 8454.95% as of December 31, 2014 is due to the aforesaid reversal of the equity balance to a capital deficiency balance.  |
| <b><u>Interest Rate Coverage Ratio</u></b> (Income Before Interest/Penalty) | 0.15       | 10.423                      | Determines how easily a company can pay interest on outstanding debt.<br><br>The ratio decreased from 10.423 as of December 31, 2013 to 0.15 as of December 31, 2014 due to recognition of income resulting from the gain in change in fair value of investment property for the year ended 2013.   |
| <b><u>Profitability Ratios</u></b>  |            |                             |   |
| <b><u>Return on Assets</u></b> (Net Income (Loss) Divided by Total Assets)  | -1.76%     | 13.29%                      | Measures the Company's earnings in relation to all the resources it had at its disposal.<br><br>The ratio of 13.29% as of December 31, 2013 vis-à-vis the negative ratio of 1.76% resulted from the incurrence of loss of ₱218.863 million for the reporting period compared with the recognized income of ₱1.653 billion for the year ended 2013 improved due to the recognition of comprehensive income for the period ended December 31, 2013 in the amount of ₱1.642 billion (mainly due to the gain in change in fair value of investment property). |
| <b><u>Return on Equity</u></b> (Net Income (Loss) Divided by Total Equity)  | -148.89%   | 1439.05%                    | Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital<br><br>The decrease in the ratio from 1439.05% to a negative 148.89% is attributable to the incurrence of loss and capital deficiency for the year ended December 31, 2014.   |

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

i.a The Company's inability to settle its outstanding obligations with the Toll Regulatory Board and the National Government brought about by the difficulties in collecting its receivables from various government agencies.

i.b Pending labor cases which consists of those filed against the Company involving dismissal, backwages, and separation pay. Most of these cases have been ruled by the Labor Arbiter in favor of the complainants, pending appeal by the Company before the National Labor Relation Commission (NLRC).

i.c Pending civil cases which consists of those filed against the Company involving damages, collection of money, and attorney's fees which are still on litigation before the various regional Trial Courts (RTC).

i.d Pending assessments on deficiency taxes. Discussion is contained under Note 24 of the 2014 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

Having encountered this liquidity concern, the Company implemented a program of manpower rightsizing in 2001 and has been pursued gradually during the year. The program will be considered in the succeeding years until the Company attains manpower complement to match its present revenue level which in 2014 was generated from its 10% revenue share from Joint Venture Companies and its earnings from leased FCA property.

The Company intends to pay all recognized debts using the proceeds from the sale of the FCA property. The Board will come up with the terms of the proposed sale subject to required approvals.

The Company asserts the contracted participation in the Joint Venture's Skyway Stage 3 and C6 Projects. Partnership with PT Citra Lamtoro for the implementation of the Metro Manila Expressway or C6 and Metro Manila Skyway Stage 3 and the completion and commercial operation thereof, are projected to generate incremental revenues for the Company at commercial operation on revenue sharing basis for both Project Roads. The revenue scenario best rests on the policy directions intended by the Board and the NG through the PMO/DOF as the disposition entity. Discussion, in details, is presented under Note 2 of the 2014 Audited Financial Statements.

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

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

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

- (xx) There are no material commitments for capital expenditures.
- (xxi) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

- v.a The continued decline in the construction industry resulted to the Company's incurrance of severe losses from the said operation. Thus, to prevent from suffering greater losses as it had experienced for the last several years, Management decided to veer away with the construction business (since 2002) and focus on its tollways operation.
- v.b. The turn over of the North Luzon Tollway operations to the MNTC on February 10, 2005 had affected the revenue generating capacity of the Company.
- v.c. The hand-over of the South Luzon Tollway operation to the SLTC on May 02, 2010 likewise had an unfavorable impact on the Company's revenue.
- v.d The Supreme Court decision, in Ernesto B. Francisco vs. TRB, PNCC et. al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al. (G.R. No. 178158, December 04, 2009), ruled and declared that with the expiration of PNCC's franchise, the toll assets and facilities of PNCC were automatically turned over, by operation of law, to the National Government (NG) at no cost and, consequently, this inevitably resulted in the latter's owning too of the toll fees and the net income derived after May 01, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

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

- (xxii) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (xxiii) There are no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.
- (xxiv) **Material changes to the Company's Statement of Financial Position as of December 2014 compared to December 31, 2013 (increased/decrease of 5% or more)**

*Cash and cash equivalents* increased by ₱217.521 million or 120.09% from ₱181.124 million as of December 31, 2013 to ₱398.645 million as of December 31, 2014 due to the cash flows provided by the Company's operating and financing activities.



*Billed contract receivables* decreased by ₱24.905 million or 17.14% from ₱145.318 million as of December 31, 2013 to ₱120.414 million as of December 31, 2014, due mainly from the collection of its work accomplishments from the Alabang-Sto. Tomas Development, Inc. (ASDI).

*Accounts receivable-subsiidiaries and affiliates* decreased by ₱88.669 million or 90.97% from ₱97.469 million as of December 31, 2013 to ₱8.800 million as of December 31, 2014. This is mainly due from the Company's collection of its account from one of its subsidiaries, DCBGSi.

*Other accounts receivable* decreased by ₱66.074 million or 48.64% from ₱135.832 million as of December 31, 2013 to ₱69.757 million as of December 31, 2014 resulting mainly from the reclassification of the amount representing the carry forward benefit of unused tax credits from Other accounts receivable-BIR to deferred tax assets.

*Prepayments* decreased by ₱12.637 million or 77.27% from ₱16.356 million as of December 31, 2013 to ₱3.719 million as of December 31, 2014 due to the reduction in prepaid income tax account and/or application of creditable withholding taxes.

*Accounts receivable-trade* decreased by ₱74.230 million or 59.34% from ₱125.109 million as of December 31, 2013 to ₱50.879 million as of December 31, 2014 mainly due to the provision of allowance for doubtful accounts.

*Deferred charges* increased by ₱34.930 million or 241.66% from ₱14.454 million as of December 31, 2013 to ₱49.384 million as of December 31, 2014 due mainly to the reclassification of account from receivable from BIR to deferred tax assets.

*Other assets* decreased by ₱0.645 million or 57.79% from ₱1.117 million as of December 31, 2013 to ₱0.471 million as of December 31, 2014 due to closing of various dormant bank accounts.

*Accounts payable* decreased by ₱11.284 million or 29.36% from ₱38.431 million as of December 31, 2013 to ₱27.147 million as of December 31, 2014 due to payments of accounts with the suppliers.

*Accrued expenses* increased by ₱3.583 million or 148.02% from ₱2.421 million as of December 31, 2013 to ₱6.004 million as of December 31, 2014 due to the accrual of the employee benefits and unpaid accounts to suppliers of goods and services that are normally settled within twelve (12) months from the reporting period.

*Customers deposit* increased by ₱2.001 million or 20.16% from ₱9.925 million as of December 31, 2013 to ₱11.926 million as of December 31, 2014 due to advance rental deposits from new tenants in the leased FCA property in Pasay.

*Stockholders equity* decreased by ₱218.863 million or 190.54% from ₱114.864 million as of December 31, 2013 to a capital deficiency of ₱146.995 million as of December 31, 2014 due to the recognized gain in change in fair value of investment property in 2013.

**Material changes to the Company's Statement of Income for the year ended December 31, 2014 compared to the year ended December 31, 2013 (increase/decrease of 5% or more)**

*Revenue and dividend share from joint venture companies* increased by ₦20.768 million or 24.40% from ₦85.102 million as of December 31, 2013 to ₦105.870 million as of December 31, 2014 due to CMMTC's declaration and payment of dividend.

*Rental income* increased by ₦25.534 million or 41.37% from ₦61.708 million as of December 31, 2013 to ₦87.242 million as of December 31, 2014 due to contracts entered with new tenants in the leased FCA property.

*General and administrative overhead* increased by ₦101.250 million or 136.02% from ₦74.436 million for the year ended December 31, 2013 to ₦175.686 million for the year ended December 31, 2014 due mainly to the provision of allowance for doubtful accounts.

*Other income charges* decreased by ₦2.583 billion or 99.16% from ₦2.604 billion as of December 31, 2013 to ₦21.713 million as of December 31, 2014 primarily due to the recognition of gain in change in fair value of investment property in 2013.

## SIGNATURES

Pursuant to the requirement of Section 17 of the Corporation Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Parañaque on AUG 01 2017.

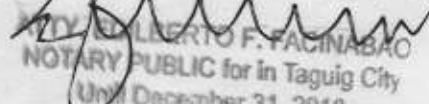
By:



**MIRIAM M. PASETES**  
Principal Financial Officer

SUBSCRIBED AND SWORN to before me this AUG 01 2017 day of August 2017, in City of TAGUIG CITY, affiant exhibiting to me her Government issued I.D. SSS no. 03-284-665-1.

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Book No. 2017  
Page No. 18  
Series of 2017



NOTARY PUBLIC for in Taguig City  
Until December 31, 2018  
IBP O.R. No. 1051199 / 11-15-16  
PTR No. A - 32170351 / 01-03-2017  
MCLE Compliance No. V - 0024433  
IBP Roll No. 29548  
L.C. / City, Cora. Luna St., Tuktukan Taguig





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

## **ANNUAL AUDIT REPORT**

on the

# **PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**

**For the Year Ended December 31, 2016**

## **EXECUTIVE SUMMARY**

### **Introduction**

The Philippine National Construction Corporation (PNCC), 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 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 LOI 1295 promulgated on February 23, 1983 gave the Government majority ownership of the Company.

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

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

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

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

### **Scope and Objectives of Audit**

The audit covered the accounts, transactions and operations of PNCC for calendar years 2016 and 2015. It was aimed at expressing an opinion on the financial statements, and at determining the Company's compliance with pertinent laws, rules and regulations, as well as the efficiency and economy of operations.

## Financial Highlights

### Comparative Financial Position (In million pesos)

|             | 2016       | 2015       | Increase<br>(Decrease) |
|-------------|------------|------------|------------------------|
| Assets      | 13,530,533 | 13,090,330 | 440,203                |
| Liabilities | 12,677,199 | 12,975,558 | (298,359)              |
| Equity      | 853,334    | 114,772    | 738,562                |

### Comparative Results of Operations (In million pesos)

|                    | 2016      | 2015    | Increase<br>(Decrease) |
|--------------------|-----------|---------|------------------------|
| Revenue            | 1,166,124 | 633,061 | 533,063                |
| Employee Costs     | 36,852    | 32,472  | 4,380                  |
| Operating expenses | 322,096   | 297,086 | 25,010                 |
| Profit before tax  | 807,176   | 303,503 | 503,673                |
| Income tax expense | 69,855    | 68,325  | 1,530                  |
| Net profit         | 737,321   | 235,178 | 502,143                |

## Independent Auditor's Report on the Financial Statements

We rendered an adverse opinion on PNCC's financial statements due to the recognition of the unconverted debts as equity and the non-recognition of accrued interests and charges thereon resulting in the understatement as of December 31, 2016 and 2015, respectively, of the following: accumulated deficit by P58.060 billion and P55.084 billion, total liabilities by P63.612 billion and P60.636 billion, and capital deficiency by P63.612 billion and P60.636 billion.

## Summary of Observations and Recommendations

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

1. Weaknesses in internal control and other lapses noted relative to the leasing of PNCC properties

We recommended that Management:

- a) Ensure that all PNCC properties being rented out are covered by lease agreements;
- b) Consider providing the term of lease for at least six months instead of month-to-month basis, and require lessees to provide post-dated checks corresponding to the whole period of the lease to facilitate the timely receipt of monthly rental and avoid the incurrence of unnecessary cost;



- c) Prepare and send timely and accurate Statement of Account to each lessee;
- d) Review the accuracy of the computation of interest due on delayed payments taking into consideration the provisions of the lease agreement. Prepare the necessary adjustments;
- e) Ensure that subsidiary ledgers are updated;
- f) Designate one personnel to review all lease agreements, continuously monitor compliance by lessees to the provisions of the terms and conditions of the agreement, ensure that billings/SOAs are promptly sent, track the corresponding payments received thereof, and prepare monthly collection reports;
- g) In case payments from lessees are not received on time, follow up payment through telephone calls, electronic means or personal visitation and send notices of collection on past due accounts;
- h) Reconcile discrepancies noted, if any, between the balances per books and the balances per debtors' records; and
- i) Coordinate with the supplier of Quickbooks and arrange for the training of accounting personnel to fully utilize the software that will facilitate and lighten the workload of the Controllorship Department.

## 2. Weaknesses in internal control noted over property and equipment

We recommended that Management:

- a) Conduct an annual physical count of PNCC's property and equipment;
- b) Account for any missing item and determine persons accountable;
- c) Establish the physical condition and determine whether any adjustment is necessary to state the property and equipment at their recoverable amounts;
- d) Formulate a written policy prescribing the rules and procedures on transactions involving computer instruments;
- e) Investigate the variance between the inventory count sheet and accounting records;
- f) Determine the personnel accountable for the missing items of computer instruments;
- g) Take the necessary legal action to collect the receivables from the former PNCC Director;
- h) Strictly observe the procedures provided in PNCC's Controller's Manual;

- i) Encourage close coordination among the PNCC's different units/departments; and
  - j) Conduct regular reconciliation of the financial data maintained by the Controllershship Department with the non-financial data/records maintained by the operating units such as GSD and MIS.
3. PNCC not fully compliant with the provisions of RA 9184

We recommended that Management:

- a) Adhere to the provisions of RA 9184;
- b) Prepare an updated/revised Procurement Manual which is RA 9184-compliant and submit the same to the PNCC Board of Directors for approval; and
- c) Require PNCC personnel undertaking the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities/documentation with the requirements of RA 9184.

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

As of December 31, 2016, the unsettled Notices of Disallowance(ND) amounted to P522.447 million, as follows:

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

#### **Status of Implementation of Prior Year's Audit Recommendations**

Out of the 10 prior year's recommendations, three were implemented, two were partially implemented and five were not implemented.



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

## INDEPENDENT AUDITOR'S REPORT

### THE BOARD OF DIRECTORS

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Philippine National Construction Corporation (PNCC), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

|                                     |                  |
|-------------------------------------|------------------|
| BUREAU OF INTERNAL VENUE            |                  |
| LARGE TAXPAYERS SERVICE             |                  |
| LARGE TAXPAYERS ASSISTANCE DIVISION |                  |
| Date                                | JUL 11 2017 SCES |
| ELMER B. TANAY                      |                  |



### *Basis for Adverse Opinion*

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

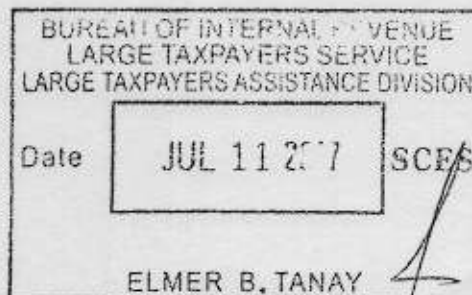
Due to their conflicting positions, the parties submitted the issue to the Department of Justice (DOJ) in 2012 for arbitration. In 2014, the DOJ dismissed PNCC's petition against the PMO and ordered the former to pay the latter its due and demandable obligation inclusive of interests and penalties until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

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

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

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

The recognition of the unconverted debts as equity and the non-recognition of accrued interests and charges thereon resulted in the understatement as of December 31, 2016 and 2015, respectively, of the following: accumulated deficit by P58.060 billion and P55.084 billion, total liabilities by P63.612 billion and P60.636 billion, and capital deficiency by P63.612 billion and P60.636 billion.



### *Adverse Opinion*

In our opinion, because of the significance of the matters discussed in the *Basis for Adverse Opinion* section of our report, the financial statements do not present fairly, in all material respects, the financial position of PNCC as at December 31, 2016 and 2015, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

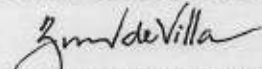
### *Emphasis of Matter*

We draw attention to Notes 2, 28 and 29 to the financial statements which discuss matters pertaining to PNCC's going concern status, the Bureau of Internal Revenue assessments on PNCC's deficiencies in various taxes, and the uncertainties relating to the outcome of the various pending lawsuits and litigations the PNCC is involved in. Because of the significance of the matters described in the *Basis for Adverse Opinion* section of our report, it is inappropriate to and we do not express an opinion on the information referred to above.

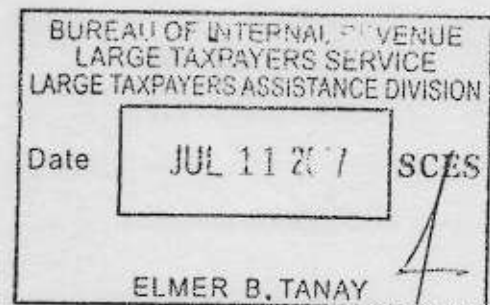
### **Report on Supplementary Information Required Under BIR Revenue Regulations 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 33 to the financial statements is presented for purposes 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. Because of the significance of the matters described in the *Basis for Adverse Opinion* section of our report, 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

April 7, 2017





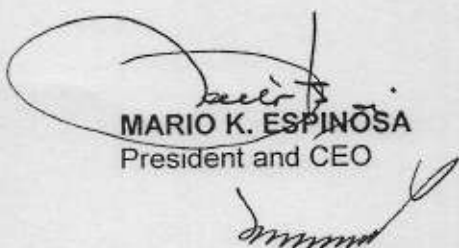
**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

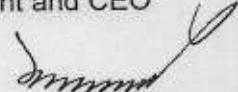
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**

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, 2016. 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, 2016 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.

  
**MARIO K. ESPINOSA**  
President and CEO

  
**MIRIAM M. PASETES**  
Vice President, Head - Treasury

|                                     |             |
|-------------------------------------|-------------|
| BUREAU OF INTERNAL REVENUE          |             |
| LARGE TAXPAYERS SERVICE             |             |
| LARGE TAXPAYERS ASSISTANCE DIVISION |             |
| Date                                | JUL 11 2017 |
| ELMER B. TANAY                      |             |





**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

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


The Management of Philippine National Construction Corporation is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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


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

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

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

  
**ELPIDIO C. JAMORA, JR.**  
Chairman of the Board

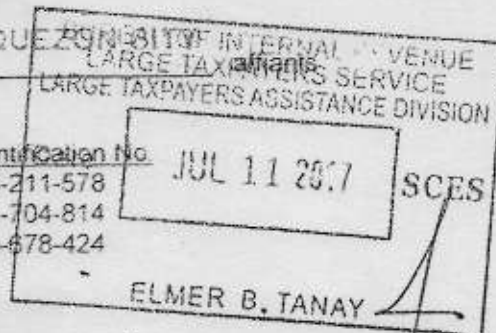
  
**MARIO K. ESPINOSA**  
President

  
**MIRIAM M. PASETES**  
Vice President, Head - Treasury

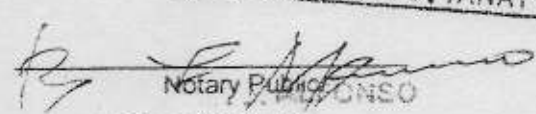
SUBSCRIBED AND SWORN to before me this APR 07 2017 day of QUEZON CITY,  
exhibiting to me their Tax Identifications, as follows.

| Names                  |
|------------------------|
| Elpidio C. Jamora, Jr. |
| Mario K. Espinosa      |
| Miriam M. Pasetes      |

| Tax Identification No. |
|------------------------|
| 103-211-578            |
| 124-704-814            |
| 120-678-424            |



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Page No 8  
Book No 131  
Series of 2017

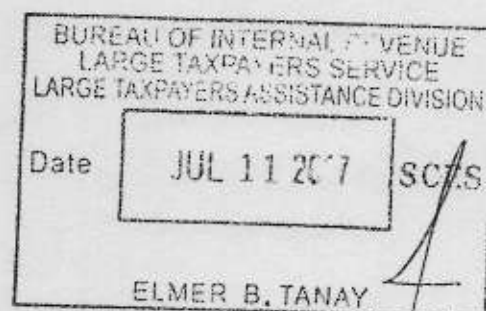
  
Notary Public  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2017  
PTR. NO. 3300048 - TIGAYON QUEZON CITY  
IBP NO. 1090576 - TIGAYON QUEZON CITY  
NOTARY PUBLIC  
ADM. DIVISION - TIGAYON (2017-2018)  
REG. NO. 1090576 - TIGAYON (2017-2018)

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2016 and 2015  
(In Philippine Peso)



|  | Notes        | December 31,<br>2016  | December 31<br>2015<br>(As Restated) | January 1<br>2015<br>(As Restated) |
|--|--------------|-----------------------|--------------------------------------|------------------------------------|
| <b>ASSETS</b>  |              |                       |                                      |                                    |
| <b>Current Assets</b>                                |              |                       |                                      |                                    |
| Cash and cash equivalents                            | 4.3, 6       | 490,718,321           | 693,740,491                          | 398,644,597                        |
| Accounts receivable                                  | 4.15, 7      | 327,180,356           | 365,539,337                          | 412,077,364                        |
| Receivables from officers and employees              | 4.15, 8      | 43,642,903            | 44,267,803                           | 42,899,957                         |
| Prepayments  | 4.16, 9      | 18,007,204            | 12,898,230                           | 10,066,593                         |
|  |              | <b>879,548,784</b>    | <b>1,116,445,861</b>                 | <b>863,688,511</b>                 |
| <b>Non-Current Assets</b>                            |              |                       |                                      |                                    |
| Investments  | 4.17, 10, 31 | 926,950,952           | 172,444,252                          | 300,984,252                        |
| Investment property                                  | 4.18, 11     | 10,669,948,000        | 10,669,948,000                       | 10,442,198,155                     |
| Property and equipment, net                          | 4.19, 12     | 780,275,072           | 787,180,979                          | 563,070,872                        |
| Other assets, net                                    | 13           | 273,810,053           | 344,310,696                          | 285,939,538                        |
|  |              | <b>12,650,984,077</b> | <b>11,973,883,927</b>                | <b>11,592,192,817</b>              |
| <b>TOTAL ASSETS</b>                                  |              | <b>13,530,532,861</b> | <b>13,090,329,788</b>                | <b>12,455,881,328</b>              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>          |              |                       |                                      |                                    |
| <b>Current Liabilities</b>                           |              |                       |                                      |                                    |
| Accounts payable and accrued expenses                | 14           | 61,643,060            | 50,462,850                           | 45,075,986                         |
| Due to national government and its instrumentalities | 15           | 7,829,001,816         | 8,137,299,616                        | 7,879,297,416                      |
| Due to government-owned or controlled corporations   | 16           | 1,203,000,000         | 1,203,000,000                        | 1,203,000,000                      |
|  |              | <b>9,093,644,876</b>  | <b>9,390,762,466</b>                 | <b>9,127,373,402</b>               |
| <b>Non-Current Liabilities</b>                       |              |                       |                                      |                                    |
| Deferred tax liabilities                             | 27           | 3,408,692,673         | 3,409,933,250                        | 3,273,141,560.00                   |
| Other payables                                       | 17           | 174,861,629           | 174,861,629                          | 174,861,629.00                     |
|  |              | <b>3,583,554,302</b>  | <b>3,584,794,879</b>                 | <b>3,448,003,189.00</b>            |
| <b>Stockholders' Equity</b>                          |              | <b>853,333,683</b>    | <b>114,772,443</b>                   | <b>(119,495,263.00)</b>            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |              | <b>13,530,532,861</b> | <b>13,090,329,788</b>                | <b>12,455,881,328</b>              |

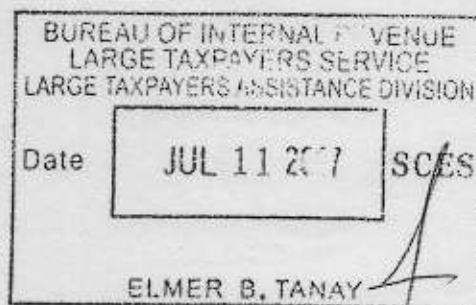
See accompanying Notes to Financial Statements.



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

|   | Notes    | December 31,<br>2016 | December 31,<br>2015 |
|---|----------|----------------------|----------------------|
| <b>REVENUES</b>   |          |                      |                      |
| Revenue and dividend share from Joint Venture Companies | 4.15, 21 | 148,206,650          | 120,226,215          |
| Rental income   | 4.15, 22 | 107,740,620          | 96,839,025           |
| Service Income  | 4.15, 23 | 41,627,300           | 10,627,519           |
| <b>TOTAL REVENUES</b>                                   |          | <b>297,574,570</b>   | <b>227,692,759</b>   |
| <b>COST OF SERVICES</b>                                 | 24       | <b>(30,036,988)</b>  | <b>(8,213,446)</b>   |
| <b>GENERAL AND ADMINISTRATIVE OVERHEAD</b>              | 4.16, 25 | <b>(70,908,864)</b>  | <b>(63,342,573)</b>  |
| <b>INCOME FROM OPERATIONS</b>                           |          | <b>196,628,718</b>   | <b>156,136,740</b>   |
| <b>OTHER INCOME, net</b>                                | 4.15, 26 | <b>868,549,007</b>   | <b>244,934,334</b>   |
| <b>PENALTY CHARGES ON UNPAID CONCESSION FEE</b>         | 4.17, 15 | <b>(258,002,200)</b> | <b>(258,002,200)</b> |
| <b>NET INCOME BEFORE TAX</b>                            |          | <b>807,175,525</b>   | <b>143,068,874</b>   |
| <b>INCOME TAX EXPENSE</b>                               | 27       | <b>(69,854,862)</b>  | <b>(68,324,953)</b>  |
| <b>NET INCOME</b>                                       |          | <b>737,320,663</b>   | <b>74,743,921</b>    |
| <b>OTHER COMPREHENSIVE INCOME</b>                       |          |                      |                      |
| Movement in revaluation increment, net of tax           | 4.11, 27 | 0                    | 160,434,195          |
| <b>COMPREHENSIVE INCOME</b>                             |          | <b>737,320,663</b>   | <b>235,178,116</b>   |

See accompanying Notes to Financial Statements.

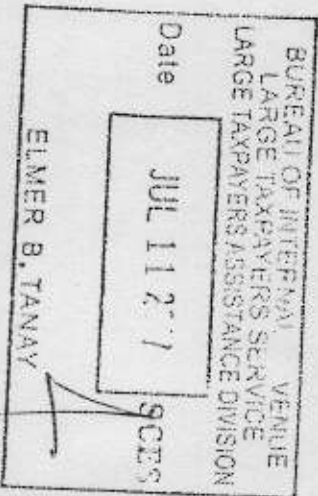




PHILIPPINE NATIONAL CONSTRUCTION CORPORATION  
STATEMENTS OF CHANGES IN EQUITY  
For the Years Ended December 31, 2016 and 2015  
(in Philippine Peso)

|   | Capital Stock<br>P10 Par Value<br>(Note 18) | Capital in<br>Excess of<br>Par Value | Subscriptions<br>Receivable<br>(Note 19) | Treasury<br>Stock | Revaluation<br>Increment<br>in Property | Equity<br>Adjustment-<br>Loans Transf.<br>to Nat'l Gov't<br>(Note 20) | Retained<br>Earnings<br>(Deficit)<br>(Note 4, 11 & 31) | Total Equity  |
|---|---|--------------------------------------|--|-------------------|---|---|--|---------------|
| Balances, December 31, 2014                     | 2,283,758,120                               | 46,137,443                           | (56,158,831)                             | (16,699,918)      | 377,332,208                             | 5,551,726,307   | (8,333,090,592)  | (146,995,263) |
| Correction of prior years' errors (Note 31)     | 0   | 0                                    | 0  | 0                 | 0                                       | 0   | 27,500,000   | 27,500,000    |
| As of January 1, 2015                           | 2,283,758,120                               | 46,137,443                           | (56,158,831)                             | (16,699,918)      | 377,332,208                             | 5,551,726,307   | (8,305,590,592)  | (119,495,263) |
| Expiration of 2012 Minimum Corporate Income Tax | 0   | 0                                    | 0  | 0                 | 0                                       | 0   | (2,767,289)  | (2,767,289)   |
| Piecemeal realization of revaluation increment  | 0   | 0                                    | 0  | 0                 | (969,251)                               | 0   | 969,251  | 0             |
| Reduction in deferred tax liability             | 0   | 0                                    | 0  | 0                 | 290,775                                 | 0   | 0  | 290,775       |
| Others  | 0   | 0                                    | 0  | 0                 | 0                                       | 0   | 1,566,104  | 1,566,104     |
| Net income                                      | 0   | 0                                    | 0  | 0                 | 0                                       | 0   | 74,743,921   | 74,743,921    |
| Other comprehensive income                      | 0   | 0                                    | 0  | 0                 | 0                                       | 0   | 0  | 0             |
| Movement in revaluation increment, net of tax   | 0   | 0                                    | 0  | 0                 | 160,434,195                             | 0   | 0  | 160,434,195   |
| Balances, December 31, 2015                     | 2,283,758,120                               | 46,137,443                           | (56,158,831)                             | (16,699,918)      | 537,087,927                             | 5,551,726,307   | (8,231,078,605)  | 114,772,443   |
| As of January 1, 2016                           | 2,283,758,120                               | 46,137,443                           | (56,158,831)                             | (16,699,918)      | 537,087,927                             | 5,551,726,307   | (8,231,078,605)  | 114,772,443   |
| Piecemeal realization of revaluation increment  | 0   | 0                                    | 0  | 0                 | (4,135,258)                             | 0   | 4,135,258  | 0             |
| Reduction in deferred tax liability             | 0   | 0                                    | 0  | 0                 | 1,240,577                               | 0   | 0  | 1,240,577     |
| Net income                                      | 0   | 0                                    | 0  | 0                 | 0                                       | 0   | 737,320,663  | 737,320,663   |
| Balances, December 31, 2016                     | 2,283,758,120                               | 46,137,443                           | (56,158,831)                             | (16,699,918)      | 534,193,246                             | 5,551,726,307   | (7,489,622,664)  | 853,333,663   |

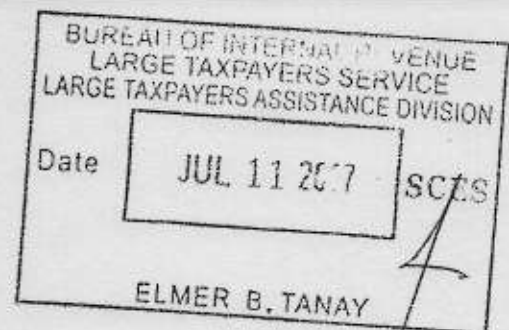
See accompanying Notes to Financial Statements.



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

|   | Note     | December 31,<br>2016 | December 31,<br>2015 |
|---|----------|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |          |                      |                      |
| Revenue share   |          | 145,315,033          | 88,930,936           |
| Rental  |          | 119,394,162          | 103,970,201          |
| Others  |          | 40,103,409           | 6,923,342            |
|   |          | <b>304,812,604</b>   | <b>199,824,479</b>   |
| Payments to:  |          |                      |                      |
| Suppliers   |          | (51,821,798)         | (38,798,833)         |
| Employees   |          | (64,183,000)         | (36,962,014)         |
| Directors   |          | (2,945,516)          | (2,629,495)          |
| Consultants/retainers                                       |          | (636,955)            | (341,883)            |
| Cash provided by operations                                 |          | <b>185,225,335</b>   | <b>121,092,254</b>   |
| Taxes and licenses  |          | (3,271,414)          | (2,748,016)          |
| Penalties   |          | (230,910)            | (600,000)            |
| Net cash provided by operating activities                   |          | <b>181,723,011</b>   | <b>117,744,238</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |          |                      |                      |
| Liquidation of ASDI investment shares                       |          | 66,300,000           | 127,500,000          |
| Dividends from investments                                  |          | 55,012,640           | 42,617,712           |
| Transfer of DISC wind-up HYSa account                       |          | 26,371,235           | 0                    |
| Proceeds from sale of fixed assets/scrap materials          |          | 23,283,267           | 905,605              |
| Interests on cash in banks and cash equivalents             |          | 10,913,760           | 5,463,149            |
| Liquidation of CESLA investment shares                      |          | 0                    | 900,000              |
| Purchase of property and equipment                          |          | (326,083)            | (34,810)             |
| Net cash provided by investing activities                   |          | <b>181,554,819</b>   | <b>177,351,656</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |          |                      |                      |
| Partial payment to the Bureau of Treasury (BTr)             |          | (566,300,000)        | 0                    |
| Net cash used in financing activities                       |          | <b>(566,300,000)</b> | <b>0</b>             |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b> |          | <b>(203,022,170)</b> | <b>295,095,894</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>       |          | <b>693,740,491</b>   | <b>398,644,597</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>             | <b>6</b> | <b>- 490,718,321</b> | <b>693,740,491</b>   |

See accompanying Notes to Financial Statements.



# PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

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

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

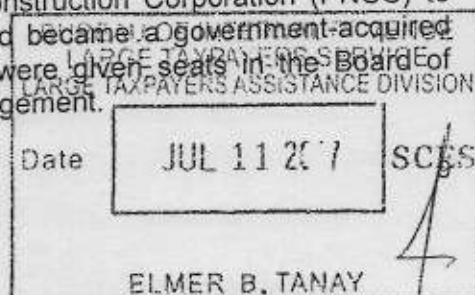
On May 7, 1981, Letter of Instruction (LOI) 1136 was issued mandating the National Development Company (NDC) to invest in the Company by way of capital infusion in the amount of P250 million.

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

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

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

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





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

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

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

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

In August 1995, the Company entered into a Business and Joint Venture Agreement (BJVA) with Indonesia's P.T. 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 Company's wholly-owned subsidiary, PNCC Skyway Corporation (PSC), originally managed the operation and maintenance of the SMMS Project. October 1999 marked the start of the full operation of the entire Skyway Stage 1.

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

In 2002, the Company, as a Government-Owned and Controlled Corporation (GOCC), was attached to the Department of Public Works and Highways (DPWH) for policy and program coordination and general supervision by virtue of Executive Order No. 148.

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

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

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

In December 2007, the Company entered into a Memorandum of Agreement (MOA) with CMMTC and PNCC Skyway Corporation (PSC) where the Company was to have been provided P2 million by CMMTC in order for the Company to subscribe to the par value up to 20 per cent of the total outstanding capital stock of the O&M company, Skyway Operation and Maintenance Corporation (SOMCO). PSC turned over the operation and maintenance of the South Metro Manila Skyway Project to SOMCO which operates the 16.2-kilometer elevated tollway from Buendia to Alabang and the 13.5-kilometer at-grade toll road from Magallanes to Alabang. The Company is awaiting the issuance of 4,864 shares of stock which will give it 8.107 per cent share in SOMCO.

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

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



Bidding of the road project was undertaken by DPWH in December 2011 and was subsequently awarded to Ayala Corporation (AC) in the same month. On April 02, 2012, a Deed of Absolute Sale was executed between ASDI and AC for the turnover of the project.

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

In 2009 and 2010, in the case of Ernesto B. Francisco vs. TRB, PNCC et. al. (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010 or the *Francisco Case*) and in the case of Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al. (G.R. No. 178158, December 04, 2009 or the *Radstock Case*), the Supreme Court (SC) ruled and declared that with the expiration of the Company's franchise, the toll assets and facilities of the Company were automatically turned over, by operation of law, to the NG at no cost and consequently, this inevitably resulted in the NG owning too the toll fees and the net income derived, after May 1, 2007 from the toll assets and facilities, including the Company's percentage share in the toll fees collected by the Joint Venture Companies (JVCs) currently operating the tollways, including NLEX and Skyway.

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

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

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

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

The Governance Commission for GOCCs (GCG), in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five (5) subsidiaries of the Company, namely: Alabang-Sto. Tomas Development Inc. (ASDI), DISC Contractors, Builders and General Services Inc. (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 Company is in the process of abolishing the five (5) subsidiaries.

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

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

In January 2016, three (3) GSIS members filed a case against the Company's Board of Directors, Members of the Board of Trustees of the GSIS and GCG seeking to enjoin the implementation of the Performance Agreement. On February 12, 2016, the Makati RTC ordered the re-raffle of the case to a commercial court.

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

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

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

The financial statements as of December 31, 2016 and 2015 and January 1, 2015 and for the years ended December 31, 2016 and 2015 were approved and authorized for issue by the Board of Directors on March 29, 2017.

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## 2. GOING CONCERN

### New Projects

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

### ***Metro Manila Skyway (MMS) Stage 3 Project***

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

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

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

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

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

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

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

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

On September 26, 2013, the STOA governing the design, construction, operation and maintenance of the SMMS-Stage 3 Project was approved by the Office of the President of the Philippines.

#### ***Metro Manila Expressway (MME) or C-6 Project***

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

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

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

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

On August 11, 2014, the STOA was approved by the Office of the President of the Philippines. The start of commercial operations of the C-6 project is expected in 2018.

#### **Revenue Shares from New Projects**

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



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

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

The Company receives the following revenue shares:

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

For 2016 and 2015, the Company received revenue shares from MNTC and SLTC in the amounts of P93.751 million and P83.803 million, respectively, while it received dividends from CMMTC amounting to P54.635 million in 2016 and P36.423 million in 2015.

#### Rental Income

Rental income is derived from renting out investment property which includes the Financial Center Area (FCA) in Pasay City, a property in Porac, Pampanga, and the PNCC compound in Bicutan, Parañaque (up to September 2015).

In 2015, the Board approved the minimum rental rate of P140 per square meter for the FCA Property. Total rent income amounted to P107.741 million and P96.839 million in 2016 and 2015, respectively.

#### Equity Participation in CMMTC

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

The Office of the Government Corporate Counsel (OGCC) rendered its opinion that the PD 1894 projects (namely the SMMS – Skyway Stage 1 and 2 and MMS Stage 3 and MME Stage 4) are "clearly covered by a still existing congressional franchise. For the same reason, too, the PD 1894 assets, facilities and shares are still held by PNCC." It is also the opinion of the Department of Justice (DOJ) that the Company still has a subsisting

non-exclusive legislative franchise under PD 1894 and that only assets "that are related to its franchise under PD 1113 have accrued to the National Government (NG) and thus, ought to be turned over to the NG."

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

The Company shares in CMMTC are worth P551.87 million which is equivalent to 8.11 per cent of total outstanding shares of CMMTC. The dividends and revenue shares from 2008 to 2016 amount to P3.066 billion of which the Company received 10 per cent or P306.64 million pursuant to the interim rules and guidelines issued by the TRB. However, it is the position of the Company that all revenue and dividends arising from its investment in CMMTC belong to the Company.

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

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

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

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

In March 2013, the Company proposed to TRB that overhead and administrative expenses plus the penalty charges be deducted from gross revenue from the Joint Venture Agreements Income in order to arrive at the Net Income to be remitted to the NG. A follow-up letter dated December 2, 2015 was sent. The Company has booked penalty charges on unpaid concession fees from 2010-2016 amounting to P1.799 billion.

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

#### Debt of P5.552 Billion Remained Unconverted to Equity

The Company's debt of P5.552 billion which remained unconverted to equity is treated as part of equity in the Company's books, instead of a liability. The interest and penalties unilaterally charged thereon by the Privatization Management Office (PMO)/ Bureau of the Treasury (BTr) amounting to P58.060 billion and P55.084 billion as of December 31, 2016 and 2015 were not taken up in the Company's books.

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

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

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

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

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

#### Payment of Company Obligation to the National Government

The Company intends to pay recognized debts using the proceeds from the sale of its investment properties. The Board approved the offer to apply part of FCA to pay liabilities to the National Government (NG). The Company sent a letter dated July 21, 2015 to the OP recognizing its liability to the NG in the amount of P7.9 billion and proposing to "pay off the recognized obligations, particularly given that the obligation to the TRB for unpaid concession fees carries with it a penalty of two percent per month." The Company is awaiting the decision of the OP.

In December 2016, the Company remitted to the NG, through the BTr, the amount of P566.3 million as partial payment for NG's outstanding share in the toll revenue for the operation of the South Luzon Expressway (SLEX) under the Toll Operation Certificate (TOC) from May 2007 to April 2010 (Note 15).



### 3. CHANGES IN ACCOUNTING POLICIES

#### Adoption of New and Revised PFRS

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments effective beginning January 1, 2016:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investment in Associate and Joint Venture - Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* – The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3, *Business Combinations*) to apply all of the business combinations accounting principles and disclosure in PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).
- Amendment to PFRS 12 – The amendment clarifies that the disclosure requirements in the standard apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with PFRS 5.
- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.
- Amendment to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendment reinstated the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

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

#### *Annual Improvements to PFRSs 2012 - 2014 Cycle*

The Annual Improvements to PFRSs 2012 - 2014 Cycle are effective for annual periods beginning on or after January 1, 2016 and do not have a material impact on the Company, unless otherwise indicated:

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal* – The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts* – PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* – This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- Amendment to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue* – This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- Amendment to PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'* – The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between

the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS, which are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the financial statements, are summarized below:

Effective for annual periods beginning on or after January 1, 2017:

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*) – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.
- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

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

- Amendments to PFRS 2, *Share-based Payment - Classification and Measurement of Share-based Payment Transactions* – The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4* – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities



to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for objective evidence of impairment to be there before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.

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

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

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

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

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Deferred effectivity

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

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

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

#### **4. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Basis of Preparation**

The financial statements are prepared on a historical cost basis, except for investment property and property and equipment which are carried at revalued amounts. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All amounts are rounded off to the nearest peso except when otherwise indicated.

##### **4.2 Statement of Compliance**

Under Commission on Audit (COA) Circular No. 2015-003 dated April 16, 2015, for the purpose of determining the applicable financial reporting framework for Government Corporations, PNCC is classified as a Government Business Enterprise (GBE). In line with this classification, the Company's financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

##### **4.3 Initial Recognition of Financial Instruments**

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets as cash and cash equivalents, loans and receivables. The Company classifies its financial liabilities into other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

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



### *Cash and cash equivalents*

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

### *Loans and receivables*

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

After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in profit or loss. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

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

### *Other financial liabilities*

Other financial liabilities pertain to issued financial instruments that are not classified or designated 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 fees 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 "Accounts and other payables" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

#### 4.4 Derecognition of Financial Instruments

##### *Financial asset*

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

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

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

##### *Financial liability*

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

#### 4.5 Impairment of Financial Assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is

measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Loans and receivables*

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

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate of the asset.

Authority to request for write-off of receivables is requested from the Commission on Audit when there is no realistic prospect of future recovery. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.



#### 4.6 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

#### 4.7 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.

Prepayments also include inventories consisting 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 writedown is provided for all non-moving/obsolete items.

#### 4.8 Investments

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

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

In a regular board meeting held on November 14, 2011, the PNCC Board resolved to comply with the mandate 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.

Available for sale equity securities (club shares) are recorded/ measured/presented at fair market value as provided for under Philippine Interpretations Committee (PIC) Q&A 6-02.

#### 4.9 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.

#### 4.10 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.

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

| Asset Type                               | Estimated Useful Lives<br>(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 is recognized in profit or loss.

#### 4.11 Revaluation Increment in Property

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. Realization of the revaluation increment is credited to "Retained Earnings" account.

The revaluation increment realized amounting to P4.135 million in 2016 and P0.969 million in 2015 are reflected in the statements of changes in equity. Piecemeal realization of the revaluation increment is effected on a yearly basis.

#### 4.12 Fair value measurement

The Company measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.



For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability.

#### 4.13 Provisions

Provisions are recognized only when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

#### 4.14 Equity

##### *Capital stock and Additional Paid-in Capital*

The Company records capital stock at par value and additional paid-in capital in excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred directly attributable to the issuance of new shares are deducted from proceeds.

##### *Treasury Shares*

Treasury shares are own equity instruments which are reacquired, are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

##### *Deficit*

Deficit pertains to accumulated losses of the Company.

#### 4.15 Revenue Recognition

##### *Revenue and Dividend Share from Joint Venture Companies (JVCs)*

Pursuant to the Supreme Court En Banc Decision, as discussed in Note 1, the Company no longer recorded the tollways income from the North and South Luzon Tollways (NLT and SLT).

Pending issuance of the Implementing Rules and Guidelines for the determination of the amounts due to the Company for its administrative expenses, the Company

recognized 10 per cent of its share from the JVCs gross toll revenues, in accordance with the interim rules and guidelines issued by TRB.

Dividend income is recognized when the Company's right to receive the payment is established.

#### *Rental Income*

Rental income from operating leases, wherein substantially all the risks and rewards of ownership are retained by the Company as a lessor, is recognized on a straight-line basis over the term of the relevant lease. The rent income is derived from the Company's properties not used in business and being leased out to third parties for a certain period, renewable under such terms and conditions as may be agreed upon by both parties.

#### *Service Income and cost*

Service income and costs are recognized on the basis of percentage of completion method.

#### *Other income*

Other income is recognized when earned.

### 4.16 General and Administrative Expenses

General and administrative expenses are expenses that arise in the course of the ordinary operations of the Company. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents and supplies. Expenses are recognized in profit or loss in the period they are incurred.

### 4.17 Borrowing Costs

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

### 4.18 Leases

Under PAS 17, *Leases*, a lease is classified as an operating lease when it does not transfer substantially all the risks and rewards incidental to ownership. The Company engages in operating lease either as lessor or lessee based on a lease agreement. Lease rentals received/paid in connection with the operating lease are recognized in profit or loss. When the Company is the lessor, rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### 4.19 Income Taxes

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. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statements of comprehensive income.

For financial reporting purposes, deferred tax assets are recognized for the carry forward benefits of unused tax credits from Net Operating Loss Carry-Over (NOLCO) and from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) to the extent that it is probable that future taxable profit will be available against which the deferred tax assets 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.

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.

#### 4.20 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 and other payables" accounts in the statements of financial position.

#### 4.21 Creditable Withholding Taxes

Creditable withholding taxes (CWT), included under "Deferred charges" account in the statements of financial position, represent the amounts withheld by customers from income payments to the Company less allowance for probable losses. CWT are deductible from income tax payable.



#### 4.22 Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

#### 4.23 Events After the Financial Reporting Date

Post year-end events up to the date when the financial statements were authorized for issue by the Board of Directors that provide additional information about the Company's position at the financial reporting date (adjusting events) are reflected in the financial statements. Any post year-end events that are non-adjusting events are disclosed in the notes to financial statements when material.

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### 5. **SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the accompanying financial statements in conformity with PFRS requires Management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The estimates and assumptions used in the accompanying financial statements are based upon Management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Estimates are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

#### Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at reporting dates that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *Estimating allowance for impairment losses on loans and receivables*

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by Management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the customer's and lessee's payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Company provides full allowance for receivables that it deems uncollectible.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for

impairment losses on receivables would increase recorded operating expenses and decrease current assets.

For the years ended December 31, 2016 and 2015, the Company recognized reversal of allowance for impairment losses amounting to P34.668 million and nil, respectively (Note 26).

## 6. CASH AND CASH EQUIVALENTS

This account consists of:

|                               | 2016               | 2015               |
|-------------------------------|--------------------|--------------------|
| Cash in banks                 | 72,632,046         | 23,880,731         |
| Cash equivalents              | 417,836,275        | 669,659,760        |
| Petty cash and revolving fund | 250,000            | 200,000            |
|                               | <b>490,718,321</b> | <b>693,740,491</b> |

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents are short-term investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term investment rates.

Interest income earned on bank deposits amounted to P10.914 million and P5.727 million for the years ended December 31, 2016 and 2015, respectively (Note 26).

## 7. ACCOUNTS RECEIVABLE

This account consists of the following:

|   | 2016               | 2015               |
|---|--------------------|--------------------|
| Advances to the Bureau of the Treasury (BTr)      | 150,000,000        | 150,000,000        |
| Contract related receivables                      | 140,003,860        | 132,010,696        |
| Accounts receivable - trade                       | 25,930,223         | 64,852,231         |
| Accounts receivable - subsidiaries and affiliates | 408,841            | 9,286,689          |
| Advances to suppliers                             | 81,758             | 76,908             |
| Advances to CESLA                                 | 15,523             | 18,789             |
| Advances for SSS/EC benefits                      | 1,920              | 38,409             |
| Other accounts receivable                         | 10,738,231         | 9,255,615          |
|   | <b>327,180,356</b> | <b>365,539,337</b> |

Advances and receivables account as of December 31, 2016 consists of the following:

- Remittances to the BTr of P150 million (P50 million in 2008 and P100 million in 2010) originally intended for application against the unpaid concession fee, but was confirmed by the BTr to have been applied against outstanding NG advances to the Company. The account is initially recorded as Advances to BTr pending clarification on the application of payment considering that no liability to BTr is recorded in the books of the Company (Notes 15 and 20).

- Contract related receivables

- Accomplishment and retention receivable from the Philippine Merchant Marine Academy (PMMA) totaling P78.178 million, wherein a resolution in favor of the Company was rendered by the Department of Justice on August 02, 2006, ordering PMMA to pay the principal amount plus six per cent interest per annum from the date of first demand on June 24, 2004. The Office of the Government Corporate Counsel (OGCC) was requested to file a Petition for money claims with the Commission on Audit (COA) in behalf of the Company.
- 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 Philippines was rendered in favor of the Company against MIAA, ordering the latter to pay the Company the principal amount of P56.724 million and interest thereon at the rate of six per cent per annum from the date of first demand on January 31, 1989 until the same is fully paid.

On March 2, 2012, PNCC filed a petition for money claim against MIAA with the COA.

On June 14, 2016, the COA Commission Proper under CP Decision No. 2016-105 granted PNCC's claim against MIAA and directed MIAA to pay PNCC the balance of the principal obligation plus six percent interest per annum or in the total amount of P114.24 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 states 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 Company is awaiting the resolution of the COA on the MR.

- Accounts receivable - trade consist of the following:

- Uncollected Revenue shares from Joint Venture Companies (JVCs) in the amount of P9.124 million.
- Receivables from various tenants at Financial Center Area (FCA) amounting to P16.806 million.
- Accounts receivable - subsidiaries and affiliates totaling P408,841 represent various accommodations to the Company's subsidiaries: Alabang-Sto. Tomas Development, Inc. (ASDI) - P12,977 and Traffic Control Products Corporation (TCPC) - P395,864. The decrease from P9.287 million in 2015 to P408,841 in 2016 was mainly due to the proceeds from the sale of DCBGSi assets which were offset against the receivables from DCBGSi amounting to P8.856 million.



- Other accounts receivable consist mainly of the Supersedeas/cash bonds re: various NLRC cases filed by present and former employees of the Company totaling P9.223 million which consist mostly of claims for non-payment of benefits, such as mid-year bonus, exit bonus, and other benefits.

The receivables are not used as collaterals to secure obligations.

## 8. RECEIVABLES FROM OFFICERS AND EMPLOYEES

This account consists of receivables from the following:

|                                 | 2016              | 2015              |
|---------------------------------|-------------------|-------------------|
| Former officers and consultants | 42,510,000        | 42,510,000        |
| Officers and employees          | 1,111,202         | 1,651,384         |
| Directors                       | 21,701            | 106,419           |
|                                 | <b>43,642,903</b> | <b>44,267,803</b> |

- The amount of P42.51 million represents cash advances for franchise extension granted to former officers and consultants, of which P2.99 million are receivables from former consultants which are covered by Notices of Disallowance with corresponding Memorandum of Appeal filed with the Commission on Audit. The balance of P39.52 million is a receivable from a former officer which was referred to the OGCC for legal action.
- Receivables from officers and employees totaling P1.111 million mainly consist of cash advances of P1.032 million which formed part of the health care insurance premium of P1.818 million paid by the Company in 2015 and was covered by an Undertaking dated March 4, 2015, stating that the employees and officers will pay the Company in 12 equal monthly installments to commence in June 2016 or after the ruling of the GCG on the petition filed in their office for the inclusion of the said health care benefit, whichever comes first.

## 9. PREPAYMENTS

This account consists of the following:

|             | 2016              | 2015              |
|-------------|-------------------|-------------------|
| Prepayments | 13,603,421        | 9,239,804         |
| Inventories | 4,403,783         | 3,658,426         |
|             | <b>18,007,204</b> | <b>12,898,230</b> |

### 9.1 Breakdown of the prepayments account:

|                            | 2016              | 2015             |
|----------------------------|-------------------|------------------|
| Prepaid income tax         | 12,442,292        | 8,081,311        |
| Prepaid taxes and licenses | 1,090,220         | 1,089,940        |
| Prepaid insurance          | 40,602            | 66,633           |
| Prepaid expenses           | 30,307            | 1,920            |
|                            | <b>13,603,421</b> | <b>9,239,804</b> |

9.2 Composition of the inventory account:

|                                   | 2016        | 2015        |
|-----------------------------------|-------------|-------------|
| Spare parts and supplies          | 2,535,147   | 2,537,049   |
| Fuel, oil, and lubricants         | 198,548     | 308,411     |
| Construction materials            | 0           | 586,993     |
| Others                            | 4,885,950   | 3,568,012   |
|                                   | 7,619,645   | 7,000,465   |
| Allowance for inventory writedown | (3,215,862) | (3,342,039) |
|                                   | 4,403,783   | 3,658,426   |

In 2015, the Company failed in its attempt to bid out the remaining inventories due to lack of bidders. However, in 2016, the Company partially sold inventories amounting to P212,266. A 60 per cent allowance was provided for inventories that are due for disposal based on its appraised value.

Inventories - others account consists mostly of common supplies and hardware materials, office supplies, and medical and dental supplies.

10. INVESTMENTS

This account consists of the following:

|  | 2016          | 2015<br>(As restated) |
|--|---------------|-----------------------|
| <b>Investments in stocks</b>             |               |                       |
| <b>Subsidiaries and affiliates</b>       |               |                       |
| Citra Central Expressway Corporation     | 620,000,000   | 40,000,000            |
| Citra Intercity Tollways, Inc.           | 240,816,700   | 0                     |
| Dasmariñas Industrial & Steelworks Corp. | 96,413,530    | 96,413,530            |
| Alabang-Sto Tomas Development, Inc.      | 61,200,000    | 127,500,000           |
| 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                |
|  | 1,099,197,511 | 344,680,811           |
|  | (177,180,811) | (177,180,811)         |
| Allowance for losses                     | 922,016,700   | 167,500,000           |

|  | 2016               | 2015<br>(As restated) |
|--|--------------------|-----------------------|
| <b>Investments in available for sale securities</b>                          |                    |                       |
| 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                 |
|  | <b>4,292,427</b>   | <b>4,292,427</b>      |
| Market adjustment-available for sale securities                              | <b>(1,739,500)</b> | <b>(1,729,500)</b>    |
|  | <b>2,552,927</b>   | <b>2,562,927</b>      |
| <b>Investment-others</b>   |                    |                       |
| CDCP Employees Savings & Loan Association                                    | 2,094,725          | 2,094,725             |
| Others   | 286,600            | 286,600               |
|  | <b>2,381,325</b>   | <b>2,381,325</b>      |
|  | <b>926,950,952</b> | <b>172,444,252</b>    |

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.

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 subsidiaries of the Company, namely: Alabang-Sto. Tomas Development, Inc. (ASDI); DISC Contractors, Builders and General Services Inc. (DCBGS); Traffic Control Products Corporation (TCPC); CDCP-Farms Corporation (CDCP-FC); and Tierra Factors Corporation (TFC).

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, subject to pertinent laws, rules, and regulations.

- On October 16, 2012, ASDI's corporate life was shortened up to December 31, 2012 pursuant to Board Resolution No. BD-04-2014. On August 7, 2014, this Board resolution was revoked. Investment in ASDI was originally 255,000 common shares with a par value of P1,000 per share representing equity ownership of the Company at 51 per cent, with the remaining 49 per cent owned by the National Development Company. On December 9, 2015, ASDI liquidated 127,500 common shares of PNCC as part of its dissolution process paying PNCC P127.5 million. On December 15, 2016, the Company received P66.3 million as additional partial liquidation of its investment in shares of ASDI. ASDI has a pending collection balance of P4.2 million from DPWH.



- On September 26, 2013, the abolition/dissolution of TCPC was approved per Board Resolution BD-006-2013. The conveyance of TCPC assets to PNCC has already been completed. Part of these assets has already been disposed through public bidding. The remaining undisposed assets are now being classified according to commodity classification for appraisal and for purposes of higher return upon sale.
- On September 30, 2015, DCBGSi was closed pursuant to DCBGSi Shareholders' Resolution dated August 7, 2015. On October 1, 2015, PNCC absorbed DCBGSi functions. On January 18, 2016, the Board of Directors of DCBGSi approved the shortening of its corporate life to January 31, 2016.
- On September 30, 2015, Special Stockholders Meetings of TFC and CDCP-FC were held to dissolve these subsidiaries. Management is still awaiting the appointment of Directors for both companies in order to call 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.
- On the following dates, Citra Central Expressway Corporation (CCEC) issued 10 per cent "free-carry" equity shares (P100 par value) as the Company's share in the joint venture company as follows: June 30, 2014 - 125,000 shares; September 15, 2014 - 275,000 shares; and December 1, 2016 - 5,800,000 shares.
- On the following dates, Citra Intercity Tollways, Inc. (CITI) issued 10 per cent "free-carry" equity shares (P100 par value) as the Company's share in the joint venture company as follows: March 9, 2016 - 400,000 shares and December 1, 2016 - 2,008,167 shares.

## 11. INVESTMENT PROPERTY

This account consists of the following:

|                              | Land                  | Buildings and Improvements | Total                 |
|------------------------------|-----------------------|----------------------------|-----------------------|
| <b>At December 31, 2015</b>  |                       |                            |                       |
| Cost                         | 70,772,301            | 0                          | 70,772,301            |
| Appraisal                    | 10,327,955,199        | 271,220,500                | 10,599,175,699        |
|                              | <b>10,398,727,500</b> | <b>271,220,500</b>         | <b>10,669,948,000</b> |
| <b>At December 31, 2016</b>  |                       |                            |                       |
| Cost                         |                       |                            |                       |
| Opening Net Book Value       | 70,772,301            | 0                          | 70,772,301            |
| Additions                    | 0                     | 0                          | 0                     |
| Net Book Value               | <b>70,772,301</b>     | <b>0</b>                   | <b>70,772,301</b>     |
| <b>Fair Value Adjustment</b> |                       |                            |                       |
| Balance at beginning of year | 10,327,955,199        | 271,220,500                | 10,599,175,699        |
| Appraisal Adjustment         | 0                     | 0                          | 0                     |
| Balance at end of year       | <b>10,327,955,199</b> | <b>271,220,500</b>         | <b>10,599,175,699</b> |
|                              | <b>10,398,727,500</b> | <b>271,220,500</b>         | <b>10,669,948,000</b> |

|                             | Land                  | Buildings and<br>Improvements | Total                 |
|-----------------------------|-----------------------|-------------------------------|-----------------------|
| <b>At December 31, 2016</b> |                       |                               |                       |
| Cost                        | 70,772,301            | 0                             | 70,772,301            |
| Appraisal                   | 10,327,955,199        | 271,220,500                   | 10,599,175,699        |
|                             | <b>10,398,727,500</b> | <b>271,220,500</b>            | <b>10,669,948,000</b> |

#### 11.1 Financial Center Area (FCA) in Pasay City

In 1973, a contract was entered into by and between the Company and the Republic of the Philippines (RP), represented by the then Department of Public Highways (now Department of Public Works and Highways), for the construction of the Manila-Cavite Coastal Road and the reclamation of some portions of the foreshore and offshore lands along Manila Bay, otherwise known as the Manila-Cavite Coastal Road Project, at the Company's expense.

In compensation for the work accomplishments, the Company obtained the 129,548 sq.m.-land, known as Lot 6, from the National Government for P64.6 million, covered by Certificate of Pledge No. 2 (P38.5 million) and Certificate of Pledge No. 3 (P26.1 million).

Administrative Order (AO) No. 397, which was signed and approved by then President Fidel V. Ramos on May 31, 1998, mandated that Lot 6 be titled in the name of PNCC.

Although the title to the property is still in the name of the Republic of the Philippines as of report date, the Office of the Government Corporate Counsel (OGCC) issued an opinion on April 21, 2001 that the Company can sell, dispose, or assign its real rights, interests, and participation over the property, which real right or interest over Lot 6 is evidenced by the aforesaid Certificates of Pledge.

On August 2, 2013, the OGCC issued another opinion that the Company may not sell or transfer its ownership of the FCA to a private corporation but may only lease it for a period not exceeding 25 years, renewable for not more than 25 years, and not to exceed 1,000 hectares in area. The Company may only sell it to Filipino citizens subject to the 12-hectare Constitutional limitation. Under these circumstances, the Company can either: (1) secure a presidential proclamation officially declaring that the FCA is no longer needed for public use; or (2) dispose it, consistent with the constitutional restriction, to a qualified Filipino citizen, but only to the extent of 12 hectares.

Independent firms of appraisers engaged by the Company to determine the fair value of the property reported a P6.63 billion appraised value in 2009, P7.462 billion in 2010, P7.434 billion in 2011, P9.72 billion in 2013 and P9.987 billion in 2015.

The subject property has been rented out and has been generating rental revenue since 2005. Rental income earned, net of VAT, amounted to P107.305 million and P96.839 million in 2016 and 2015, respectively.

11.2 The following real estate properties (held for currently undetermined future use or held for capital appreciation) also comprise the Investment Property account:

| Location                    | Area<br>(in sq.m.) | Cost             | Appraisal<br>Increase | Fair Value         |
|-----------------------------|--------------------|------------------|-----------------------|--------------------|
| Dasmariñas, Cavite          | 75,000             | 625,800          | 340,624,200           | 341,250,000        |
| Sta. Rita, Bulacan          | 20,000             | 1,579,950        | 90,175,050            | 91,755,000         |
| Casinglot, Misamis Oriental | 60,620             | 1,077,484        | 86,600,516            | 87,678,000         |
| Rizal, Tagaytay             | 98,207             | 1,367,339        | 54,814,661            | 56,182,000         |
| Antipolo, Rizal             | 14,770             | 1,185,531        | 45,582,469            | 46,768,000         |
| Bocaue, Bulacan             | 9,926              | 162,678          | 23,661,322            | 23,824,000         |
| Porac, Pampanga             | 116,591            | 145,737          | 20,258,763            | 20,404,500         |
| Mabalacat, Pampanga         | 27,905             | 32,027           | 14,478,973            | 14,511,000         |
|                             | <b>423,019</b>     | <b>6,176,546</b> | <b>676,195,954</b>    | <b>682,372,500</b> |

In 2011, the Land Bank of the Philippines, engaged by the Company to conduct an inspection and appraisal of its properties situated in different areas in the Philippines, disclosed that the property located in Dasmariñas, Cavite with a total area of 75,000 sq.m. is not titled and registered under the name of the Company.

The Dasmariñas property is located within the First Cavite Industrial Estate (FCIE), a joint venture project of the National Development Company (NDC), Marubeni Corporation, and Japan International Development Organization (JAIDO). The 75,000 sq.m. lot was excluded from the Contract of Sale executed between the Company and NDC on April 7, 1983, which covers the sale of the Company's several parcels of property to NDC. On April 10, 1992, the Committee on Privatization (COP) approved the sale of the property to NDC at a price not lower than P150/sq.m. The Asset Privatization Trust (APT), however, suggested that the price should instead be P180/sq.m. The sale was not consummated due to the disagreement in the price to be used. Thereafter, the property was developed by NDC, absent any contract of sale yet.

The Dasmariñas property is supported by Transfer Certificate of Title (TCT) No. T-98739 which was cancelled after the sale in April 1983. The Company was not able to acquire a new TCT under its name for the remaining lots but is conducting further negotiations with NDC for compensation on the property.

As discussed in Note 16, the Company, in its Motion for Reconsideration dated March 13, 2014, prayed that the Department of Justice order the NDC to pay the Company the value of the 75,000 sq. m. of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by NDC to locators of the First Cavite Industrial Estate (FCIE), plus legal interest thereon from the time of demand up to the actual date of payment.



## 12. PROPERTY AND EQUIPMENT.

This account includes the following:

|                               | Land & Land<br>Improvements | Buildings &<br>Improvements | Construction<br>Equipment | Transportation<br>Equipment | Others         | Total              |
|-------------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|----------------|--------------------|
| <b>At December 31, 2015</b>   |                             |                             |                           |                             |                |                    |
| Cost                          | 10,115,936                  | 37,904,340                  | 22,689,448                | 34,957,176                  | 41,498,347     | 147,165,247        |
| Accumulated Depreciation      | (2,239,358)                 | (28,469,980)                | (21,892,429)              | (33,334,044)                | (41,316,924)   | (127,252,735)      |
| <b>Net Book Value</b>         | <b>7,876,578</b>            | <b>9,434,360</b>            | <b>797,019</b>            | <b>1,623,132</b>            | <b>181,423</b> | <b>19,912,512</b>  |
| Revaluation Increment         | 770,167,569                 | 65,997,170                  | 7,827,127                 | 107,172                     | 2,471,117      | 846,570,155        |
| Accumulated Depreciation      | (21,271,590)                | (47,628,770)                | (7,826,972)               | (107,172)                   | (2,467,184)    | (79,301,688)       |
| <b>Net Book Value</b>         | <b>748,895,979</b>          | <b>18,368,400</b>           | <b>155</b>                | <b>0</b>                    | <b>3,933</b>   | <b>767,268,467</b> |
|                               | <b>756,772,557</b>          | <b>27,802,760</b>           | <b>797,174</b>            | <b>1,623,132</b>            | <b>185,356</b> | <b>787,180,979</b> |
| <b>At December 31, 2016</b>   |                             |                             |                           |                             |                |                    |
| Cost                          |                             |                             |                           |                             |                |                    |
| Opening Net Book Value        | 7,876,578                   | 9,434,360                   | 797,019                   | 1,623,132                   | 181,423        | 19,912,512         |
| Additions                     | 0                           | 0                           | 0                         | 0                           | 235,144        | 235,144            |
| Disposals/Write off           | 0                           | 0                           | (898)                     | (1)                         | (376)          | (1,275)            |
| Depreciation for the Year     | (26,239)                    | (1,575,564)                 | (1,321)                   | (1,117,253)                 | (284,142)      | (3,004,519)        |
| <b>Closing Net Book Value</b> | <b>7,850,339</b>            | <b>7,858,796</b>            | <b>794,800</b>            | <b>505,878</b>              | <b>132,049</b> | <b>17,141,862</b>  |
| Revaluation Increment         |                             |                             |                           |                             |                |                    |
| Opening Net Book Value        | 748,895,979                 | 18,368,400                  | 155                       | 0                           | 3,933          | 767,268,467        |
| Appraisal Adjustment          | 0                           | 0                           | 0                         | 0                           | 0              | 0                  |
| Disposals/Write off           | 0                           | 0                           | 0                         | 0                           | (3,896)        | (3,896)            |
| Depreciation for the Year     | 0                           | (4,131,361)                 | 0                         | 0                           | 0              | (4,131,361)        |
| <b>Closing Net Book Value</b> | <b>748,895,979</b>          | <b>14,237,039</b>           | <b>155</b>                | <b>0</b>                    | <b>37</b>      | <b>763,133,210</b> |
| <b>At December 31, 2016</b>   |                             |                             |                           |                             |                |                    |
| Cost                          | 10,115,936                  | 36,800,884                  | 20,230,598                | 34,437,176                  | 38,322,133     | 139,906,727        |
| Accumulated Depreciation      | (2,265,597)                 | (28,942,088)                | (19,435,798)              | (33,931,298)                | (38,190,084)   | (122,764,865)      |
| <b>Net Book Value</b>         | <b>7,850,339</b>            | <b>7,858,796</b>            | <b>794,800</b>            | <b>505,878</b>              | <b>132,049</b> | <b>17,141,862</b>  |
| Revaluation Increment         | 770,167,569                 | 65,997,170                  | 7,827,127                 | 107,172                     | 1,863,463      | 845,962,501        |
| Accumulated Depreciation      | (21,271,590)                | (51,760,131)                | (7,826,972)               | (107,172)                   | (1,863,426)    | (82,829,291)       |
| <b>Net Book Value</b>         | <b>748,895,979</b>          | <b>14,237,039</b>           | <b>155</b>                | <b>0</b>                    | <b>37</b>      | <b>763,133,210</b> |
|                               | <b>756,746,318</b>          | <b>22,095,835</b>           | <b>794,955</b>            | <b>505,878</b>              | <b>132,086</b> | <b>780,275,072</b> |

### 12.1 Revaluation

The Company engaged the services of the following independent and recognized appraisal companies for the appraisal of some of its designated properties, structures, buildings, fence, and street lightings:

| YEAR | REVALUATION<br>INCREASE (DECREASE)<br>(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                     |

| YEAR | REVALUATION<br>INCREASE (DECREASE)<br>(in thousand pesos) | APPRAISAL CORPORATION  |
|------|---|--|
| 2011 | (16.523)  | Land Bank of the Philippines   |
| 2013 | 17.591  | Cuervo Appraisers, Inc. and CAL-FIL<br>Appraisal & Management, Inc.              |
| 2015 | 456.941   | CAL-FIL Appraisal & Management, Inc.,<br>Asset Consult, Top Consult & Royal Asia |

## 12.2 Others

The Company also owns some 278,477 sq.m. of property, with a total value of P174.127 million, located in different areas of the country which are not yet recorded in the books, as the same are still registered in the name of previous owners. The Company is working on the transfer of title to its name.

## 13. OTHER ASSETS

This account consists of the following:

|   | 2016               | 2015               |
|---|--------------------|--------------------|
| Restricted cash                         | 100,327,360        | 100,327,360        |
| Guarantee deposits                      | 71,072,000         | 71,072,000         |
| Accounts receivables-trade              | 50,879,182         | 50,879,182         |
| Deferred charges                        | 37,339,656         | 107,789,748        |
| Receivables from officers and employees | 12,581,589         | 12,581,589         |
| Miscellaneous deposits                  | 1,181,088          | 1,231,639          |
| Other assets                            | 429,178            | 429,178            |
|   | <b>273,810,053</b> | <b>344,310,696</b> |
| Assets for write off                    | 9,615,422,219      | 9,615,422,219      |
| Allowance for losses                    | (9,615,422,219)    | (9,615,422,219)    |
|   | <b>0</b>           | <b>0</b>           |
| Other assets                            | 660,139,021        | 694,807,068        |
| Allowance for doubtful accounts         | (660,139,021)      | (694,807,068)      |
|   | <b>0</b>           | <b>0</b>           |
|   | <b>273,810,053</b> | <b>344,310,696</b> |

### 13.1 Restricted cash

The Company has P100.327 million restricted cash, which amount is used as collateral for the issuance of the appeal bond re: Ernesto N. Valentin, et.al, vs. PNCC case. The cash is held in custody by the Company's banks and is restricted as to withdrawal or use pending the decision by the National Labor Relations Commission on the said case filed by former PNCC employees against the Company.

### 13.2 Guarantee deposits

This account pertains specifically 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.

### 13.3 Accounts receivables - trade

This account pertains to operating access fees due from oil companies totaling P50.879 million, of which P46.728 million was referred to PNCC's Legal Department for appropriate action, P2.646 million is subject of an on-going reconciliation, and P1.505 million is being paid on installment basis. One of the oil companies referred to PNCC's Legal Department had informed the Company that the funds for payment of the royalty fees are in escrow because of the Writ of Garnishment issued in 2005 prohibiting it from making any payments to the Company. Payments will accordingly be made once the garnishment is lifted.

### 13.4 Deferred charges

This account consists mainly of the deferred tax assets recognized for the carry forward benefit of unused tax credits of P29.248 million and the excess of the Minimum Corporate Income Tax (MCIT) over the regular corporate income tax of P8.651 million (Note 27).

### 13.5 Receivables from officers and employees

This account consists of cash advances granted to the former officers and employees of the Company in the amount of P12.498 million and former directors' car plan equity balance of P83,928.

### 13.6 Assets for write off

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

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



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

The Company, in its letter of June 03, 2014, requested authority from the Commission on Audit to adjust/write off the aforesaid long-outstanding accounts in consonance with COA Circular No. 97-001 dated February 05, 1997. As of December 31, 2016, no decision has been made by COA.

### 13.7 Other assets

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

|   | 2016               | 2015               |
|---|--------------------|--------------------|
| Accounts receivable - subsidiaries and affiliates | 205,618,418        | 240,286,465        |
| 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            |
|   | <b>660,139,021</b> | <b>694,807,068</b> |

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

## 14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

|                     | 2016              | 2015              |
|---------------------|-------------------|-------------------|
| Accounts payable    | 30,740,568        | 30,600,749        |
| Accrued expenses    | 12,018,892        | 6,813,117         |
| Customers' deposits | 18,883,600        | 13,048,984        |
|                     | <b>61,643,060</b> | <b>50,462,850</b> |

### 14.1 Accounts payable

|                             | 2016              | 2015              |
|-----------------------------|-------------------|-------------------|
| Vouchers payable            | 27,269,163        | 30,302,076        |
| CESLA savings and loan dues | 0                 | 198,172           |
| Other accounts payable      | 3,471,405         | 100,501           |
|                             | <b>30,740,568</b> | <b>30,600,749</b> |

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

Other accounts payable as of December 31, 2016 consists mostly of the proceeds from the disposal of TRB's service vehicles, net of five per cent service fee.

#### 14.2 Accrued expenses

Accrued expenses account of P12.019 million as of December 31, 2016 includes accrual of the mandatory benefits and leave credits of the Company's employees, unpaid professional fees and unpaid accounts to suppliers of goods and services that are normally settled within 12 months from the reporting period.

#### 14.3 Customers' deposits

Customers' deposits account consists of one month deposit and two months advance rental paid by tenants from the leased FCA property and 10 per cent bid deposit posted by winning bidders with regard to the Company's disposal of assets and scrap materials.

### 15. DUE TO NATIONAL GOVERNMENT AND ITS INSTRUMENTALITIES

This account consists of payables for the following:

|  | 2016                 | 2015                 |
|--|----------------------|----------------------|
| Concession fees (TRB)                      | 5,528,433,200        | 5,270,431,000        |
| Joint venture companies' revenue/dividends | 1,329,017,649        | 1,329,017,649        |
| Toll revenue (SLEX operation under TOC)    | 971,550,967          | 1,537,850,967        |
|  | <b>7,829,001,816</b> | <b>8,137,299,616</b> |

#### 15.1 Concession fees

The concession fees of P5.528 billion (principal amount of P1.06 billion plus penalty charges of P258 million in 2016 and P4.21 billion in 2015 and prior years) pertain to the Company's payable to TRB pursuant to the Toll Operation Agreement (TOA) dated October 1977. The Company is being charged of two per cent penalty charges per month on unpaid concession fees which amount to over P250 million annually.

From May 2008 to March 2009, the Company made initial payments to the Bureau of the Treasury (BTr) totaling P220 million, of which the latter confirmed application of the P170 million against outstanding concession fees while the P50 million was unilaterally applied by the BTr against an outstanding advances from the National Government (NG).

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

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

#### 15.2 Joint venture companies' revenue/dividends

As discussed in Note 1, the expiration of the Company's franchise in 2007 resulted in the NG's owning the toll fees and the net income derived from the toll assets and facilities and also the Company's percentage share in the toll fees collected by the Joint Venture Companies (JVCs) currently operating the tollways.

In line with the above and pending finalization of the Implementing Rules and Guidelines (IRG) relative to the determination of the net income remittable by the Company to the NG, the Company initially recognized its obligation to the Government in the amount of P1.329 billion (net of the direct remittance of the consigned monies of P337.94 million to the BTr on December 23, 2011).

The aforesaid amounts were computed at 90 per cent of the gross revenue share and dividends received from May 2007 to December 31, 2010. This is in accordance with the interim rules and guidelines issued by TRB in compliance with the decision of the Supreme Court (SC) in the *Francisco Case* (Note 1).

The SC directed TRB, with the assistance of the Commission on Audit, to prepare and finalize the Implementing Rules and Guidelines (IRG) for the determination of the amounts that the Company is entitled for its administrative expenses.

#### 15.3 Toll revenue (SLEX operation under TOC)

Pursuant to the Supreme Court En Banc Decision discussed in Note 1, the Company recognized in the books the unremitted share in the toll revenue for the operation of the South Luzon Expressway (SLEX) under the Toll Operation Certificate from May 2007 to April 2010 in the amount of P1.537 billion, based on TRB's computation, which accordingly was arrived at by deducting from gross toll revenue the allowable 40 per cent operations and maintenance (O&M) expenses or actual O&M expenses, whichever is lower.

In December 2016, the Company remitted to the NG, through the BTr, the amount of P566.3 million as partial payment for outstanding share in the toll revenue.

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### 16. DUE TO GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS

This account covers various advances from the National Development Company (NDC) totaling P214 million between 1990 to 1999 for foreign and peso accounts for which PNCC issued promissory notes, and interest and penalties thereon of P989 million as of December 31, 2009. The issue covering the various advances from NDC is under arbitration before the OGCC Arbitral Tribunal:



- NDC, Petitioner vs. PNCC, Respondent (OGCC ARB Case No. 001-2000)

Based on the submitted pleadings and supporting documents, the following issues appear to be clear:

- Whether respondent is liable to pay petitioner the principal amount of the Promissory Notes plus accrued interest and penalties as provided in the said Notes, and the Documentary Stamp Tax necessary for the execution thereof;
- Whether respondent is liable to pay/reimburse petitioner the amount of respondent's mortgage loan (including interest thereon) that petitioner paid in order to release the titles of the properties that petitioner bought from the respondent; and
- Whether petitioner must pay the value of the lot consisting of 7.5 hectares which petitioner developed with its Joint Venture partner despite the fact that said lot was specifically excluded in the Contract of Sale.

The Department of Justice (DOJ), in its February 18, 2014 Consolidated Decision, granted NDC's Petition against the Company, the dispositive portion of which follows:

*"However, the Petition filed by NDC against PNCC is GRANTED. As prayed for, respondent PNCC is ordered: (1) to pay petitioner NDC the principal amount of the Promissory Notes, plus accrued interests and penalties as provided for in the said Notes; and (2) to reimburse petitioner the amount of mortgage loan including interest thereon."*

On March 12, 2014, NDC wrote the Company claiming payment of the various advances/loans extended to the latter pursuant to the aforesaid Consolidated Decision of the DOJ.

The Company, in its letter of March 19, 2014, informed NDC that it cannot yet settle the account as the decision of the DOJ is not final and executory and that it had filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014.

In the said MR, the Company prayed that the DOJ consider the consolidation as not proper and decide on OGCC ARB. Case No. 001-2000 separately:

- Order the dismissal of the instant Petition for lack of merit;
- Order the Petitioner to pay PNCC the amount of P3.85 million representing the unpaid balance on the Dasmariñas property, plus legal interest thereon from the time of demand up to the time of payment; and
- Order the Petitioner to pay the Company the value of the 7.5 hectares of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by Petitioner to locators of the First Cavite Industrial Estate, plus legal interest thereon from the time of demand up to the actual date of payment.

On January 22, 2015, the DOJ denied the Company's Motion for Reconsideration (MR). Thereafter, the Company filed a Supplement to the MR on May 28, 2015 which was also denied by the DOJ in its order dated July 13, 2015. On June 26, 2015, the Company filed a Notice of Appeal with the Office of the President (OP) of the Philippines and filed the corresponding Appeal Memorandum on July 27, 2015.

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

## 17. OTHER PAYABLES

This account consists of the following:

|                               | 2016               | 2015               |
|-------------------------------|--------------------|--------------------|
| Trust liabilities             | 2,768,583          | 2,768,583          |
| Advances from contract owners | 1,021,046          | 1,021,046          |
| Other accounts payable        | 171,072,000        | 171,072,000        |
|                               | <b>174,861,629</b> | <b>174,861,629</b> |

Other accounts payable pertains to the provision for liability of P171.072 million, the details of which were not disclosed as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

## 18. CAPITAL STOCK

This account consists of various classes of shares of stock with authorized par value of P10.00 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

|                   |   |                    |
|-------------------|---|--------------------|
| 15,000,000 Shares | Republic of the Philippines<br>Through the APT (now<br>PMO) – previously under<br>PNB | 150,000,000        |
| 3,689,500 Shares  | Marubeni  | 36,895,000         |
| <b>18,689,500</b> |   | <b>186,895,000</b> |

### Preferred "C"

(14 per cent cumulative, non-participating, non-voting)

Authorized- 6,485,121 shares

**Issued and outstanding**

6,485,121 Shares

Republic of the Philippines  
Through the APT (now  
PMO) – previously under  
NDC

64,851,210

**Preferred "D"**

(8 per cent cumulative,  
participating, voting)

Authorized- 27,800,000 shares

**Issued and outstanding**

25,500,000 Shares

PMO (previously under PNB)

255,000,000

**Special common**

(non-voting, no pre-emptive  
right, participating)

Authorized-10,000,000 shares

**Issued and outstanding**

3,815 Shares

Carlito C. Paulino

38,150

457 Shares

Editha U. Cruz

4,570

376 Shares

Adolfo S. Suzara

3,760

129 Shares

Vicente Longkino

1,290

**Treasury Stocks**

295,227 Shares

Formerly held by PNCC  
Employees Savings & Loan  
Association

2,952,270

72,168 Shares

Formerly held by Alfredo V.  
Asuncion

721,680

372,172

3,721,720



|                                |               |   |                      |
|--------------------------------|---------------|---|----------------------|
| <b>Subscribed-</b>             |               | <b>FEBTC Trustee-PNCC Stock</b>   |                      |
| <b>1,484,260</b>               | <b>Shares</b> | <b>Trust Fund</b>   | <b>14,842,600</b>    |
| <b>Common</b>                  |               |   |                      |
| Authorized-                    | 182,200,000   |   |                      |
| shares                         |               |   |                      |
| <b>Issued and outstanding-</b> |               |   |                      |
|                                |               | Republic of the Philippines<br>Through the APT (Now<br>PMO) – previously under: |                      |
|                                |               | Phil. Export Foreign Loan<br>Guarantee  | 375,845,770          |
|                                |               | Development Bank of the<br>Phils.   | 269,874,470          |
| 79,271,024                     | Shares        | NDC   | 146,990,000          |
|                                |               | Government Service Insurance<br>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<br>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        |   |                      |
| <b>163,670,983</b>             |               |   | <b>1,636,709,830</b> |
| <b>Subscribed-</b>             |               |   |                      |
| 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            |
| <b>10,773,776</b>              |               |   | <b>107,737,760</b>   |
| <b>228,375,812</b>             | <b>Shares</b> |   | <b>2,283,758,120</b> |
|                                |               | Subscriptions receivable (Note 19)  | (56,158,831)         |
|                                |               |   | <b>2,227,599,289</b> |

The cumulative preferred shares are those that are entitled to any dividends not declared in the prior period (dividends in arrears) such that when dividends are declared in the current period, the dividends in arrears are to be satisfied first.

Dividends (in arrears) on cumulative preferred shares are not recognized in the books due to the Board of Directors' non-declaration of dividends. Such action of the PNCC Board is supported by Article XI, Section 11.01 of the Amended Corporate By-Laws which provides that "Dividends maybe declared annually or oftener as the Board of Directors may determine. The Board of Directors may declare dividends only from the surplus profits of the Company."

For purposes, however, of the required disclosure in the financial statements, the dividends in arrears (computed from 2007 to 2016) are as follows:

| Name of Stockholders<br>(a)   | Class of Stock<br>(b)  | Shareholdings<br>(c) | Undeclared Dividend<br>(b x c x 10 yrs) |
|---|--|----------------------|---|
| Republic of the Phil.<br>Through the<br>PMO (previously<br>under PNB) | Preferred "B" (8 per cent - 17<br>per cent, cumulative,<br>non-participating,<br>non-voting) | 150,000,000          | 120,000,000                             |
| Marubeni  | Preferred "B" (8 per cent - 17<br>per cent, cumulative,<br>non-participating,<br>non-voting) | 36,895,000           | 29,516,000                              |
| Republic of the Phil.<br>Through the<br>PMO (previously<br>under NDC) | Preferred "C" (14 per cent,<br>cumulative, non-<br>participating, non-voting)                | 64,851,210           | 90,791,694                              |
| Republic of the Phil.<br>Through the<br>PMO (previously<br>under PNB) | Preferred "D" (8 per cent,<br>cumulative, non-<br>participating, non-voting)                 | 255,000,000          | 204,000,000                             |
|   |  | <b>506,746,210</b>   | <b>444,307,694</b>                      |

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

## 19. SUBSCRIPTIONS RECEIVABLE

This account represents the unpaid amount due from the following subscribers on subscription of the Company's shares of stock, the due dates of which are, by agreement, of valid call by the Board of Directors:

|                               |                   |
|-------------------------------|-------------------|
| Universal Holding Corporation | 48,302,274        |
| Cuenca Investment Corporation | 5,145,287         |
| Other Corporations            | 966,630           |
| Individuals                   | 1,744,640         |
|                               | <b>56,158,831</b> |

As of the end of 2016, there was no call made by the Board of Directors for the unpaid subscriptions.

## 20. EQUITY ADJUSTMENTS

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

This account represents substantial portion of the Company's liabilities to Government Financial Institutions (GFIs) which should have been converted into equity pursuant to Presidential Letter of Instruction (LOI) No. 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              | 39,990              |
| Development Bank of the Philippines | 9,633               |
|                                     | <u>5,551,726</u>    |

The above-mentioned Company indebtedness remain unconverted as it is the Company's position, as supported by the Office of the Solicitor General (OSG) opinion dated August 23, 2007, that based on LOI 1295, which was a special law promulgated to rehabilitate the Company, the debts have effectively been converted to equity and, therefore, should no longer incur interest charges.

The Privatization Management Office (PMO), however, still considers these unconverted debts as liabilities, claiming the total amount of P60.907 billion as of December 31, 2016 and P57.919 billion as of December 31, 2015, inclusive of accumulated interest charges and penalties amounting to P55.395 billion and P52.407 billion, respectively.

These amounts have not been recognized in the books of the Company. The Company did not recognize the disputed interest charges and penalties based on the following:

- The Supreme Court (SC) itself had recognized the validity of LOI 1295 and that it still legally exists today;
- The failure to convert all debts to equity is considered an administrative matter; and
- The P5.552 billion is not a debt but simply represents unissued shares of stocks awaiting actual conversion to equity pursuant to LOI 1295 and, as such, continued imposition of interests and penalties is not warranted.

The above position of the Company is supported by the Office of the Solicitor General (OSG) and the Office of the Government Corporate Counsel (OGCC).

In like manner, the Bureau of the Treasury (BTr) is claiming as of December 31, 2016 the amount of P2.724 billion (inclusive of P1.316 billion interest) representing advances made by the BTr to settle the Company's foreign obligations with creditors. It is the



Company's position that said loans are included in the Equity Adjustments under Rehabilitation Plan which are among the accounts transferred by the Company to the Government through the Asset Privatization Trust (APT) pursuant to PNCC's Rehabilitation Plan of 1987 and are no longer recorded as liabilities in the Company books. As such, the Company is precluded from servicing the accounts.

As discussed in Note 15, the application of the P50 million and P100 million payments in 2008 and 2010, respectively, against outstanding NG advances were already effected in the aforesaid confirmed amount of P2.724 billion.

In view of the differences on the treatment of the P5.552 billion unconverted debt to equity, the Company and the PMO resolved to submit the matter to the Department of Justice (DOJ) for arbitration:

- PNCC, Petitioner vs. PMO, Respondent (OSJ Case No. 02-2012)

The parties entered into a Joint Stipulation of Facts and Issues identifying the issues, as follows:

- Whether or not PNCC is indebted to the National Government in the amount of P5.4 billion which, inclusive of interests as of October 31, 2011, amounted to P51.060 billion;
- Whether or not the unconverted debt to equity, which is a leftover of LOI 1295, should be considered as simple loan;
- Whether or not the unconverted portion of CDCP's debts are liable for interest and penalty charges; and
- Whether LOI 1295 repealed the general provisions of RA 337 General Banking Act, as amended, the charters of DBP (RA 85, as amended), PNB (PD 694), and LBP (RA 3844), which all restricted the GFI's exposure to non-allied industries."

The DOJ, in its February 18, 2014 Consolidated Decision, dismissed the Company's Petition against PMO, the dispositive portion of which reads:

*"WHEREFORE, premises considered, the Petition filed by the PNCC against the PMO, is hereby DISMISSED. As prayed for by the respondent PMO, petitioner PNCC is hereby ordered to pay respondent PMO, in behalf of the National Government, the amount of P51,060,330,392.40 as of 31 October 2011, representing its due and demandable obligation to the latter, inclusive of the interests, plus interests and penalties until actually paid."*

The Company filed a Motion for Reconsideration (MR) dated March 13, 2014, duly received at the DOJ on March 14, 2014. The Company prayed that the DOJ consider the consolidation as not proper and decide on OSJ Case No. 02-2012 separately:

- Render judgment declaring that the interest and penalty charges being imposed by PMO on the actual outstanding debt of PNCC to the National Government is without basis and violative of LOI 1295;

- Declare that PNCC's outstanding debt to the National Government is only in the amount of P5.4 billion, representing the value of the unconverted debt-to-equity obligation to the Government Financial Institutions (GFIs); and
- Require or direct the debt-to-equity conversion of the P5.4 billion debt of PNCC pursuant to the clear and explicit instructions under LOI 1295.

On January 22, 2015, DOJ denied PNCC's Motion for Reconsideration (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 Motion for Appeal at the Office of the President (OP) of the Philippines and filed the corresponding appeal memorandum on July 27, 2015.

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

## 21. REVENUE AND DIVIDEND SHARE FROM JOINT VENTURE COMPANIES (JVCs)

This account consists of the following:

|                | 2016               | 2015               |
|----------------|--------------------|--------------------|
| Revenue Share  |                    |                    |
| MNTC           | 47,203,261         | 43,649,658         |
| CMMTC          | 30,044,985         | 27,566,205         |
| SLTC           | 16,323,274         | 12,586,932         |
|                | <b>93,571,520</b>  | <b>83,802,795</b>  |
| Dividend Share |                    |                    |
| CMMTC          | 54,635,130         | 36,423,420         |
|                | <b>148,206,650</b> | <b>120,226,215</b> |

As discussed in Note 15, pending issuance by the Toll Regulatory Board (TRB) and the Commission on Audit (COA) of the Implementing Rules and Guidelines (IRG) for the determination of the amounts due to the Company for its administrative expenses, the Company recognized 10 per cent of its share from the JVCs' gross toll revenues in accordance with the interim rules and guidelines issued by the TRB.

The franchise of PNCC under PD1113 to operate, construct, and maintain toll facilities in the North and South Luzon Tollways for a period of 30 years expired on May 1, 2007. With its expiration, the toll assets and facilities of PNCC were automatically turned over to the government at no cost. The Supreme Court (SC), in *Ernesto B. Francisco vs. TRB, PNCC et. al.* (G.R. Nos. 166910, 169917, 173630, and 183599, October 19, 2010) and in the case of *Strategic Alliance Development Corporation vs. Radstock Securities Limited et. al.* (G.R. No. 178158, December 4, 2009), ruled and declared that with the expiration of the Company's franchise, the toll assets and facilities of the Company were automatically turned over, by operation of law, to the National Government (NG) at no cost and consequently, this inevitably resulted in the latter's owning too the toll fees and the net income derived after May 1, 2007 from the toll assets and facilities, including the

Company's percentage share in the toll fees collected by the JVCs currently operating the tollways, including NLEX and Skyway.

On March 22, 2012, TRB issued an interim rules and guidelines for the remittance by the JVCs to the National Treasury of the net income that is supposed to be remitted by the JVCs from the revenues of the NLEX, SLEX and Skyway in accordance with the *Francisco Case*.

Paragraph 2 of the said guidelines provide that *"(a)s subsequently agreed upon by PNCC and TRB as an interim arrangement, 10 per cent of all amounts that are supposed to be remitted by the JV companies shall be set-aside by the JV company for remittance to PNCC. The 90 per cent shall be remitted to the TRB for the National Treasury immediately."*

Relative to the aforesaid interim rules and guidelines, a complaint (entitled: Rodolfo M. Cuenca vs. Toll Regulatory Board, et., al., Civil Case No. 13-919) was filed before the Regional Trial Court (RTC) of Makati Branch 132 by petitioner Rodolfo M. Cuenca, in his capacity as stockholder of the Company, against the Toll Regulatory Board (TRB), Commission on Audit (COA), Manila North Tollways Corporation (MNTC), CITRA Metro Manila Tollways Corporation (CMMTC), South Luzon Tollways Corporation (SLTC) and Manila Toll Expressways Systems, Inc. (MATES) and the Company as respondents.

In his petition, Cuenca said that *"there is the very real possibility that what the respondent corporations MNTC, CMMTC, SLTC and MATES have remitted, and will be remitting, to the NG is above or much more than what should be remitted given the actual and true financial situation of the respondent corporations. This gives rise to the unfortunate complication that such overpayments may only be reimbursed by the NG through cumbersome, to say the least, budgetary process."*

Thus, petitioner is praying for the Honorable Court that:

- The respondents TRB and COA come up with and release the final implementing rules and guidelines embodying the final formula relative to the determination of the net income remittable by respondent PNCC to the NG;
- That the respondent corporations be enjoined from remitting any and all amounts directly to the NG until respondents TRB and COA have issued the final implementing rules and guidelines; and
- The respondents be ordered to consign with the Honorable Court any and all amounts they are ready to remit to the NG until the final implementing rules and guidelines has been issued by TRB and COA.

On May 9, 2014, a Writ of Preliminary Injunction was issued by the RTC of Makati Branch 132, enjoining and restraining the TRB and PNCC from implementing the interim rules and guidelines dated March 22, 2012. The respondent corporations, namely: MNTC, CMMTC, SLTC and MATES, were directed to forward the entire amounts to be remitted by them under their respective Supplemental Toll Operations Agreement (STOA) to the Company.



It appearing that the government stands to suffer gravely and irreparably from the aforesaid ruling of the RTC as it deprives the government of income based on the government's direct ownership of the assets and facilities of the Company, the Supreme Court (SC) resolved, on August 4, 2014, to require respondents to file Comment on the petition, not a motion to dismiss, within ten (10) days from notice and to issue, effective immediately and continuing until further orders from the SC, a Temporary Restraining Order (TRO), enjoining the RTC of Makati Branch 132, the private respondent, their representatives, agents or other persons acting on their behalf from implementing the RTC Resolution dated April 30, 2014 in Civil Case No. 13-919.

The Petition is still pending resolution before the SC.

## 22. RENTAL INCOME

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

|                    | 2016               | 2015              |
|--------------------|--------------------|-------------------|
| Pasay City         | 107,305,020        | 95,894,390        |
| Porac, Pampanga    | 435,600            | 417,010           |
| Bicutan, Parañaque | 0                  | 527,625           |
|                    | <b>107,740,620</b> | <b>96,839,025</b> |

## 23. SERVICE INCOME

This account consists of the following:

|  | 2016              | 2015              |
|--|-------------------|-------------------|
| Supply of manpower to Skyway O&M Corporation         | 32,679,916        | 2,549,255         |
| Plantwide structural steel rehabilitation – Philphos | 8,947,384         | 8,078,264         |
|  | <b>41,627,300</b> | <b>10,627,519</b> |

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

## 24. COST OF SERVICES

This account consists of the following:

|                            | 2016              | 2015             |
|----------------------------|-------------------|------------------|
| Labor                      | 27,853,528        | 7,126,596        |
| Materials                  | 1,418,850         | 800,287          |
| Equipment operations costs | 599,770           | 282,828          |
| Others                     | 164,840           | 3,735            |
|                            | <b>30,036,988</b> | <b>8,213,446</b> |

## 25. GENERAL AND ADMINISTRATIVE OVERHEAD

This account consists of the following:

|   | 2016       | 2015       |
|---|------------|------------|
| Salaries, wages, and allowances                   | 27,029,266 | 24,579,611 |
| Bonuses and gratuities                            | 4,671,886  | 2,212,418  |
| Employees' terminal pay - vacation/sick leave     | 2,157,200  | 2,160,153  |
| Employees' welfare                                | 1,348,400  | 644,017    |
| Sports and recreation                             | 732,588    | 215,605    |
| SSS/ECC contribution                              | 609,765    | 482,626    |
| PhilHealth contribution                           | 167,937    | 152,450    |
| Pag-IBIG contribution                             | 52,500     | 41,200     |
| Employees' terminal pay - retrenchment            | 42,000     | 1,552,588  |
| Medical and dental expenses                       | 40,001     | 29,367     |
| Fringe benefit expense                            | 0          | 273,564    |
| Fringe benefit tax expense                        | 0          | 128,736    |
| Employee costs                                    | 36,851,543 | 32,472,335 |
| Taxes and licenses                                | 8,904,651  | 3,072,229  |
| Professional fees                                 | 3,064,881  | 3,028,081  |
| Security services - salaries of guards/agency fee | 2,838,792  | 1,662,001  |
| Directors' fees and allowances                    | 2,260,706  | 2,143,882  |
| Light and water                                   | 1,900,259  | 2,753,859  |
| Legal and documentation                           | 1,809,877  | 1,790,092  |
| Transportation and traveling                      | 1,638,501  | 1,833,649  |
| Postage and other communications                  | 1,039,296  | 946,991    |
| Other outside services                            | 589,209    | 1,913,127  |
| Repairs and maintenance – materials/labor         | 520,682    | 644,078    |
| Office supplies and stationery                    | 433,948    | 419,088    |
| Shareholders' meeting                             | 401,534    | 0          |
| Insurance premium                                 | 348,219    | 676,840    |
| Conferences and conventions                       | 306,083    | 247,165    |
| Rent expense                                      | 104,349    | 26,088     |
| Entertainment, amusement, and representation      | 53,039     | 23,324     |
| Advertising and promotions                        | 36,696     | 59,670     |
| Membership fees                                   | 27,600     | 27,600     |
| Janitorial and messengerial supplies              | 24,358     | 1,374,652  |
| Subscriptions                                     | 8,114      | 8,443      |
| Manpower recruitment, training, and development   | 7,071      | 8,400      |
| Bank charges                                      | 6,940      | 6,079      |
| Obsolete inventory                                | 4,183      | 3,342,039  |
| Contributions and donations                       | 0          | 12,483     |
| Miscellaneous expense                             | 595,454    | 220,599    |
| Operating expenses                                | 26,921,442 | 26,240,459 |
| Depreciation                                      | 63,772,985 | 58,712,794 |
|   | 7,135,879  | 4,629,779  |
|   | 70,908,864 | 63,342,573 |

## 26. OTHER INCOME (CHARGES)

This account consists of the following:

|   | 2016               | 2015               |
|---|--------------------|--------------------|
| Reversal of impairment loss on receivables            | 34,668,047         | 0                  |
| Interest income on cash in banks and cash equivalents | 10,913,761         | 5,727,264          |
| Gain (loss) on sale of property and equipment         | 1,071,297          | (282,556)          |
| Dividend income on ASDI and CESLA investments         | 377,511            | 6,194,292          |
| Gain on reversal of allowance for inventory writedown | 127,360            | 0                  |
| Loss on sale of inventory                             | (46,372)           | (367,804)          |
| Unrealized loss on available for sale securities      | (10,000)           | (140,000)          |
| Gain on change in fair value of investment property   | 0                  | 227,749,845        |
| Miscellaneous income                                  | 821,447,403        | 6,053,293          |
|   | <b>868,549,007</b> | <b>244,934,334</b> |

The reversal of impairment loss on receivables in 2016 was due to the collections from DISC Contractors, Builders and General Services Inc. (DCBGSI) mainly arising from the transfer of proceeds from the retirement of a placement account, proceeds from asset disposal, and sales of club shares.

The increase in miscellaneous income in 2016 mainly consists of the recognized "free-carry" equity shares of the Company in Citra Central Expressway Corporation (CCEC) and Citra Intercity Tollways, Inc. (CITI) amounting to P580 million and P240.817 million, respectively.

## 27. INCOME TAXES

The Company's provision for income tax for the year 2016 is P69,854,862 computed under the Regular Corporate Income Tax (RCIT).

Of the carry forward benefit of MCIT of P8.651million presented under "Deferred Charges" account as of December 31, 2016 (Note 13), P3.155 million was applied to RCIT for CY 2016. As of December 31, 2016, the balance of the MCIT is as follows:

| Date Incurred | Amount            | Application      | Expired  | Balance          | Expiry Date |
|---------------|-------------------|------------------|----------|------------------|-------------|
| 2015          | 4,634,538         | 0                | 0        | 4,634,538        | 2018        |
| 2014          | 4,016,686         | 0                | 0        | 4,016,686        | 2107        |
| 2013          | 3,155,276         | 3,155,276        | 0        | 0                | 2016        |
|               | <b>11,806,500</b> | <b>3,155,276</b> | <b>0</b> | <b>8,651,224</b> |             |

As of December 31, 2016 and 2015, 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:

|  | 2016           | 2015           |
|--|----------------|----------------|
| Allowance for losses on assets for write off | 9,615,422,219  | 9,615,422,219  |
| Allowance for doubtful accounts              | 660,139,021    | 694,807,068    |
| Allowance for inventory writedown            | 3,215,862      | 3,342,039      |
| Allowance for losses on investments          | 177,180,811    | 177,180,811    |
| NOLCO  | 0              | 563,412,222    |
|  | 10,455,957,913 | 11,054,164,359 |

Net Operating Loss Carry-Over (NOLCO) amounting to P563.412million was claimed as deduction from regular taxable income for the year 2016:

| Date Incurred | Amount      | Application | Expired | Balance |
|---------------|-------------|-------------|---------|---------|
| 2015          | 158,587,881 | 158,587,881 | 0       | 0       |
| 2014          | 228,765,489 | 228,765,489 | 0       | 0       |
| 2013          | 176,058,852 | 176,058,852 | 0       | 0       |
|               | 563,412,222 | 563,412,222 | 0       | 0       |

As of December 31, 2016 and 2015, deferred tax liabilities pertain to the following:

|  | 2016          | 2015          |
|--|---------------|---------------|
| Fair value adjustment of investment property | 3,179,752,710 | 3,179,752,710 |
| Revaluation increment in property            | 228,939,963   | 230,180,540   |
|  | 3,408,692,673 | 3,409,933,250 |

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*.

## 28. TAX MATTERS

The Company was assessed by the Bureau of Internal Revenue (BIR) for deficiencies in various taxes. However, no provision for any liability has been made yet in the Company's financial statements.

- Deficiency internal revenue taxes for taxable year 1980 (income tax, contractor's tax, and documentary stamp tax) totaling P212.52 million.

*The Company sought a reinvestigation of the case on November 8, 1995, and as a consequence, the BIR issued a final decision promulgated on September 9, 2004 ordering PNCC to pay the amount of P101.46 million, the reduction of P111.87 million represent deficiency contractor's tax which the BIR resolved to cancel and withdraw from the assessment it being bereft of merit for lack of legal basis, thus finding the Company's contention meritorious.*

*The Company, in its letter of February 15, 2005, informed the BIR that it had filed a Petition with the Department of Justice (DOJ) seeking the reversal of the BIR's resolution holding the Company still liable for the aforesaid tax deficiencies and has applied for an interim order or measure from the DOJ to suspend or stop the collection of subject amount pending resolution of the Petition.*

- Deficiency business tax of P64 million due the Belgian Consortium, the Company's partner in its LRT Project.
- Deficiency internal revenue taxes for taxable year 1992 (income tax, value-added tax, and expanded withholding tax) of P1.04 billion which was reduced to P709 million after the Company's written protest.

*PNCC Management, however, requested for a meeting/conference for the clarification of the issue, the reduced amount still being the result of a jeopardy assessment. The BIR has not responded as of date.*

- Deficiency internal revenue taxes for taxable year 2002 totaling P72.92 million.

*Management, in close coordination with the concerned BIR officers, presented a more detailed analysis of the accounts. Said presentation and the Company's availment of the tax amnesty had substantially reduced the aforesaid deficiency taxes.*

- Deficiency taxes for taxable year 2006 amounting to P116.141 million (inclusive of interest of P48.76 million).

*Management, in its letter of October 29, 2010 to the BIR, protested the aforesaid proposed deficiency taxes pursuant to Section 203 of the NIRC of 1997 (Prescription of limitation upon assessment and collection) and Revenue Regulations (RR) No.12-99 (which requires discussion between the Company and BIR Examiner/s before submission of the report to the BIR Chief concerned).*

*No discussion happened as the Company came to know of the findings on the alleged deficiency taxes only on October 22, 2010, way beyond the three (3) year prescription period of April 15, 2010.*

*To date, the Company has not received any formal communication from the BIR after its letter on October 29, 2010.*

- Deficiency internal revenue taxes for the taxable year 2009 in the amount of P87.414 million (basic tax of P51.957 million and interest/penalty charges of P35.457 million).

*After series of written protests/communications with and presentation of documentary evidences to the BIR, the proposed deficiency taxes of P87.414 million was reduced to P21.147 million (basic tax of P11.384 million and interest/penalty charges of P9.763 million).*

The basic taxes of P6.565 million (expanded withholding tax, withholding tax on compensation, and fringe benefit tax) and P4.819 million (final withholding tax) were paid on November 28, 2013 and on January 10, 2014, respectively.

On January 10, 2014, the Company requested reconsideration for the attendant charges of P9.763 million, in the amount equitable to both the BIR and the Company pursuant to Section 204 of the National Internal Revenue Code (NIRC) and the related revenue regulations.

On November 2, 2016, the Company received a Final Decision on Disputed Assessment for expanded withholding tax, withholding tax on compensation, final withholding of VAT and fringe benefit tax amounting to P15.426 million (basic tax of P8.934 million and interest/penalty charges of P6.491 million).

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## 29. CONTINGENT LIABILITIES/PENDING LAWSUITS/LITIGATIONS

### Contingent Liabilities

The Company has contingent liabilities with respect to claims and lawsuits. Management believes that the final resolution of these issues will materially affect the Company's financial position.

- Asiavest Merchant Bankers (M) Berhad vs. PNCC

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

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

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

A Petition for Review on Certiorari was filed before the Supreme Court which eventually decided against PNCC last April 4, 2016. With the decision becoming final and executory, AMB moved for its execution.



- Asiavest Merchant Bankers (M) Berhad vs. Court of Appeals and PNCC

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

In 2001, the Supreme Court (SC) rendered a decision reversing the decision of the Court of Appeals and ordered the payment of the foreign award. In 2002, the Pasig City RTC issued a Writ of Execution, and which was partially satisfied but PNCC later asked for its temporary suspension by moving to quash the writ because of: (a) change of the party's status making the execution inequitable; and, (b) the claim has already prescribed under Malaysian laws. In 2015, the RTC finally denied PNCC's Motion to Quash, including the subsequent Motion for Reconsideration. PNCC has since filed a Petition for Certiorari which is pending in the Court of Appeals. In April 2016, AMB's counsel filed for Ex-Parte Motion for Issuance of Alias Writ of Execution to enforce the 2002 Writ of Execution. PNCC has since opposed it, prompting AMB to file its Urgent Motion to Resolve.

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

#### Pending Lawsuits/Litigations

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

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

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

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### **30. RELATED PARTY TRANSACTIONS**

The Company, in the normal course of business, has transactions with related parties. The more significant of these transactions include compensation/other benefits of key management personnel amounting to P14.719 million and P13.897 million for the years ended December 31, 2016 and 2015, respectively.

### 31. RESTATEMENT OF ACCOUNTS

The 2015 financial statements were restated to reflect the following transactions/adjustments:

|   | December 31,<br>2014<br>(As previously<br>reported) | Restatement/<br>Adjustment | January 1,<br>2015<br>(As restated) |
|---|---|----------------------------|-------------------------------------|
| <b>STATEMENT OF FINANCIAL POSITION</b>  |   |                            |                                     |
| Investments   | 273,484,252   |                            | 300,984,252                         |
| <i>Free carry investment in Citra Central<br/>    Expressway Corporation (CCEC) on<br/>    September 15, 2014</i> |   | 27,500,000                 |                                     |
| <b>STATEMENT OF CHANGES IN EQUITY</b>   | (146,995,263)                                       |                            | (119,495,263)                       |
| Deficit   |   | 27,500,000                 |                                     |

The Company presented three Statements of Financial Position in compliance with the requirement 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.

### 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Fair Value Information

The following table sets forth the carrying values and fair values of the Company's financial assets and liabilities recognized as of December 31, 2016 and 2015.

*Cash and cash equivalents and Accounts and other payables* – carrying amounts approximate fair values due to the relative short-term maturities of these investments.

*Accounts receivable and Receivable from officers and employees* – carrying amounts approximate fair values due to the short-term nature of the receivables.

#### Financial Risk Management Objectives and Policies

##### *Financial risk*

The Company's principal financial instruments comprise of cash and cash equivalents, restructured debt and advances to and from related parties. The main purpose of these financial instruments is to finance the Company's operations. The Company has various other financial assets and liabilities such as receivables and accounts payable and accrued expenses (excluding statutory payables), which arise directly from its operations. The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The Company's Board of Directors (BOD) and Management review and approve the policies for managing each of this risk.

The Company has various financial instruments such as receivables and accounts and other payables, which arise directly from its operations. The main risks arising from the use of financial instruments are liquidity risk and credit risk.

The BOD reviews and agrees with policies for managing each of these risks. The Company monitors market price risk arising from all financial instruments and regularly report financial management activities and the results of these activities to the BOD.

The Company's risk management policies are summarized below. The exposure to risk and how they arise, as well as the Company's objectives, policies and processes for managing the risk and the methods used to measure the risk did not change from prior years.

#### *Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance its cash requirements. Operating expenses and working capital requirements are sufficiently funded through cash collections.

The extent and nature of exposures to liquidity risk and how they arise as well as the Company's objectives, policies and processes for managing the risk and the methods used to measure the risk are the same for 2016 and 2015.

The following table summarizes the maturity profile of the Company's financial assets and financial liabilities as of December 31, 2016 and 2015, based on contractual undiscounted cash flows:

|  | 2016               |                      |                        | Total                  |
|--|--------------------|----------------------|------------------------|------------------------|
|  | <1 year            | >1 to <5 years       | >5 years               |                        |
| <b>Financial Assets</b>                              |                    |                      |                        |                        |
| Cash and cash equivalents                            | 490,718,321        | 0                    | 0                      | 490,718,321            |
| Accounts receivable                                  | 192,982,247        | 13,238,179           | 120,959,930            | 327,180,356            |
| Receivables from officers and employees              | 140,005            | 992,898              | 42,510,000             | 43,642,903             |
|  | <b>683,840,573</b> | <b>14,231,077</b>    | <b>163,469,930</b>     | <b>861,541,580</b>     |
| <b>Financial Liabilities</b>                         |                    |                      |                        |                        |
| Accounts payable and accrued expenses                | 61,643,060         | 0                    | 0                      | 61,643,060             |
| Due to National Government and its Instrumentalities | 258,002,200        | 774,006,600          | 6,796,993,016          | 7,829,001,816          |
| Due to Government- Owned or Controlled Corporation   | 0                  | 0                    | 1,203,000,000          | 1,203,000,000          |
| Other accounts payable                               | 0                  | 171,072,000          | 0                      | 171,072,000            |
| Trust liabilities                                    | 0                  | 0                    | 2,768,583              | 2,768,583              |
| Advances from contract owners                        | 0                  | 0                    | 1,021,046              | 1,021,046              |
|  | <b>319,645,260</b> | <b>945,078,600</b>   | <b>8,003,782,645</b>   | <b>9,268,506,505</b>   |
| <b>Liquidity gap</b>                                 | <b>364,195,313</b> | <b>(930,847,523)</b> | <b>(7,840,312,715)</b> | <b>(8,406,964,925)</b> |



|  | 2015        |                |                 |                 |
|--|-------------|----------------|-----------------|-----------------|
|  | <1 year     | >1 to <5 years | >5              | Total           |
| Financial Assets                                     |             |                |                 |                 |
| Cash and cash equivalents                            | 693,740,491 | 0              | 0               | 693,740,491     |
| Accounts receivable                                  | 198,325,440 | 46,796,072     | 120,417,825     | 365,539,337     |
| Receivables from officers and employees              | 1,687,903   | 39,419,900     | 3,160,000       | 44,267,803      |
|  | 893,753,834 | 86,215,972     | 123,577,825     | 1,103,547,631   |
| Financial Liabilities                                |             |                |                 |                 |
| Accounts payable and accrued expenses                | 50,462,850  | 0              | 0               | 50,462,850      |
| Due to National Government and its Instrumentalities | 258,002,200 | 774,006,600    | 7,105,290,816   | 8,137,299,616   |
| Due to Government- Owned or Controlled Corporation   | 0           | 0              | 1,203,000,000   | 1,203,000,000   |
| Other accounts payable                               | 0           | 171,072,000    | 0               | 171,072,000     |
| Trust liabilities                                    | 0           | 0              | 2,768,583       | 2,768,583       |
| Advances from contract owners                        | 0           | 0              | 1,021,046       | 1,021,046       |
|  | 308,465,050 | 945,078,600    | 8,312,080,445   | 9,565,624,095   |
| Liquidity gap  | 585,288,784 | (858,862,628)  | (8,188,502,620) | (8,462,076,464) |

### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's exposure to credit risk arises from default of the counterparties which include certain financial institutions, real estate buyers and suppliers.

Credit risk management involves dealing only with institutions or individuals for which credit limits have been established, and with suppliers whose paying and performance capabilities are rigorously screened.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position as of December 31, 2016 and 2015:

|   | 2016        | 2015          |
|---|-------------|---------------|
| Cash and cash equivalents               | 490,718,321 | 693,740,491   |
| Accounts receivable                     | 327,180,356 | 365,539,337   |
| Receivables from officers and employees | 43,642,903  | 44,267,803    |
|   | 861,541,580 | 1,103,547,631 |

As of December 31, 2016 and 2015, the aging analysis per class of receivables is as follows:

| 2016  | Neither Past<br>Due Nor<br>Impaired | Past Due But Not Impaired |           |           |             | Impaired<br>Financial<br>Assets | Total       |
|---|-------------------------------------|---------------------------|-----------|-----------|-------------|---------------------------------|-------------|
|   |                                     | <30 c                     | 30- $\xi$ | 60- $\xi$ | >90 c       |                                 |             |
| <b>Accounts Receivable:</b>                             |                                     |                           |           |           |             |                                 |             |
| Advances to the Bureau of<br>the Treasury (BTr)         | 150,000,000                         | 0                         | 0         | 0         | 0           | 0                               | 150,000,000 |
| Contract related<br>receivables                         | 7,400,368                           | 3,477,686                 | 0         | 0         | 129,125,806 | 0                               | 140,003,860 |
| Accounts receivable - trade                             | 16,546,531                          | 1,708,779                 | 1,353,041 | 1,411,056 | 4,910,816   | 0                               | 25,930,223  |
| Accounts receivable -<br>subsidiaries and<br>affiliates | 2,261                               | 2,094                     | 2,272     | 2,254     | 399,960     | 0                               | 408,841     |
| Advances to suppliers                                   | 78,068                              | 0                         | 0         | 0         | 3,690       | 0                               | 81,758      |
| Advances to CESLA                                       | 15,523                              | 0                         | 0         | 0         | 0           | 0                               | 15,523      |
| Advances for SSS/EC<br>benefits                         | 1,920                               | 0                         | 0         | 0         | 0           | 0                               | 1,920       |
| Other accounts receivable                               | 637,588                             | 945,028                   | 0         | 0         | 9,155,615   | 0                               | 10,738,231  |
|   | 174,682,259                         | 6,133,587                 | 1,355,313 | 1,413,310 | 143,595,887 | 0                               | 327,180,356 |
| <b>Receivables from officers and employees:</b>         |                                     |                           |           |           |             |                                 |             |
| Former officers and<br>consultants                      | 0                                   | 0                         | 0         | 0         | 42,510,000  | 0                               | 42,510,000  |
| Officers and employees                                  | 140,005                             | 0                         | 0         | 0         | 971,197     | 0                               | 1,111,202   |
| Directors   | 0                                   | 0                         | 0         | 0         | 21,701      | 0                               | 21,701      |
|   | 140,005                             | 0                         | 0         | 0         | 43,502,898  | 0                               | 43,642,903  |
|   | 174,822,264                         | 6,133,587                 | 1,355,313 | 1,413,310 | 187,098,785 | 0                               | 370,823,259 |

| 2015  | Neither Past<br>Due Nor<br>Impaired | Past Due But Not Impaired |            |           |             | Impaired<br>Financial<br>Assets | Total       |
|---|-------------------------------------|---------------------------|------------|-----------|-------------|---------------------------------|-------------|
|   |                                     | <30 c                     | 30-ξ       | 60-ξ      | >90 c       |                                 |             |
| <b>Accounts Receivable:</b>                             |                                     |                           |            |           |             |                                 |             |
| Advances to the Bureau of<br>the Treasury (BTr)         | 150,000,000                         | 0                         | 0          | 0         | 0           | 0                               | 150,000,000 |
| Contract related<br>receivables                         | 2,758,441                           | 1,579,726                 | 7,258,744  | 0         | 120,413,785 | 0                               | 132,010,696 |
| Accounts receivable - trade                             | 10,729,600                          | 6,246,240                 | 6,118,506  | 6,101,854 | 35,656,031  | 0                               | 64,852,231  |
| Accounts receivable -<br>subsidiaries and<br>affiliates | 3,267                               | 3,268                     | 0          | 0         | 9,280,154   | 0                               | 9,286,689   |
| Advances to suppliers                                   | 73,218                              | 0                         | 0          | 0         | 3,690       | 0                               | 76,908      |
| Advances to CESLA                                       | 12,343                              | 6,446                     | 0          | 0         | 0           | 0                               | 18,789      |
| Advances for SSS/EC<br>benefits                         | 38,409                              | 0                         | 0          | 0         | 0           | 0                               | 38,409      |
| Other accounts receivable                               | 0                                   | 0                         | 0          | 0         | 9,255,615   | 0                               | 9,255,615   |
|   | 163,615,278                         | 7,835,680                 | 13,377,250 | 6,101,854 | 174,609,275 | 0                               | 365,539,337 |
| <b>Receivables from officers and employees:</b>         |                                     |                           |            |           |             |                                 |             |
| Former officers and<br>consultants                      | 0                                   | 0                         | 0          | 0         | 42,510,000  | 0                               | 42,510,000  |
| Officers and employees                                  | 252,269                             | 1,000                     | 1,338,715  | 0         | 59,400      | 0                               | 1,651,384   |
| Directors   | 0                                   | 0                         | 95,919     | 0         | 10,500      | 0                               | 106,419     |
|   | 252,269                             | 1,000                     | 1,434,634  | 0         | 42,579,900  | 0                               | 44,267,803  |
|   | 163,867,547                         | 7,836,680                 | 14,811,884 | 6,101,854 | 217,189,175 | 0                               | 409,807,140 |

## 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, 2016 and 2015.

|  | Carrying Amount |               | Fair Value    |               |
|--|-----------------|---------------|---------------|---------------|
|  | 2016            | 2015          | 2016          | 2015          |
| <b>Financial assets</b>                              |                 |               |               |               |
| Cash and cash equivalents                            | 490,718,321     | 693,740,491   | 490,718,321   | 693,740,491   |
| Accounts receivable                                  | 327,180,356     | 365,539,337   | 327,180,356   | 365,539,337   |
| Receivables from officers and employees              | 43,642,903      | 44,267,803    | 43,642,903    | 44,267,803    |
|  | 861,541,580     | 1,103,547,631 | 861,541,580   | 1,103,547,631 |
| <b>Financial liabilities</b>                         |                 |               |               |               |
| Accounts payable and accrued expenses                | 61,643,060      | 50,462,850    | 61,643,060    | 50,462,850    |
| Due to National Government and its Instrumentalities | 7,829,001,816   | 8,137,299,616 | 7,829,001,816 | 8,137,299,616 |
| Due to Government-Owned or Controlled Corporation    | 1,203,000,000   | 1,203,000,000 | 1,203,000,000 | 1,203,000,000 |
| Other accounts payable                               | 171,072,000     | 171,072,000   | 171,072,000   | 171,072,000   |
| Trust liabilities                                    | 2,768,583       | 2,768,583     | 2,768,583     | 2,768,583     |
| Advances from contract owners                        | 1,021,046       | 1,021,046     | 1,021,046     | 1,021,046     |
|  | 9,268,506,505   | 9,565,624,095 | 9,268,506,505 | 9,565,624,095 |

## **33. SUPPLEMENTARY INFORMATION REQUIRED UNDER BIR REVENUE REGULATIONS 15-2010**

In compliance with the requirements set forth by Revenue Regulations (RR) 15-2010, hereunder are the information on taxes, duties, and licenses paid or accrued during the taxable year 2016:

- 33.1 The Company is a VAT-registered company with VAT output tax declaration of P32.784 million for the year based on the amount reflected in the Sales Account of P273.2 million.



33.2 The amount of VAT input taxes claimed are broken down as follows:

|  |                  |
|--|------------------|
| Beginning of the year                              | 0                |
| Current year's purchases:                          | 0                |
| Goods for resale/manufacture or further processing | 592,640          |
| Goods other than for resale or manufacture         | 0                |
| Capital goods subject to amortization              | 14,000           |
| Capital goods not subject to amortization          | 0                |
| Services lodged under cost of goods sold           | 481,564          |
| Services lodged under other accounts               | 35,000           |
| Claims for tax credit/refund and other adjustments |                  |
| <u>Balance at the end of the year</u>              | <u>1,123,204</u> |

33.3 Other taxes and licenses:

|                 |                  |
|-----------------|------------------|
| Local:          |                  |
| Real Estate Tax | 1,543,562        |
| Mayor's Permit  | 1,482,711        |
| Community tax   | 21,000           |
| <u>Total</u>    | <u>3,047,273</u> |

|                           |                  |
|---------------------------|------------------|
| National:                 |                  |
| Renewal of corporate life | 5,454,000        |
| BIR Annual Registration   | 500              |
| VAT/Percentage Taxes      | 379,432          |
| Others (CGT/DST)          | 121,903          |
| <u>Total</u>              | <u>5,955,835</u> |

32.4 The amount of withholding taxes paid/accrued for the year amounted to P6.28 million, broken down as follows:

|                                  |                  |
|----------------------------------|------------------|
| Tax on compensation and benefits | 5,562,629        |
| Creditable withholding taxes     | 717,893          |
| <u>Total</u>                     | <u>6,280,522</u> |



**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

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

The Management of Philippine National Construction Corporation is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

  
**ELPIDIO C. JAMORA, JR.**  
Chairman of the Board


  
**MARIO K. ESPINOSA**  
President

  
**MIRIAM M. PASETES**  
Vice President, Head - Treasury

SUBSCRIBED AND SWORN to before me this APR 07 2017 day of QUEZON CITY affiants exhibiting to me their Tax Identifications, as follows:

| <u>Names</u>           | <u>Tax Identification No.</u> |
|------------------------|-------------------------------|
| Elpidio C. Jamora, Jr. | 103-211-578                   |
| Mario K. Espinosa      | 124-704-814                   |
| Miriam M. Pasetes      | 120-678-424                   |

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Book No. 177  
Series of 2017

  
**ATTY. BENJAMIN F. ALFONSO**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2017  
PTR. NO. 3806848 - 1/16/2017 QUEZON CITY  
IBP NO. 1038379 - 11/24/2016 QUEZON CITY  
ROLL NO. 13296  
ADM. MATTER NO. NP-046 (2017-2018)  
ADD.: NO. 34 ASSET'S ST. GSIS VILL., PROJ. 8, Q.C.  
MCLE NO. JJ-0020276- OCT. 29, 2011

## **EXHIBITS AND SCHEDULES**

### **Exhibits and Reports on SEC Form 17-C**

Item 7. (a) Exhibit – none

Item 8. (b) Reports on SEC Form 17 – C. Attached, the following are attached herewith:

- Statement of Management's Responsibility for Financial Statements
- Data Required – Special Statements of the Company
- Management's Certificates Required under Part 2
  - 1. Financial Statements Indicators
  - 2. Philippine Financial Reporting Standards and Interpretations Effective as of Year-End
- Supplementary Schedule Required under Annex 2B-C
  - 1. Large Stock or Retained Earnings Available for Dividend Declaration
- Supplementary Schedules Required under Annex 2B-E
  - 2. Schedules A to H



## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 7. Financial Statements**

In compliance with the requirements of SRC Rule 68, as amended, the following are attached herewith:

- Statement of Management's Responsibility for Financial Statements
- 2016 Audited Financial Statements of the Company
- Supplementary Schedules Required under Part I
  - Financial Soundness Indicators
  - Philippine Financial Reporting Standards and Interpretations Effective as of Year-End
- Supplementary Schedule Required under Annex 68-C
  - Reconciliation of Retained Earnings Available for Dividend Declaration
- Supplementary Schedules Required under Annex 68-E
  - Schedules A to H

# FINANCIAL SOUNDNESS INDICATORS

|                                | 2016     | 2015<br>(As Restated) |
|--------------------------------|----------|-----------------------|
| 1 Current/Liquidity Ratios:    |          |                       |
| Current Ratio                  | 0.10     | 0.12                  |
| Quick Asset Ratio              | 0.10     | 0.12                  |
| 2 Solvency Ratios:             |          |                       |
| Debt to Assets                 | 93.69%   | 99.12%                |
| Debt to Equity Ratio           | 1485.61% | 11305.46%             |
| 3 Asset to Equity Ratio        | 1585.61% | 11405.46%             |
| 4 Interest Rate Coverage Ratio | 4.13     | 1.55                  |
| 5 Profitability Ratios:        |          |                       |
| Return on Assets               | 5.54%    | 1.86%                 |
| Return on Equity               | 152.32%  | 204.91%               |

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**  
**EFFECTIVE AS OF DECEMBER 31, 2016**

| Title   | Adopted | Not Adopted | Not Applicable |
|---|---------|-------------|----------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b> |         |             |                |
| Conceptual Framework Phase A: Objectives and qualitative characteristics      | ✓       |             |                |
| PFRSs Practice Statement Management Commentary                                |         |             | ✓              |

**Philippine Financial Reporting Standards (PFRSs)**

| PFRS             | Title  | Adopted | Not Adopted | Not Applicable |
|------------------|--|---------|-------------|----------------|
| PFRS 1 (Revised) | First-time Adoption of Philippine Financial Reporting Standards  |         |             | ✓              |
|                  | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |         |             | ✓              |
|                  | Amendments to PFRS 1: Additional Exemptions for First-time Adopters  |         |             | ✓              |
|                  | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters             |         |             | ✓              |
|                  | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  |         |             | ✓              |
|                  | Amendments to PFRS 1: Government Loans   |         |             | ✓              |
|                  | Amendment to PFRS 1: Meaning of effective PFRSs  |         |             |                |
| PFRS 2           | Share-based Payment  |         |             | ✓              |
|                  | Amendments to PFRS 2: Vesting Conditions and Cancellations   |         |             | ✓              |
|                  | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |         |             | ✓              |



|                     |   |   |  |   |
|---------------------|---|---|--|---|
| PFRS 3<br>(Revised) | Business Combinations   |   |  | ✓ |
| PFRS 4              | Insurance Contracts   |   |  | ✓ |
|                     | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  |   |  | ✓ |
| PFRS 5              | Non-current Assets Held for Sale and Discontinued Operations  |   |  | ✓ |
| PFRS 6              | Exploration for and Evaluation of Mineral Resources   |   |  | ✓ |
| PFRS 7              | Financial Instruments: Disclosures  | ✓ |  |   |
|                     | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                 | ✓ |  |   |
|                     | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ |  |   |
|                     | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                               | ✓ |  |   |
|                     | Amendments to PFRS 7: Disclosures – Transfers of Financial Assets                                     | ✓ |  |   |
|                     | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities             | ✓ |  |   |
|                     | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   | ✓ |  |   |
| PFRS 8              | Operating Segments  |   |  | ✓ |
| PFRS 9              | Financial Instruments   |   |  | ✓ |
|                     | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |   |  | ✓ |
| PFRS 10             | Consolidated Financial Statements   |   |  | ✓ |
|                     | Amendments to PFRS 10: Investment Entities  |   |  | ✓ |
| PFRS 11             | Joint Arrangements  |   |  | ✓ |
| PFRS 12             | Disclosure of Interests in Other Entities   | ✓ |  |   |
|                     | Amendments to PFRS 12: Investment Entities  |   |  | ✓ |
| PFRS 13             | Fair Value Measurement  | ✓ |  |   |
|                     | Amendment to PFRS 13: Short-term receivables and payables   | ✓ |  |   |

# **Philippine Accounting Standards (PASs)**

| PAS                 | Title   | Adopted | Not Adopted | Not Applicable |
|---------------------|---|---------|-------------|----------------|
| PAS 1<br>(Revised)  | Presentation of Financial Statements  | ✓       |             |                |
|                     | Amendment to PAS 1: Capital Disclosures   | ✓       |             |                |
|                     | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |         |             | ✓              |
|                     | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                              | ✓       |             |                |
| PAS 2               | Inventories   | ✓       |             |                |
| PAS 7               | Statement of Cash Flows   | ✓       |             |                |
| PAS 8               | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓       |             |                |
| PAS 10              | Events after the Reporting Period   | ✓       |             |                |
| PAS 11              | Construction Contracts  |         |             | ✓              |
| PAS 12              | Income Taxes  | ✓       |             |                |
|                     | Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets                                     | ✓       |             |                |
| PAS 16              | Property, Plant and Equipment   | ✓       |             |                |
| PAS 17              | Leases  | ✓       |             |                |
| PAS 18              | Revenue   | ✓       |             |                |
| PAS 19<br>(Amended) | Employee Benefits   | ✓       |             |                |
| PAS 20              | Accounting for Government Grants and Disclosure of Government Assistance                              |         |             | ✓              |
| PAS 21              | The Effects of Changes in Foreign Exchange Rates  | ✓       |             |                |
|                     | Amendment: Net Investment in a Foreign Operation  | ✓       |             |                |
| PAS 23<br>(Revised) | Borrowing Costs   | ✓       |             |                |
| PAS 24<br>(Revised) | Related Party Disclosures   | ✓       |             |                |

| PAS              | Title  | Adopted | Not Adopted | Not Applicable |
|------------------|--|---------|-------------|----------------|
| PAS 26           | Accounting and Reporting by Retirement Benefit Plans   |         |             | ✓              |
| PAS 27 (Amended) | Separate Financial Statements  |         |             | ✓              |
|                  | Amendments to PAS 27: Investment Entities  |         |             | ✓              |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures   | ✓       |             |                |
| PAS 29           | Financial Reporting in Hyperinflationary Economies   |         |             | ✓              |
| PAS 32           | Financial Instruments: Disclosure and Presentation   | ✓       |             |                |
|                  | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation  |         |             | ✓              |
|                  | Amendment to PAS 32: Classification of Rights Issues   |         |             | ✓              |
|                  | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                            | ✓       |             |                |
| PAS 33           | Earnings per Share   | ✓       |             |                |
| PAS 34           | Interim Financial Reporting  |         |             | ✓              |
| PAS 36           | Impairment of Assets   | ✓       |             |                |
|                  | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets                          | ✓       |             |                |
| PAS 37           | Provisions, Contingent Liabilities and Contingent Assets   | ✓       |             |                |
| PAS 38           | Intangible Assets  | ✓       |             |                |
| PAS 39           | Financial Instruments: Recognition and Measurement   | ✓       |             |                |
|                  | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓       |             |                |
|                  | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                   |         |             | ✓              |
|                  | Amendments to PAS 39: The Fair Value Option  |         |             | ✓              |



| PAS    | Title   | Adopted | Not Adopted | Not Applicable |
|--------|---|---------|-------------|----------------|
|        | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts  |         |             | ✓              |
|        | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                 | ✓       |             |                |
|        | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓       |             |                |
|        | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                      |         |             | ✓              |
|        | Amendment to PAS 39: Eligible Hedged Items  |         |             | ✓              |
|        | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting                    |         |             | ✓              |
| PAS 40 | Investment Property   | ✓       |             |                |
| PAS 41 | Agriculture   |         |             | ✓              |

#### Philippine Interpretations

| Interpretations | Title   | Adopted | Not Adopted | Not Applicable |
|-----------------|---|---------|-------------|----------------|
| IFRIC 1         | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                |         |             | ✓              |
| IFRIC 2         | Members' Share in Co-operative Entities and Similar Instruments   |         |             | ✓              |
| IFRIC 4         | Determining Whether an Arrangement Contains a Lease   | ✓       |             |                |
| IFRIC 5         | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds    |         |             | ✓              |
| IFRIC 6         | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |         |             | ✓              |
| IFRIC 7         | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies       |         |             | ✓              |
| IFRIC 8         | Scope of PFRS 2   |         |             | ✓              |
| IFRIC 9         | Reassessment of Embedded Derivatives  |         |             | ✓              |

| Interpretations | Title   | Adopted | Not Adopted | Not Applicable |
|-----------------|---|---------|-------------|----------------|
|                 | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                |         |             | ✓              |
| IFRIC 10        | Interim Financial Reporting and Impairment  |         |             | ✓              |
| IFRIC 12        | Service Concession Arrangements   |         |             | ✓              |
| IFRIC 13        | Customer Loyalty Programmes   |         |             | ✓              |
| IFRIC 14        | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction        |         |             | ✓              |
|                 | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement |         |             | ✓              |
| IFRIC 16        | Hedges of a Net Investment in a Foreign Operation   |         |             | ✓              |
| IFRIC 17        | Distributions of Non-cash Assets to Owners  |         |             | ✓              |
| IFRIC 18        | Transfers of Assets from Customers  |         |             | ✓              |
| IFRIC 19        | Extinguishing Financial Liabilities with Equity Instruments                                     |         |             | ✓              |
| IFRIC 20        | Stripping Costs in the Production Phase of a Surface Mine                                       |         |             | ✓              |
| IFRIC 21        | Levies  | ✓       |             |                |
| SIC-7           | Introduction of the Euro  |         |             | ✓              |
| SIC-10          | Government Assistance – No Specific Relation to Operating Activities                            |         |             | ✓              |
| SIC-13          | Jointly Controlled Entities – Non-Monetary Contributions by Venturers                           |         |             | ✓              |
| SIC-15          | Operating Leases – Incentives   | ✓       |             |                |
| SIC-21          | Income Taxes – Recovery of Revalued Non-Depreciable Assets                                      |         |             | ✓              |
| SIC-25          | Income Taxes – Changes in the Tax Status of an Entity or its Shareholders                       |         |             | ✓              |
| SIC-27          | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                    | ✓       |             |                |
| SIC-29          | Service Concession Arrangements: Disclosures  |         |             | ✓              |
| SIC-31          | Revenue – Barter Transactions Involving Advertising Services                                    |         |             | ✓              |

| Interpretations | Title                              | Adopted | Not<br>Adopted | Not<br>Applicable |
|-----------------|------------------------------------|---------|----------------|-------------------|
| SIC-32          | Intangible Assets – Web Site Costs | ✓       |                |                   |



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**SCHEDULE OF RETAINED EARNINGS (DEFICIT)**  
**DECEMBER 31, 2016**

|  |                 |
|--|-----------------|
| Deficit, balance at beginning of year              | (8,231,078,605) |
| Piecemeal realization of revaluation surplus       | 4,135,258       |
| Deficit, balance at beginning of year, as adjusted | (8,226,943,347) |
| Net income   | 737,320,663     |
| Deficit, balance at end of year                    | (7,489,622,684) |

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**SUPPLEMENTARY SCHEDULES AS REQUIRED BY PARAGRAPH 6, PART II OF**  
**SRC RULE 68 AS AMENDED**

**SCHEDULE A – FINANCIAL ASSETS**  
**DECEMBER 31, 2016**

|  | Carrying Value     | Fair Value         |
|--|--------------------|--------------------|
| Cash on Hand:                          |                    |                    |
| Petty cash and revolving fund          | 250,000            | 250,000            |
| Loans and Receivables:                 |                    |                    |
| Cash in banks                          | 72,632,046         | 72,632,046         |
| Cash equivalents                       | 417,836,275        | 417,836,275        |
| Accounts receivable                    | 327,180,356        | 327,180,356        |
| Receivable from officers and employees | 43,642,903         | 43,642,903         |
|  | <u>861,541,580</u> | <u>861,541,580</u> |

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**SUPPLEMENTARY SCHEDULES AS REQUIRED BY PARAGRAPH 6, PART II OF**  
**SRC RULE 68 AS AMENDED**

**SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED**  
**PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2016**

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



**SCHEDULE E- LONG TERM DEBT**  
**DECEMBER 31, 2016**

| Creditors             | Amount Authorized by Indenture | As of December 31, 2018           |                |                   |                          |            | As of December 31, 2015           |                   |               |                          |           |
|-----------------------|--------------------------------|-----------------------------------|----------------|-------------------|--------------------------|------------|-----------------------------------|-------------------|---------------|--------------------------|-----------|
|                       |                                | Current Portion of Long-term Debt | Long-term Debt |                   |                          |            | Current Portion of Long-term Debt | Long-term Debt    |               |                          |           |
|                       |                                |                                   | Amount         | Interest Rate     | No. of Periodic Install. | Mat. Date  |                                   | Amount            | Interest Rate | No. of Periodic Install. | Mat. Date |
| Domestic:             | 912M                           | 5,528,433 *                       |                | 2%mp on outs bal. | 30 years                 | 04/30/2007 | 5,270,431 *                       | 2%mp on outs bal. | 30 years      | 04/30/2007               |           |
| Toll Regulatory Board |                                |                                   |                |                   |                          |            |                                   |                   |               |                          |           |
| Debt to NG            |                                | 2,300,569                         |                |                   |                          |            | 2,866,669                         |                   |               |                          |           |
| Debt to GOCC          |                                | 1,203,000                         |                |                   |                          |            | 1,203,000                         |                   |               |                          |           |
| Total                 |                                | 9,032,002                         | 0              |                   |                          |            | 9,340,300                         | 0                 |               |                          |           |
|                       |                                |                                   |                |                   |                          |            |                                   |                   |               |                          |           |

\*Inclusive of penalty charges

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**SUPPLEMENTARY SCHEDULES AS REQUIRED BY PARAGRAPH 6, PART II OF**  
**SRC RULE 68 AS AMENDED**

**SCHEDULE H – CAPITAL STOCK**  
**DECEMBER 31, 2016**

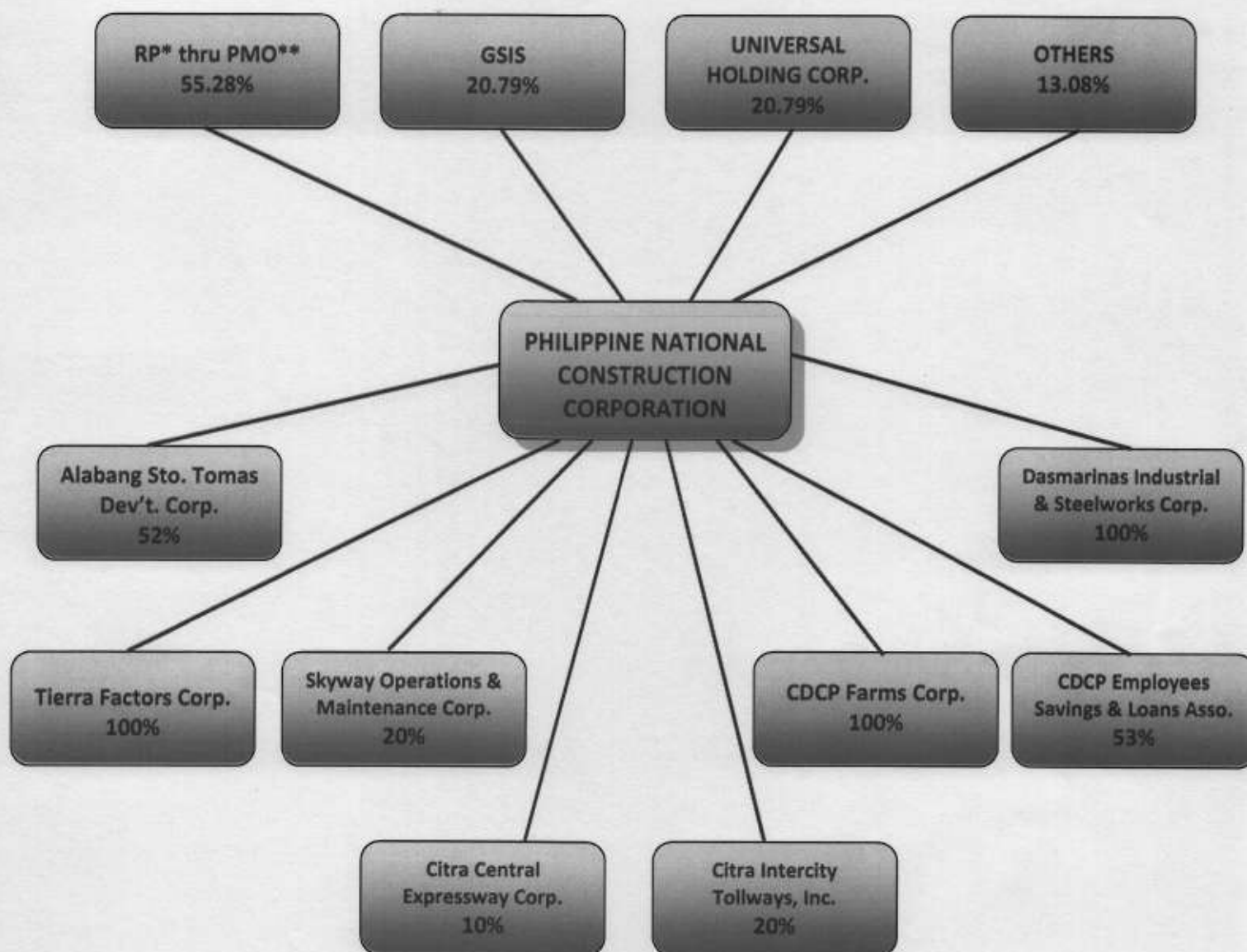
| Title of Issue                       | Number of<br>Shares<br>Authorized | Number of Shares<br>Issued and<br>Outstanding as<br>Shown Under<br>Related Balance<br>Sheet Caption | Number of Shares<br>Reserved for<br>Options, Warrants<br>Conversion and<br>Other Rights,<br>Redemptions | Number of<br>Shares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

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There is no change in the Company's external auditors (the Commission on Audit) in 2016, as the Company is classified by the Governance Commission for Government Owned or Controlled Corporations (GOCCs) as a GOCC.



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



## **ANNEX "A"**

# COVER SHEET

3 0 9 3 9  
S.E.C. Registration Number

P H I L I P P I N E N A T I O N A L  
C O N S T R U C T I O N C O R P O R A T I O N  
(Company's Full Name)

P N C C C O M P L E X K M 1 5 E A S T S E R V I C  
E R O A D B I C U T A N P A R A N A Q U E C I T Y  
(Business Address: No. Street City / Town / Province)

JANICE DAY E. ALEJANDRINO  
Contact Person

846-2906  
Company Telephone Number

1 2 3 1  
Month Fiscal Year

ACGR  
FORM TYPE

0 3 4th Tuesday  
Month Annual Meeting Day

Secondary License Type, if Applicable

Dept. Requiring this Doc.  
Total No. of Stockholders

Amended Articles Number / Section

Domestic Foreign

To be accomplished by SEC Personnel Concerned

File Number  
Document ID

LCU  
Cashier

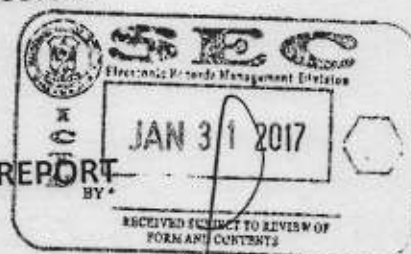
STAMPS




SECURITIES AND EXCHANGE COMMISSION

SEC FORM – ACGR

ANNUAL CORPORATE GOVERNANCE REPORT



1. Report is Filed for the Year 2016
2. Exact Name of Registrant as Specified in its Charter Philippine National Construction Corporation
3. PNCC Compound, Km. 15 East Service Road, Bicutan Parañaque City 1700  
Address of Principal Office Postal Code
4. SEC Identification Number 30939  
Industry Classification Code
5.  (SEC Use Only)
6. BIR Tax Identification Number 000-330—058-000
7. (632) 846 3045  
Issuer's Telephone number, including area code
8. ....  
Former name or former address, if changed from the last report

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## A. BOARD MATTERS

### 1) Board of Directors

|   |    |
|---|----|
| Number of Directors per Articles of Incorporation | 11 |
|---|----|

|   |    |
|---|----|
| Actual number of Directors for the year | 11 |
|---|----|

#### (a) Composition of the Board

| Director's Name                  | Type<br>[Executive (ED),<br>Non-Executive<br>(NED) or<br>Independent<br>Director (ID)] | If<br>nominee<br>identify<br>the<br>principal | Nominator<br>in the last<br>election (If<br>ID, state the<br>relationship<br>with the<br>nominator) | Date first<br>elected | Date last<br>elected (If ID,<br>state the<br>number of<br>years served<br>as ID) <sup>1</sup> | Elected when<br>(Annual /Special<br>Meeting) | No. of<br>years<br>served<br>as<br>director |
|----------------------------------|--|---|---|-----------------------|---|--|---|
| Elpidio C. Jamora, Jr.           | NED  | OP*   | OP*   | 09/30/2013            | 09/30/2013  | Special Meeting                              | 3   |
| Luis F. Sison                    | ED   | OP*   | OP*   | 01/11/2011            | 01/11/2011  | Special Meeting                              | 5   |
| Tomas C. Alvarez                 | NED  | OP*   | OP*   | 01/11/2011            | 01/11/2011  | Special Meeting                              | 5   |
| Rosendo T. Capco                 | NED  | OP*   | OP*   | 01/11/2011            | 01/11/2011  | Special Meeting                              | 5   |
| Antonio C. Pido                  | NED  | OP*   | OP*   | 01/11/2011            | 01/11/2011  | Special Meeting                              | 5   |
| Nora O. Vinluan                  | NED  | OP*   | OP*   | 01/11/2011            | 01/11/2011  | Special Meeting                              | 5   |
| Rosanna E. Velasco               | NED  | OP*   | OP*   | 09/30/2013            | 09/30/2013  | Special Meeting                              | 3   |
| Cristino L. Panlilio             | NED  | OP*   | OP*   | 09/30/2013            | 09/30/2013  | Special Meeting                              | 3   |
| Elisea G. Gozun                  | NED  | GSIS  | OP*   | 10/14/2013            | 10/14/2013  | Special Meeting                              | 3   |
| Robert G. Vergara                | NED  | GSIS  | OP*   | 10/14/2013            | 10/14/2013  | Special Meeting                              | 3   |
| Jephonie L. Agustin              | NED  | OP*   | OP*   | 11/14/2016            | 11/14/2016  | Regular Meeting                              | 0   |
| Ma. Lourdes B. Recente           | Ex-officio   | PMO   | OP*   | 12/19/2016            | 12/19/2016  | Regular Meeting                              | 0   |
| <b>Replaced:</b>                 |  |   |   |                       |   |  |   |
| Tomas C. Falgui II <sup>A</sup>  | NED  | OP*   | OP*   | 10/08/2013            | 10/08/2013  | Special Meeting                              | 3   |
| Toni Angeli V. Coob <sup>B</sup> | Ex-officio   | PMO   | OP*   | 01/20/2014            | 01/20/2014  | Regular Meeting                              | 3   |

#### Legend:

\*OP- Office of the President of the Philippines

A - Replaced by Jephonie L. Agustin on November 14, 2016

B - Replaced by Ma. Lourdes B. Recente on December 19, 2016

#### (b) Brief Summary of the Corporate Governance Policy that the Board of Directors Adopted

#### BOARD RESPONSIBILITIES.

*As provided for in the company's Revised Manual on Corporate Governance:*

It is the Board's responsibility to foster the long-term success of the corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders.

1. Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly motivated management officers. Adopt an effective succession planning program for Management.
2. Provide sound strategic policies and guidelines to the corporation on major capital expenditures. Establish programs that can sustain its long-term viability and strength. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and Management's overall performance.
3. Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.
4. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation. If feasible, the corporations's CEO or Chief Financial

- Officer shall exercise oversight responsibility over this program.
5. Identify the corporation's stakeholders in the community in which the corporation operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.
  6. Implement a system of internal checks and balances within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness.
  7. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability.
  8. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its parent company, joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.
  9. Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
  10. Ensure the integrity of the corporation's accounting and financial reporting systems, including independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, and financial and operational control.
  11. Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.
  12. Meet regularly, ideally at least once a month, and at such times or frequency as may be needed, to properly discharge its responsibilities, with independent views expressed during such meetings being given due consideration. The minutes of such meetings should be duly recorded. Independent views during Board meetings should be encouraged and given due consideration.
  13. Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.
  14. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the Corporate Secretary, preferably a lawyer, shall act as Compliance Officer.

#### **STOCKHOLDERS' RIGHTS AND PROTECTION OF MINORITY STOCKHOLDERS' INTEREST.**

*As provided for in the company's Revised Manual on Corporate Governance:*

The Board respects the rights of the stockholders as provided for in the Corporation Code such as voting right, pre-emptive right, power of inspection, right to information, right to dividends and appraisal right.

##### **Voting Right**

1. Shareholders have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.
2. Cumulative voting shall be used in the election of directors.
3. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

##### **Pre-emptive Right**

All stockholders shall have pre-emptive rights in accordance with law, unless the same is denied in the Articles of Incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the Corporation. The Articles of Incorporation shall lay down the specific rights and powers of stockholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

##### **Power of Inspection**

All stockholders shall be allowed to inspect corporate books and records including minutes of the Board meetings and stock registries in accordance with the Corporation Code and shall be furnished



with annual reports, including financial statements, without cost or restrictions.

#### Right to Information

1. The stockholders shall be provided, upon request, with periodic reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the corporation's share, dealings with the corporation, relationship among directors and key officers and the aggregate compensation of directors and officers.
2. The minority stockholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda provided the items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice.
3. The minority stockholders shall have access to any and all information relating to matters for which the management is accountable for. If not included, then the minority stockholders shall be allowed to propose such matters in the agenda of a stockholders' meeting, being within the definition of "legitimate purposes" and in accordance with law, jurisprudence and best practice.

#### Right to Dividends

1. Stockholders shall have the right to receive dividends subject to the discretion of the Board.
2. The corporation shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock except : a) when justified by definite corporate expansion projects or programs approved by the Board, or b) when the corporation is prohibited under loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured, or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is a need for special reserve for probable contingencies.

#### Appraisal right

The stockholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

1. In case any amendments to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the terms of corporate existence;
2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets provided in the Corporation Code; and
3. In case of merger or consolidation.

The Board shall continue to be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders shall be encouraged to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board shall take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information shall be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders shall be treated equally or without discrimination, the Board shall give minority stockholders the right to propose the holding of meetings and the items for discussion in the



agenda that relate directly to the business of the corporation.

## DISCLOSURE AND TRANSPARENCY.

*As provided for in the company's Revised Manual on Corporate Governance:*

1. All material information about the corporation which could adversely affect its viability or the interests of its stockholders and other stakeholders shall be publicly and timely disclosed. Such information shall include, among others, earning results, acquisition of assets, off balance sheet transactions, related party transactions and direct and indirect remuneration of members of the Board and Management.
2. The reports or disclosures required under this Manual shall be prepared and submitted to the pertinent regulatory agencies by the responsible Committee or Officer through the Corporation's Compliance Officers.
3. All disclosed information shall be released via the approved stock exchange procedure for company announcements as well as through the annual report.
4. The Board shall commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to the Securities and Exchange Commission for the interest of its stockholders and other stakeholders.
5. The Revised Manual on Corporate Governance shall be available for inspection by any stockholder of the Corporation at reasonable times on business days.
6. The Compliance Officer shall provide copies of the Manual to all directors, division and department heads to ensure that thorough dissemination of the Manual to all employees and related third parties, and to enjoin compliance in the process.
7. An adequate number of printed copies of the Manual must be produced under the supervision of the Compliance Officer, with a minimum of at least one (1) hard copy of the Manual per department.

(c) The Company's vision and mission statement is under review and will be approved as required.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group<sup>2</sup>

| Director's Name        | Corporate Name of the Group Company  | Type of Directorship<br>(Executive, Non-Executive,<br>Independent)<br>Indicate if director is also<br>the Chairman. |
|------------------------|--|---|
| Elpidio C. Jamora, Jr. | Citra Intercity Tollways, Inc.<br>DISC Contractors, Builders & Gen. Services Inc.  | NED<br>NED/Chairman   |
| Luis F. Sison          | CDCP Farms Corp.<br>Alabang Sto. Tomas Devt. Inc.<br>Traffic Control Products Corp.<br>DISC Contractors, Builders & Gen. Services Inc. | ED<br>ED<br>ED<br>ED  |
| Tomas C. Alvarez       | Traffic Control Products Corp.<br>DISC Contractors, Builders & Gen. Services Inc.  | NED<br>NED  |
| Rosanna E. Velasco     | DISC Contractors, Builders & Gen. Services Inc.  | NED   |
| Rosendo T. Capco       | Traffic Control Products Corp.<br>CDCP Savings & Loan Association  | NED<br>NED  |
| Antonio C. Pido        | DISC Contractors, Builders & Gen. Services Inc.<br>Alabang Sto. Tomas Devt. Inc.   | NED<br>NED  |
| Nora O. Vinluan        | Traffic Control Products Corp.<br>DISC Contractors, Builders & Gen. Services Inc.  | NED<br>NED  |

<sup>2</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

## (ii) Directorship in Other Listed Companies

| Director's Name   | Name of Listed Company  | Type of Directorship<br>(Executive, Non-Executive,<br>Independent). Indicate if<br>director is also the Chairman. |
|-------------------|---|---|
| Robert G. Vergara | National Reinsurance<br>Corporation of the Philippines<br>Philippine Stock Exchange, Inc. | NED<br>NED  |

## (iii) Relationship within the Company and its Group

There is known relationship among the members of the Board of Directors which links them to significant shareholders in the company and/or in its group.

| Director's Name    | Name of the<br>Significant Shareholder | Description of the relationship    |
|--------------------|--|------------------------------------|
| Robert G. Vergara  | GSIS                                   | GSIS Representative                |
| Tomas G. Falgui II | Robert G. Vergara                      | 3 <sup>rd</sup> degree by affinity |

- (iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

NO, the company has not set a limit on the number of board seats in other companies that an individual director or CEO may hold simultaneously. The Governance Commission for GOCCs (GCG), per Memorandum Circular No 2012-07, has ruled that the capacity of Appointive Directors to serve with diligence shall not be compromised. Pursuant thereto, GCG has ruled that no Appointive Director in a GOCC, Subsidiary or Affiliate may hold more than two (2) other Board seats in other GOCCs, Subsidiaries and/or Affiliates.

|   | Guidelines  | Maximum Number of<br>Directorships in other<br>companies |
|---|---|--|
| Executive Director<br>Non-Executive Director<br>CEO | Section 11 of Code of Corporate Governance for<br>GOCCs (GCG Memorandum Circular No. 2012-07) | 2  |

## (e) Shareholding in the Company

| Name of Director       | Number of<br>Direct shares | Number of<br>Indirect shares / Through<br>(name of record owner) | % of Capital<br>Stock |
|------------------------|----------------------------|--|-----------------------|
| Elpidio C. Jamora, Jr. |                            | 1  | 00.00%                |
| Luis F. Sison          | 2000                       | 1 / PNCC   | 00.00%                |
| Tomas C. Alvarez       |                            | 101  | 00.00%                |
| Rosendo T. Capco       |                            | 10   | 00.00%                |
| Rodolfo C. Naguit*     |                            | 2  | 00.00%                |
| Antonio C. Pido        |                            | 50   | 00.00%                |
| Nora O. Vinluan        |                            | 2  | 00.00%                |
| Rosanna E. Velasco     |                            | 50   | 00.00%                |
| Cristino L. Panlilio   | 1455                       | 1  | 00.00%                |
| Robert G. Vergara      |                            | 50   | 00.00%                |
| Elisea G. Gozun        |                            | 50   | 00.00%                |
| Jephonie L. Agustin    |                            | 100  | 00.00%                |

\* Resigned effective June 30, 2013. However, shares assigned to Mr. Naguit still remain under his name.

## 2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☒

No ☐

Identify the Chair and CEO:

|                       |                        |
|-----------------------|------------------------|
| Chairman of the Board | Elpidio C. Jamora, Jr. |
| CEO/President         | Luis F. Sison          |

## (b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

|                  | Chairman  | Chief Executive Officer  |
|------------------|---|--|
| Role             | <ul style="list-style-type: none"> <li>Presides at all meetings of the stockholders and of the Board of Directors. He presides and/or attends meetings of standing committees created by the Board</li> <li>Informs the Board of Directors and the stockholders on matters of interest to them at their respective meetings</li> <li>Represents and votes shares of the Company in other corporations.</li> </ul> | <ul style="list-style-type: none"> <li>Exercises overall responsibility for the successful administration of the affairs and business of the Corporation</li> <li>Presides at all meetings of the stockholders and of the directors, in the absence, inability or default of the Chairman</li> <li>Exercises general supervision over all the other officers of the Corporation</li> <li>Represents and votes the shares owned by the Corporation in other corporations</li> </ul>   |
| Accountabilities | <ul style="list-style-type: none"> <li>Ensures that policies enunciated by the Board are implemented</li> <li>Ensures that the meetings of the Board and shareholders are held in accordance with the by-laws</li> </ul>  | <ul style="list-style-type: none"> <li>Negotiates, enters into and executes on behalf of the Corporation all contracts and agreements</li> <li>Signs, endorses and delivers all checks, drafts, bills of exchange, promissory notes and orders of payment of sums of money</li> <li>Submits an annual report of the operations of the Corporation to the Board and at such other times as the latter may request, an annual report to the stockholders at the annual meeting</li> <li>Appoints, removes or suspends all agents, employees, and other subordinate personnel of the Corporation</li> </ul> |
| Deliverables     | <ul style="list-style-type: none"> <li>Supervises the preparation of agenda of the meeting in coordination with the Corporate Secretary taking into consideration the suggestions of the CEO, Management and directors</li> <li>Maintains qualitative and timely lines of communication and information between the Board and Management</li> </ul>   | <ul style="list-style-type: none"> <li>Determines, promulgates and enforces the general operating and administrative policies required to implement basic policy established by the Board</li> </ul>   |



- 3) Explain how the board of directors plans for the succession of the CEO/Managing Director/President and the top key management positions?

Members of the Board of Directors in GOCCs and their Subsidiaries are appointed by the President of the Philippines from a shortlist prepared by the GCG per Section 15 of R.A. 10149. Generally, top key management positions are retained by current position holders.

- 4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

Article 3.2.2 of the Revised Manual on Corporate Governance provides that:

The Board may likewise provide for the following additional qualifications for membership in the Board 1) membership in good standing in relevant industry, business or professional organizations; and 2) previous business experience in relevant industry.

Does it ensure that at least one non-executive director has an experience in the sector or industry the Corporation belongs to? Please explain.

The Directors of the Board as constituted are experts or have broad experience in the industry the company belongs to. The Office of the President of the Philippines is the appointing authority, mindful of these qualifications.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

|                  | Executive  | Non-Executive   | Independent Director   |
|------------------|--|---|--|
| Role             | Designs, develops and implements strategic plans for the organization in a cost-effective and time efficient manner. The Executive Director is authorized to run the organization. | Participates in governing the organization by establishing broad policies and organizational objectives | Promotes independent judgment in carrying out his responsibilities in the establishment of policies and objectives. Protects the voice / interests of minority shareholders. |
| Accountabilities | Accountable to the Board of Directors for his management of the organization   | Accountable to the shareholders / stakeholders for the organization's performance                       | Accountable to the minority shareholders in representing their interests   |
| Deliverables     | Business Plan<br>Operational Budget  | Inputs to policy formulation consistent with organizational goals                                       | Contribution to policy formulation that speaks for minority concerns   |

Provide the company's definition of "independence" and describe the company's compliance to the definition.

Independent director is a person who, apart from his fees and shareholdings, exercises independence resulting from being independent of management and being free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities/

The Corporation adopts the the principle under Securities Regulation Code of having at least two (2) independent

directors or such number of independent directors that constitutes twenty percent (20%) of the members of the Board, whichever is lesser, but in no case less than two (2). The membership of the Board may be a combination of executive and non-executive directors (which include independent directors) in order that no director or small group of directors can dominate the decision making process. However, as explained below, this has yet to be implemented.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

Not applicable. The above definition cannot be applied as yet. As a GOCC, no independent directors have as yet been nominated/elected in the Company. Consequently, no term limit has as yet been set for independent director(s).

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

| Name               | Position | Date of Cessation | Reason                              |
|--------------------|----------|-------------------|-------------------------------------|
| Tomas C. Falgui II | Director | November 14, 2016 | Replaced by Mr. Jephonie L. Agustin |

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

| Procedure   | Process Adopted  | Criteria  |
|---|--|---|
| <b>a. Selection/Appointment</b>                         |  |   |
| (i) Executive Directors<br>(ii) Non-Executive Directors | Every GOCC and Subsidiary, through the Compliance Officer, or the Corporate Secretary, if there is no Compliance Officer appointed, shall submit to the GCG within thirty (30) days from the start of each calendar year a certificate stating and attesting to the qualifications and disqualifications rules applicable to their Appointive Directors and CEO, as found in their Charter or By-laws and the provisions of laws, rules and regulations applicable to the particular GOCC. | <i>Minimum Qualification of Directors</i> – provided for in the Revised Manual on Corporate Governance:<br><br>(a) Be a Filipino citizen;<br>(b) At least a college graduate or equivalent college degree, with at least five years relevant experience;<br>(c) Be at least thirty (30) years old;<br>(d) Be of good moral character, of unquestionable integrity and of known probity;<br>(e) Possess management skills and competence preferably relating to the operations of the corporation;<br>(f) Assiduous; |
|   | (Art. 4 of Fit and Proper Rule for Appointive Directors and CEOs of GOCCs – Memo Circular No. 2012-05 of GCG)  | (Minimum Qualifications) Additional Qualifications of Appointive Directors and CEOs (not indicated in the Revised Manual on Corporate Governance) - Without prejudice to the qualifications set out in the Charter or By-laws of the GOCC, every Appointive Director and CEO, if a sectoral representative, to be a <i>bona fide</i> member   |

| Procedure  | Process Adopted  | Criteria   |
|--|--|--|
| a. Selection/Appointment   |  |  |
|  |  | <p>of the indicated sector or the association being represented as provided for in the Charter or By-laws.</p> <p>Further, a director may be allowed to attend within three (3) months from the date of appointment a special seminar on public corporate governance for Directors conducted by the GCG or any individual or entity accredited by the GCG.<br/>(Art. 5 of Fit and Proper Rule for Appointive Directors and CEOs of GOCCs – Memo Circular No. 2012-05 of GCG)</p>   |
| (iii) Independent Directors  | The company adopts the process and qualifications set by Securities Regulation Code on nomination and election of Independent directors.         |  |
| b. Re-appointment  |  |  |
| (i) Executive Directors  | Unless removed by the President of the Republic of the Philippines, Executive Director and Non-Executive Director are automatically reappointed. |  |
| (ii) Non-Executive Directors   |  |  |
| (iii) Independent Directors  | The company adopts the process and qualifications set by Securities Regulation Code on nomination and election of Independent directors.         |  |
| c. Permanent Disqualification  |  |  |
| (i) Executive Directors<br>(ii) Non-Executive Directors<br>(iii) Independent Directors | Apply Article 3.3 of Revised Manual on Corporate Governance  | <p>Grounds for the permanent disqualification of a director:</p> <ul style="list-style-type: none"><li>Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in SRC; (b) arises out of the person's conduct as an underwriter, broker, dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliate person or any of them.</li><li>Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting a director or officer of a bank, quasi-bank, trust company, investment house, or investment company;</li></ul> |



| Procedure                     | Process Adopted | Criteria   |
|-------------------------------|-----------------|--|
| c. Permanent Disqualification |                 |  |
|                               |                 | <p>(c) engaging or in continuing any conduct or practice in any of the capacities mentioned in subparagraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.</p> <ul style="list-style-type: none"> <li>• If such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, SRC or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization.</li> <li>• Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts.</li> <li>• Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, SRC or any other law administered by the Commission or BSP, or any of its rule, regulation or order.</li> <li>• Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation.</li> </ul> |

| Procedure                            | Process Adopted  | Criteria  |
|--------------------------------------|--|---|
| <b>c. Permanent Disqualification</b> |  |   |
|                                      |  | <ul style="list-style-type: none"> <li>Any person judicially declared as insolvent.</li> <li>Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in ((i) to (v)) above.</li> <li>Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of election or appointment.</li> <li>Persons who have been convicted by final judgment or a court or tribunal of: <ul style="list-style-type: none"> <li>A crime or offense involving dishonesty or breach of trust such as, but not limited to estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, or bribery; violation of the Bouncing Checks Law, the Anti-Graft and Corrupt Practices Act; violating banking laws, rules and regulations;</li> <li>Persons who have been judicially declared insolvent, spendthrift or incapacitate to contract;</li> <li>Persons who have been found by a competent administrative body as administratively liable for violation of laws, rules and regulations where a penalty of removal from office is imposed, which finding of the administrative body has become final and executor.</li> </ul> </li> </ul> |
|                                      | Article 6 of the GCG Memorandum Circular No. 2012-05 entitled <b>Fit and Proper Rule for Appointive Directors and CEOs of GOCCs</b> provides the criteria for permanent disqualification of a Director | <p><i>Directors, CEO and Officers of GOCCs who have been:</i></p> <ol style="list-style-type: none"> <li><i>Found by a competent administrative body as administratively liable for violation of laws, rules and regulations particularly applicable to the sector of</i></li> </ol>  |

| Procedure   | Process Adopted  | Criteria   |
|---|--|--|
| <b>c. Permanent Disqualification</b>  |  |  |
|   |  | <p><i>the GOCC concerned, as well as those covered by related sectors, and where a penalty of removal from office is imposed, which finding of the administrative body has become final and executory; commission on contracts from the GOCC's assets, or taking advantage of corporate opportunities of the GOCC's, or</i></p> <ol style="list-style-type: none"> <li><i>Determined by the Commission on Audit (COA) pursuant to a Notice of Disallowance which has become final and executory, to have, by virtue of their office, acquired or received a benefit or profit, of whatever kind or nature including, but not limited to, the acquisition of shares in corporations where the GOCC has an interest, using rights, options or properties of the GOCC for their own benefit, receiving</i></li> <li><i>Found to be culpable for a GOCC's insolvency, closure, or ceasure of operations, as determined by the GCG in consultation with the appropriate Government Agency;</i></li> </ol> <ul style="list-style-type: none"> <li><i>Directors and Officers of private corporations, or any person found by the GCG in consultation with the appropriate Government Agency, to be unfit for the position of Appointive Director because they were found administratively liable by such Government Agency for;</i></li> </ul> <ol style="list-style-type: none"> <li><i>A violation of laws, rules and regulations relevant to the sector of the GOCC concerned, as well as in related sectors; or</i></li> <li><i>Any offense/violation involving dishonesty or breach of trust; and which finding of such Government Agency has become final and executory.</i></li> </ol> |
| <b>d. Temporary Disqualification</b>  |  |  |
| <ol style="list-style-type: none"> <li>Executive Directors</li> <li>Non-Executive Directors</li> <li>Independent Directors</li> </ol> | As provided for in Article 3.3.2 of Revised Manual on Corporate Governance | <ul style="list-style-type: none"> <li>Refusal to comply with the disclosure requirements of SRC and its Implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists;</li> </ul>   |



| Procedure                     | Process Adopted | Criteria   |
|-------------------------------|-----------------|--|
| d. Temporary Disqualification |                 |  |
|                               |                 | <ul style="list-style-type: none"> <li>• Directors who have been absent or who have not participated for whatever reason in more in more than fifty (50) percent of all meetings, both regular and special, of the Board during the immediately preceding semester, or who failed to attend for whatever reasons at least twenty (20) percent of all board meetings in any year;</li> <li>• Dismissal or termination for cause as director of any corporation covered by SEC. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;</li> <li>• If the beneficial equity ownership of an independent director or its subsidiaries and affiliates exceeds two (2) percent of its subscribed capital stock. The disqualification shall be lifted if the limitis later complied with;</li> <li>• If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final;</li> <li>• Persons who refused or failed to fully disclose the extent of their business interest or any material information to the appropriate agency, when required pursuant to the requirements of the SRC, or any other relevant provision of law, as well as when required by a circular, memorandum, rule or regulation, applicable to such institutions; and such disqualification shall be in effect as long as the refusal or failure persists;</li> <li>• Persons who are delinquent in the payment of their obligations as defined below: <ul style="list-style-type: none"> <li>○ Delinquency in the payment of obligations means the failure to pay according to the terms of the contracted obligation within at least sixty (60) days from formal demand;</li> <li>○ Obligations shall include all borrowings obtained by: 1) a director</li> </ul> </li> </ul> |

| Procedure                     | Process Adopted | Criteria  |
|-------------------------------|-----------------|---|
| d. Temporary Disqualification |                 | <p>for his/her own account or as a representative or agent of others or where he/she acts as a guarantor, endorser or surety for loans from such institutions; 2) the spouse or child under the parental authority of the director; 3) any person whose borrowings or loan proceeds were credited to the account of, or used for the benefit of a director; 4) a partnership in which a director, or his/her spouse, is the managing partner or a general partner owning a controlling interest in the partnership, and 5) a corporation, association or firm wholly-owned or majority of the capital of which is owned by any of the group of persons mentioned.</p> <ul style="list-style-type: none"> <li>• Persons who have been convicted in the first instance by a court for: <ul style="list-style-type: none"> <li>○ Any offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification or bribery;</li> <li>○ A violation of the Bouncing Checks Law and the Anti-Graft and Corrupt Practices Act;</li> <li>○ A violation of banking laws, rules and regulations; or</li> <li>○ An offense where the penalty imposed is to serve a maximum term of imprisonment of more than six (6) years.</li> </ul> </li> </ul> <p>but whose conviction has not yet become final and executory; provided that such temporary disqualification shall cease upon receipt of a certified true copy of a judgment amounting to an acquittal.</p> <ul style="list-style-type: none"> <li>• Persons with derogatory records as certified by, or on the official files of the Judiciary, the National Bureau of Investigation (NBI), the Philippine National Police (PNP), the Ombudsman, quasi-judicial bodies, other government</li> </ul> |

| Procedure                     | Process Adopted  | Criteria  |
|-------------------------------|--|---|
| d. Temporary Disqualification |  |   |
|                               |  | <p>agencies, international police, monetary authorities and similar agencies of foreign countries, for irregularities and violations of any law, rules and regulations that would adversely affect the reputation and integrity of the Director, of the ability to effectively discharge his/her duties.</p> <p>A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p> |
| e. Removal                    |  |   |
| (i) Executive Directors       | Executive Directors and Non-Executive Directors representing the equity interest of the Government in the Company serve at the pleasure of and may be removed by the President of the Republic of the Philippines anytime. |   |
| (ii) Non-Executive Directors  |  |   |
| (iii) Independent Directors   |  |   |
| f. Re-instatement             |  |   |
| (i) Executive Directors       | The President of the Republic of the Philippines has the discretion to re-instate any Director to the PNCC Board representing the equity interest of the government in the Company.  |   |
| (ii) Non-Executive Directors  |  |   |
| (iii) Independent Directors   |  |   |
| g. Suspension                 |  |   |
| (i) Executive Directors       | The Company has not adopted a rule on suspension of Directors.   |   |
| (ii) Non-Executive Directors  |  |   |
| (iii) Independent Directors   |  |   |

Voting Result of the last Annual General Meeting

**ANNUAL MEETING WAS HELD IN 2016 BUT THE ELECTION OF DIRECTORS HAS BEEN DEFERRED TO A LATER DATE TO BE SET BY THE BOARD, AFTER RECEIVING THE LIST OF NEW NOMINEES FROM THE OFFICE OF THE PRESIDENT OF THE PHILIPPINES.**

| Name of Director | Votes Received |
|------------------|----------------|
| N/A              | N/A            |

6) Orientation and Education Program

- (a) Disclose details of the company's orientation program for new directors, if any.

When a new director is elected, he will be provided with reading materials such as Company Profile, Article of Incorporation and By-laws, Manual on Corporate Governance, Annual Corporate Governance Report, Audited Financial Statements, and other documents as needed.



- (b) State any in-house training and external courses attended by Directors and Senior Management for the past three (3) years: 2014 to 2016

| Name of Director/Officer    | Date of Training | Program | Name of Training Institution |
|-----------------------------|------------------|---------|------------------------------|
| There is nothing to report. |                  |         |                              |

- (c) Continuing education programs for directors: programs and seminars and roundtables attended during the year. (2016)

| Name of Director/Officer    | Date of Training | Program | Name of Training Institution |
|-----------------------------|------------------|---------|------------------------------|
| There is nothing to report. |                  |         |                              |

## CODE OF BUSINESS CONDUCT & ETHICS

| Business Conduct & Ethics | Directors   | Senior Management  | Employees |
|---------------------------|---|--|-----------|
| (a) Conflict of Interest  | <p><i>As provided for in the Company's Revised Manual on Corporate Governance:</i></p> <ul style="list-style-type: none"> <li>A Director should not use his position to profit or gain some benefit or advantage for himself and/or his related interest.</li> <li>If an actual or potential conflict of interest may arise on the part of a director, he should fully and immediately disclose it and should not participate in the decision-making process.</li> </ul> <p><i>As provided for in Section 27.1 of Code of Corporate Governance for GOCCs, GCG Circular Memorandum No. 2012-07:</i></p> <ul style="list-style-type: none"> <li>Directors and Officers shall at all times avoid any actual or potential conflict of interest with the GOCC. Each shall also avoid any conduct, or situation, which could reasonably be construed as creating an appearance of a conflict of interest. Any question about a Director's or Officer's actual or potential conflict of interest with the GOCC shall be brought promptly to the attention of the Chairman of the Board, who will review the question and determine an appropriate course of action.</li> </ul> | <p><i>As provided for in the company's Codes of Conduct and Employee Discipline:</i></p> <p>All employees shall not directly or indirectly participate for their personal gain in any business transaction or contact entered into by the company and shall strictly avoid conflict of interest in the performance of their functions. Conflict of interest is deemed to exist where a PNCC employee has or acquires a financial or other interest of a personal nature in any business enterprise or transaction in which he may be called upon to act (for example, to approve, recommend action, make a study, or make findings of fact) in a manner detrimental to the interest of the company by reason of his personal involvement in such business enterprise or transaction.</p> |           |

| Business Conduct & Ethics                 | Directors  | Senior Management   | Employees |
|---|--|---|-----------|
| (b) Conduct of Business and Fair Dealings | <p>As provided for in the Company's Revised Manual on Corporate Governance:</p> <ul style="list-style-type: none"><li>• A director should avoid situations that may compromise his impartiality.</li><li>• A director should carefully evaluate the issues and, if necessary, make inquiries and request clarification.</li></ul> <p>As provided for in Section 26 of Code of Corporate Governance for GOCCs, GCG Memorandum Circular 2012-07:</p> <p>The fiduciary duty of diligence of Directors and Officers to always act in the best interest of the GOCC, with utmost good faith in all its dealings with the property and monies of the GOCC, includes the obligation to:</p> <ul style="list-style-type: none"><li>• Exercise extraordinary diligence, skill and utmost good faith in the conduct of the business and in dealing with the properties of the GOCC, using the utmost diligence of a very cautious person with due regard to all the circumstances;</li><li>• Apply sound business principles to ensure the financial soundness of the GOCC; and</li><li>• Elect and/or employ only Officers who are fit and proper to hold such office with due regard to the qualifications, competence, experience and integrity</li></ul> | <p>As provided for in the company's Codes of Conduct and Employee Discipline:</p> <ul style="list-style-type: none"><li>• All employees shall remain truthful in dealing with their clients, superiors or subordinates at all times. They must act with justice and sincerity and shall not discriminate anyone. They shall act at all times respect the rights of others, and shall refrain from doing acts contrary to law, good morals, good customs, public policy, public order, public safety and public interest.</li></ul> <p>As provided for in the company's Codes of Conduct and Employee Discipline:</p> <ul style="list-style-type: none"><li>• Officers and employees shall extend prompt, courteous and adequate service to the company's clients.</li><li>• The Employee must make truthful representations regarding his rank/position at all times in all his official transactions and must perform any act pertaining to any person in authority in the Company only if he is being officially authorized to do so.</li><li>• The Employee must observe proper conduct and courtesy and show respect towards his fellow employees, Company visitors, patrons/clients at any time within Company premises.</li></ul> |           |
| Business Conduct & Ethics                 | Directors  | Senior Management   | Employees |
| (c) Receipt of gifts from third parties   | <p>As provided for in Section 26 of Code of Corporate Governance for GOCCs, GCG Memorandum Circular 2012-07:</p> <p>No Gift Policy. A Director or Officer shall not solicit, nor accept, directly or indirectly, any gift, gratuity, favor, entertainment, loan or anything of monetary value ("Gift") from any person where such Gift:</p>  | <p>As provided for in the company's Codes of Conduct and Employee Discipline:</p> <p>The Company prohibits all Employees of the following:</p> <ul style="list-style-type: none"><li>• Soliciting or receiving money, gift or anything of value, from any person, personally or through the mediation of another, to perform an act prejudicial to the Company or as a condition for the performance of one's duty.</li></ul>   |           |

| Business Conduct & Ethics                                   | Directors   | Senior Management   | Employees |
|---|---|---|-----------|
|   | <ul style="list-style-type: none"> <li>• Would be illegal or in violation of law;</li> <li>• Is part of an attempt or agreement to do anything in return; Has a value beyond what is normal and customary in the GOCC's business;</li> <li>• Is being made to influence the matter of Board's, or Officer's actions as such, or Could create the appearance of a conflict of interest</li> </ul>  | <ul style="list-style-type: none"> <li>• Bribing, or offering money, gift or anything of value to any employee, personally or through mediation of another, to seek or qualify for preference, benefit or favorable condition of employment.</li> <li>• Extorting/accepting bribes in cash or in kind from clients for personal gain</li> </ul> |           |
| (d) Compliance with Laws & Regulations                      | <p><i>As provided for in the Company's Revised Manual on Corporate Governance:</i></p> <ul style="list-style-type: none"> <li>• A director shall have a working knowledge of the statutory and regulatory requirements that affect the corporation, including its articles of incorporation and by-laws, the rules and regulations of the Commission and, where applicable, the requirements of relevant regulatory agencies.</li> </ul> <p><i>As provided for in Section 25 of Code of Corporate Governance for GOCCs, GCG Memorandum Circular 2012-07:</i></p> <p><i>Respect for and Obedience to the Constitution and the law. – As Public Officials, a Director or Officer shall respect and obey the Constitution, and shall comply, and cause the GOCC to faithfully and timely comply, with all legal provisions, rules and regulations, and corporate governance standards, applicable to them and to the GOCC in which they serve, and to act within the bounds of their Charter, Articles of Incorporation and By-laws.</i></p> | <p><i>As provided for in the company's Codes of Conduct and Employee Discipline:</i></p> <p>All employees shall at all times respect the rights of others, and shall refrain from doing acts contrary to law, good morals, good customs, public policy, public order, public safety and public interest.</p>                                    |           |
| (e) Respect for Trade Secrets/Use of Non-public Information | <p><i>As provided for in the Company's Revised Manual on Corporate Governance:</i></p> <ul style="list-style-type: none"> <li>• A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director.</li> </ul>   | <p><i>As provided for in the company's Codes of Conduct and Employee Discipline:</i></p> <p>The Company prohibits all employees from:</p> <ul style="list-style-type: none"> <li>• Losing or misplacing Company records or any other documents which cause prejudice to the Company</li> </ul>  |           |



| Business Conduct & Ethics                        | Directors   | Senior Management  | Employees |
|--|---|--|-----------|
|  | <ul style="list-style-type: none"> <li>• He should not reveal confidential information to unauthorized persons without the authority of the Board.</li> </ul> <p><i>As provided for in Section 30 of Code of Corporate Governance for GOCCs, GCG Memorandum Circular 2012-07:</i></p> <p><i>Duty of Confidentiality.</i> Pursuant to their duties of diligence and loyalty, a member of the Board or an Officer shall not use or divulge confidential or classified information officially made known to them by reason of their office and not made available to the public, either: (1) to further their private interests, or give undue advantage to anyone; or (2) which may prejudice the public interest.</p>  | <ul style="list-style-type: none"> <li>• Knowingly submitting false, misleading or grossly inaccurate data or information about the work assigned to him as a result of neglect or failure to make proper research or inquiry causing prejudice to Company interest.</li> </ul>    |           |
| (f) Use of Company Funds, Assets and Information | <p><i>As provided for in Section 27 of Code of Corporate Governance for GOCCs, GCG Memorandum Circular 2012-07:</i></p> <p>The fiduciary duty of loyalty of Directors and Officers to always act in the best interest of the GOCC, with utmost good faith in all its dealings with the property and monies of the GOCC, includes the obligation to:</p> <ul style="list-style-type: none"> <li>(a) Act with utmost and undivided loyalty to the GOCC;</li> <li>(b) Avoid conflicts of interest and declare any interest they may have in any particular matter before the Board; and</li> <li>(c) Avoid (1) taking for themselves opportunities related to the GOCC's business; (2) using the GOCC's property, information or position for personal gain; or (3) competing with the GOCC's business opportunities.</li> </ul> | <p><i>As provided for in the company's Codes of Conduct and Employee Discipline:</i></p> <p>The Employee who is accountable for or is entrusted with the custody, control, handling of company funds must use or appropriate said funds for legal or authorized purposes only.</p> |           |

| Business Conduct & Ethics              | Directors  | Senior Management  | Employees |
|--|--|--|-----------|
| (g) Employment & Labor Laws & Policies | Not Applicable – No employee – employer relationship   | All employees are expected to at all times respect the rights of others, and shall refrain from doing acts contrary to law, good morals, good customs, public policy, public order, public safety and public interest. The company and its senior management and employees must adhere to what is lawful, just, fair and reasonable in all matters concerning hiring, recruitment, terms and conditions of employment, salaries and wages, working days, hours, promotions, transfers, and other matters relations to the employee and his job. The company, its senior management and its employees should commit to provide safe, healthy and harmonious working conditions, to treat everyone considerately and fairly, to uphold the dignity of the individual, to recognize their importance as an asset to the company and to recognize the employees' constitutional right to organize within legal bounds. |           |
| (h) Disciplinary action                | The GCG Code of Governance provides for the bases for disqualification, either permanent or temporary, of directors. It provides for the the bases for removal from office and for suspension. The President of the Philippines, upon the recommendation of the GCG, appoints, re-appoints, suspends and removes directors of the company. | The company prescribes a Code of Ethical Conduct and Personnel Discipline (CCED) to govern ethical behavior and commendable performance of its employees. Any infraction to the CCED will be subjected to thorough investigation by the Local Board, Administrative Board, Special Administrative Board or the Safety Committee, depending on the committed infraction. The same shall be meted with the appropriate penalty/ies in accordance with the company's Code of Discipline.  |           |
| (i) Whistle Blower                     | Any employee or non-employee can file a complaint against anybody in the Company whom he deems to have committed an infraction against himself or the company.   |  |           |
| (j) Conflict Resolution                | The current system is to discuss/evaluate issues at the Board level. Failing resolution within the Board, opinion of OGCC/DOJ will be sought.  |  |           |

1) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

Yes, the PNCC Code of Conduct and Employee Discipline has been disseminated to all employees as this applies to them. On the other hand, the Revised Manual on Corporate Governance and Code of Corporate Governance for GOCCs – GCG Memorandum Circular No. 2012-07 have been disseminated to all Directors, as these are applicable to them.

2) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Code of Conduct and Employee Discipline provides for mechanisms to monitor adherence to the provisions

thereof. These include not only the declaration of company principles on expected behavior and conduct on all aspects of corporate activities, but also the clearly defined disciplinary measures on any infraction thereon. The following are also provided for: Jurisdiction of various Administrative Boards, the Procedure to be followed in Prosecuting Administrative Cases, Provisions on Preventive Suspension and in the Imposition of Penalties. All these have promoted the implementation of the provisions of the Code of Conduct in the company.

### 3) Related Party Transactions

#### (a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

It is an avowed policy of the Company that all transactions between the Company and Related parties are carried out with integrity and transparency.

| Related Party Transactions   | Policies and Procedures  |
|--|--|
| (1) Parent Company   | The company does not have any parent company, and is in fact the parent company of its various subsidiaries.   |
| (2) Joint Ventures   | <p>All joint venture agreements in relation to tollways franchise under P.D. 1894 is approved by the Board of Directors. Any supplemental agreement and/or amendments, or restatements of the existing Joint Venture Agreements are likewise approved by the Board of Directors.</p> <p>The Negotiating Committees were created by the Board to negotiate the terms of the joint venture agreement, which are then submitted to the Board for approval and ratification.</p> <p>Before the agreement is signed by PNCC, this is first referred for review by the Office of Government Corporate Counsel.</p> |
| Related Party Transactions   | Policies and Procedures  |
|  | <p>(OGCC), its statutory counsel, prior to signing thereof.</p> <p>The Board of Directors then designates the President and/or the Chairman of the Board to sign, execute and deliver the said agreements and/or amendments, supplements or restatements.</p> <p>All such agreements stipulate that the approval of the President of the Philippines is required to be valid and binding.</p>  |
| (3) Subsidiaries<br>(4) Entities Under Common Control<br>(5) Substantial Stockholders<br>(6) Officers including spouse/children/siblings/parents<br>(7) Directors including spouse/children/siblings/parents<br>(8) Interlocking director relationship of Board of Directors | <p>All other bidden contracts/agreements for projects:</p> <ul style="list-style-type: none"> <li>- Up to ₱500K for approval of the President/CEO</li> <li>- Over ₱500K shall be recommended by President/CEO for approval of the Board</li> <li>- All agreements shall be signed by the President/CEO</li> </ul>  |



(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

| Related Party Transactions                       | Details of Conflict of Interest (Actual or Probable)             |
|--|--|
| <b>Name of Director/s</b>                        |  |
| 1. Elpidio C. Jamora, Jr.                        | No related party transaction with /among subject directors       |
| 2. Luis F. Sison                                 |  |
| 3. Antonio C. Pido                               |  |
| 4. Rosendo T. Capco                              |  |
| 5. Nora O. Vinluan                               |  |
| 6. Cristino L. Panlilio                          |  |
| 7. Rosanna E. Velasco                            |  |
| 8. Elisea G. Gozun                               |  |
| 9. Robert G. Vergara                             |  |
| 10. Tomas C. Alvarez                             |  |
| 11. Jephonie L. Agustin                          |  |
| 12. Ma. Lourdes B. Recente ( <i>Ex-Officio</i> ) |  |
| <b>Name of Officer/s</b>                         |  |
| 1. Janice Day E. Alejandrino                     | No related party transaction with subject officers               |
| 2. Miriam M. Pasetes                             |  |
| 3. Yolanda C. Mortel                             |  |
| 4. Henry B. Salazar                              |  |
| 5. Felix M. Erece, Jr.                           |  |
| <b>Name of Significant Shareholders</b>          | No known related party transaction with significant shareholders |

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

|  | Directors/Officers/Significant Shareholders   |
|--|---|
| Company  | Regular discussion/resolution of issues that are coming up; Office of Government Corporate Counsel (OGCC), the company's statutory legal counsel and Department of Justice (DOJ) are consulted on issues. However, in cases of unsettled issues, the same are elevated to the DOJ, OGCC, Office of the Solicitor General (OSG) and regular courts as the case may be. |
| Group<br>(This pertains to Directors, officers and significant shareholders) |   |

|  | Directors/Officers/Significant Shareholders   |
|--|---|
| Company  | In compliance with disclosure requirements of related accounting standards and the Securities Regulation Code reporting requirements, we properly disclose to the public all material information, through detailed disclosures provided in the related Notes to financial statements (Note 30. Related Party Transactions) and Sec Form 17-A, Annual Report. |
| Group<br>(This pertains to Directors, officers and significant shareholders) |   |

4) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>3</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

| Names of Related Significant Shareholders | Type of Relationship | Brief Description of the Relationship |
|---|----------------------|---------------------------------------|
| There is nothing to report.               |                      |                                       |

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

| Names of Related Significant Shareholders | Type of Relationship | Brief Description |
|---|----------------------|-------------------|
| There is nothing to report.               |                      |                   |

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

| Name of Shareholders   | % of Capital Stock affected (Parties) | Brief Description of the Transaction |
|--|---------------------------------------|--------------------------------------|
| The Company is not aware of any person holding more than 5% of the shares of the Company under a voting trust or similar agreement which may result in a change in control of the Company. |                                       |                                      |

5) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

|                                      | Alternative Dispute Resolution System  |
|--------------------------------------|--|
| Corporation & Stockholders           | The Board of Directors shall establish an alternative dispute resolution system in the corporation that can amicably settle conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.<br><i>Article 3.4.2.11 of Revised Manual on Corporate Governance</i> |
| Corporation & Third Parties          |  |
| Corporation & Regulatory Authorities |  |

<sup>3</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

## B. BOARD MEETINGS& ATTENDANCE

- 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

YES

- 2) Attendance of Directors

| Board      | Name                   | Date of Election | No. of Meetings Held during the year | No. of Meetings Attended | %      |
|------------|------------------------|------------------|--------------------------------------|--------------------------|--------|
| Chairman   | Elpidio C. Jamora, Jr. | 09/30/2013       | 18                                   | 18                       | 100%   |
| Member     | Luis F. Sison          | 01/11/2011       | 18                                   | 17                       | 94.44% |
| Member     | Jephonie L. Agustin    | 11/14/2016       | 2                                    | 1                        | 50%    |
| Member     | Tomas C. Alvarez       | 01/11/2011       | 18                                   | 18                       | 100%   |
| Member     | Rosendo T. Capco       | 01/11/2011       | 18                                   | 18                       | 100%   |
| Member     | Tomas C. Falgui, II*   | 10/08/2013       | 18                                   | 0                        | 0%     |
| Member     | Elisea G. Gozun        | 10/14/2013       | 18                                   | 8                        | 44.44% |
| Member     | Cristino L. Panlilio   | 09/30/2013       | 18                                   | 17                       | 94.44% |
| Member     | Antonio C. Pido        | 01/11/2011       | 18                                   | 11                       | 61.11% |
| Member     | Rosanna E. Velasco     | 09/30/2013       | 18                                   | 12                       | 66.67% |
| Member     | Robert G. Vergara      | 10/14/2013       | 18                                   | 4                        | 22.22% |
| Member     | Nora O. Vinluan        | 01/11/2011       | 18                                   | 18                       | 100%   |
| Ex-Officio | Ma. Lourdes B. Recente | 12/19/2016       | 1                                    | 1                        | 100%   |
| Ex-Officio | Toni Angeli V. Coa**   | 01/20/2014       | 18                                   | 2                        | 22.22% |

Note:

- \* Replaced by Jephonie L. Agustin on November 14, 2016  
 \*\* Replaced by Ma. Lourdes B. Recente on December 19, 2016

- 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times? **Once on April 6, 2016.**

- 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

**No.** As provided for in Section 5.07 of Corporation's By-Laws, "A majority of the Directors shall constitute a quorum at any meeting but if less, the meeting may be adjourned from time to time, and the meeting may be continued as adjourned without further notice; unless a quorum is constituted at the meeting, no business may be transacted."

- 5) Access to Information

- (a) How many days in advance are board papers<sup>4</sup> for board of directors meetings provided to the board?  
**At least 3 days before the actual meeting**

- (b) Do board members have independent access to Management and the Corporate Secretary?  
**YES.**

- (c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

**As stated in Section 7.08 of the Corporation's By-Laws, the Corporate Secretary shall have the following powers and duties:**

<sup>4</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.



- 1) He shall keep accurate minutes of all meetings of the stockholders of the Board, and of the Executive Committee, and shall attend to the giving of all notices required by the By-Laws to be given.
- 2) He shall be the custodian of the corporate seal, stock certificate books, stock and transfer books, records, documents, and papers of the Corporation, prepare ballots for the annual elections and keep a complete and up-to-date list of the stockholders and their addresses

The Revised Manual on Corporate Governance enumerates the following responsibilities of the Corporate Secretary:

- 1) Be responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the corporation;
- 2) Be loyal to the mission, vision and objectives of the corporation;
- 3) Work fairly and objectively with the Board, Management and stockholders and stakeholders;
- 4) Have appropriate administrative and interpersonal skills;
- 5) If he is not at the same time the corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
- 6) Have a working knowledge of the operations of the corporation;
- 7) Inform members of the Board of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- 8) Attend all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;
- 9) Ensure that all Board procedures, rules and regulations are strictly followed by members;
- 10) If he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in this Code; and
- 11) Submit to the Commission, on or before January 30 of the following year, a sworn certification about the directors' record of attendance in Board meetings. The certification may be submitted through SEC Form 17-C in a separate filing.

The Code of Corporate Governance for GOCCs provides the following responsibilities of the Corporate Secretary:

- 1) Serve as an adviser to the Board Members on their responsibilities and obligations;
- 2) Keep the minutes of meetings of the shareholders, the Board, the Executive Committee, and all other committees in a book or books kept for that purpose, and furnish copies thereof to the Chairman, the CEO and other members of the Board as appropriate;
- 3) Keep in safe custody the seal of the GOCC and affix it to any instrument requiring the same;
- 4) For stock GOCCs, have charge of the stock certificate book and such other books and papers as the Board may direct;
- 5) Attend to the giving and serving of notices of Board and shareholder meetings, if applicable;
- 6) Be fully informed and be part of the scheduling process of other activities of the Board;
- 7) Receive instructions from the Chairman on the preparation of an annual schedule, the calling of Board meetings, the preparation of regular agenda for meetings, and notifying the Board of such agenda at every meeting;
- 8) Oversee the adequate flow of information to the Board prior to meetings; and
- 9) Ensure fulfillment of disclosure requirements to regulatory bodies.

- (d) Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

YES

(e) Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ☒

No ☐

| Committee        | Details of the procedures  |
|------------------|--|
| Executive        | 1. For information that may require preparation for such, a Director may directly write the concerned personnel through the President;<br>2. Request for a copy of documents, a Director may fill-out the Document Request Form for the release of needed documents. |
| Audit            |  |
| Nomination       |  |
| Remuneration     |  |
| Others (specify) |  |

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Generally, the members, either individually or as a Board, in furtherance of their duties and responsibilities, may access independent professional advice at the company's expense, subject to the approval of the Board of Directors.

| Procedures  | Details  |
|---|--|
| Seek legal advice/opinion   | Refer to the Office of the Government Corporate Counsel for advice and guidance on possible legality or implications                         |
| Seek independent opinion on financial matters and related regulatory concerns | Refer to the external auditors for proper guidance on the correct accounting treatment and other financial statement disclosure requirements |

Change/s in existing policies

| Existing Policies | Changes | Reason |
|-------------------|---------|--------|
| NONE              | NONE    | NONE   |

C. REMUNERATION MATTERS

1) Remuneration Process

| Process   | CEO            | Top 4 Highest Paid Management Officers |
|---|----------------|--|
| (1) Fixed remuneration                            | Board Approval |  |
| (2) Variable remuneration                         |                |  |
| (3) Per diem allowance                            | N/A            | N/A                                    |
| (4) Bonus   | Board Approval |  |
| (5) Stock Options and other financial instruments |                |  |
| (6) Others (specify)                              |                |  |

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

|  | Remuneration Policy  | Structure of Compensation Packages  | How Compensation is Calculated   |
|--|--|---|--|
| Executive Directors                          | Follows Company's salary structure and benefit packages  | Compensation / salary package is composed of basic salary pay plus allowances.  | Directors who assume executive positions follow the salary structure in place for corresponding positions. |
| Executive Directors, Non-Executive Directors | The Board adopts and complies with Executive (E.O.) 24, series of 2011, prescribing rules to govern the compensation of members of the board of directors. | <p>Effective 01 June 2013, the Governance Commission for Government Owned or Controlled Corporation (GOCC), in its letter dated 27 May 2013 determined PNCC to be under classification "D". The entitlement of the members of the Board of Directors for actual attendance of meeting are as follows:</p> <p><u>Board Meetings:</u> <b>₱10,000.00</b> per meeting but not to exceed the maximum annual amount of <b>₱240,000.00</b>. The Board in its meeting dated May 18, 2016 adopted the provision of GCG Memorandum Circular No.2016-01 dated May 10, 2016, to increase by 20% the per diem of Chairman of the Board.</p> <p><u>Committee meetings:</u> <b>₱6,000.00</b> per meeting but not to exceed the maximum annual amount of <b>₱144,000.00</b>. The Board in its meeting dated May 18, 2016 adopted the provision of GCG Memorandum Circular No.2016-01 dated May 10, 2016, to increase by 20% the per diem of Chairpersons of the different Board Committees.</p> |  |
|  |  | <p>Effective April 20, 2015, the Board resolved to amend the previous resolutions on the matter of Directors' reimbursable representation, transportation and communication expenses, as follows:</p> <p><u>Transportation &amp; Gasoline Allowance</u> <b>₱1,000.00</b> per meeting but not to exceed <b>₱5,000</b> per month subject to submission of receipts.</p> <p><u>RFID Expenses</u> <b>₱5,000</b> per month subject to submission of receipts for this expenses</p>   |  |



|  |  |   |
|--|--|---|
|  |  | Communication Allowance ₱2,000.00 per month but but not to exceed ₱24,000 per annum subject to submission of telephone /cellphone bills or receipts |
|--|--|---|

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

| Remuneration Scheme | Date of Stockholders' Approval  |
|---------------------|---|
| NO                  | The Company in its stockholders' meeting held on October 17, 2016, did not consider nor approve the total remuneration of board of directors. The determination of director's compensation is governed by Executive Order no. 24, series of 2011. |

### 3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

| Remuneration Item                                    | Executive Directors  | Non-Executive Directors (other than independent directors) | Independent Directors |
|--|----------------------|--|-----------------------|
| (a) Fixed Remuneration                               | ₱4,504,356.00        | N/A  | N/A                   |
| (b) Variable Remuneration                            | N/A                  | N/A  | N/A                   |
| (c) Per diem Allowance                               | ₱216,000.00          | ₱1,822,000.00  | N/A                   |
| (d) Bonuses  | ₱765,726.00          | N/A  | N/A                   |
| (e) Stock Options and/or other financial instruments | N/A                  | N/A  | N/A                   |
| (f) Others (Specify)<br>Gas & Driver Allowance       | N/A                  | N/A  | N/A                   |
| <b>Total</b>   | <b>₱5,486,082.00</b> | <b>₱1,822,000.00</b>                                       | <b>N/A</b>            |

| Other Benefits   | Executive Directors       | Non-Executive Director (other than independent directors) | Independent Directors |
|--|---------------------------|---|-----------------------|
| (a) Advances   | N/A                       | N/A   | N/A                   |
| (b) Credit granted   | N/A                       | N/A   | N/A                   |
| (c) Pension Plan/sContributions  | N/A                       | N/A   | N/A                   |
| (d) Pension Plans, Obligations incurred                                    | N/A                       | N/A   | N/A                   |
| (e) Accident / Life Insurance Premium                                      | N/A                       | N/A   | N/A                   |
| (f) Hospitalization Plan (HMO)   | N/A                       | N/A   | N/A                   |
| (g) Car Plan   | N/A                       | N/A   | N/A                   |
| (h) Others (Specify)<br>Reimbursables:<br>Representation<br>Transportation | ₱16,335.90<br>₱227,777.62 | ₱16,335.90<br>₱382,183.68                                 | N/A                   |

|                    |                    |                    |  |
|--------------------|--------------------|--------------------|--|
| Communication      | ₱72,234.00         | ₱80,662.15         |  |
| Rice Subsidy       | ₱18,000.00         |                    |  |
| Clothing Allowance | ₱5,000.00          |                    |  |
| <b>Total</b>       | <b>₱351,348.33</b> | <b>₱468,983.36</b> |  |

(d) Stock Rights, Options and Warrants

(a) Board of Directors

| Director's Name | Number of Direct Option/Rights/Warrants | Number of Indirect Option/Rights/Warrants | Number of Equivalent Shares | Total % from Capital Stock |
|-----------------|---|---|-----------------------------|----------------------------|
| N/A             | N/A                                     | N/A                                       | N/A                         | N/A                        |

(b) Amendments of Incentive Programs

| Incentive Program | Amendments | Date of Stockholders' Approval |
|-------------------|------------|--------------------------------|
| N/A               | N/A        | N/A                            |

(e) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:

| Name of Officer/Position   | Total Remuneration |
|--|--------------------|
| Senior Management as a group (Senior Vice President, Vice President and Assistant Vice President)* | ₱8,721,998.70      |

\*includes the following officers:

1. Janice Day E. Alejandrino
2. Yolanda C. Mortel
3. Miriam M. Pasetes
4. Henry B. Salazar
5. Felix M. Erece

## D. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board: Refer to Annex "A"

2) Committee Members

(a) Executive Committee

| Office      | Name   | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|-------------|--|---------------------|----------------------|--------------------------|---|------------------------------------|
| Chairman    | The Company has not set up an Executive Committee starting 2013. Specific board committees are already in place with their respective oversight role on key business areas and each reporting to the Board on significant matters arising from their respective areas of responsibility. |                     |                      |                          |   |                                    |
| Member (ED) |  |                     |                      |                          |   |                                    |
| Member      |  |                     |                      |                          |   |                                    |

(b) Audit & Finance Committee

| Office  | Name                   | Date of Appointment | No. of Meetings Held* | No. of Meetings Attended | %      | Length of Service in the Committee |
|---|------------------------|---------------------|-----------------------|--------------------------|--------|------------------------------------|
| <b>Audit Committee</b>  |                        |                     |                       |                          |        |                                    |
| Chairman  | Rosanna E. Velasco     | 11/20/2013          | 9                     | 9                        | 100%   | 3                                  |
| Member (NED)  | Tomas C. Alvarez       | 01/11/2011          | 9                     | 9                        | 100%   | 5                                  |
|   | Nora O. Vinluan        | 01/11/2011          | 9                     | 6                        | 66.67% | 5                                  |
| Member (Ex-officio)   | Luis F. Sison*         | 01/11/2011          | 2                     | 0                        | 0      | 5                                  |
|   | Elpidio E. Jamora, Jr. | 11/20/2013          | 9                     | 3                        | 33.33% | 3                                  |
| <b>Note:</b><br>* Ceased to be a member of the Committee effective February 10, 2016. |                        |                     |                       |                          |        |                                    |

| Office  | Name                   | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %     | Length of Service in the Committee |
|---|------------------------|---------------------|----------------------|--------------------------|-------|------------------------------------|
| <b>Finance Committee</b>  |                        |                     |                      |                          |       |                                    |
| Chairman  | Cristino L. Panlilio   | 11/20/2013          | 3                    | 3                        | 100%  | 3                                  |
| Member (NED)  | Rosendo T. Capco       | 07/21/2014          | 3                    | 3                        | 100%  | 3                                  |
|   | Toni Angeli V. Co      | 07/21/2014          | 3                    | 0                        | 71.4% | 3                                  |
| Member (Ex-officio)   | Luis F. Sison*         | 01/11/2011          | 2                    | 0                        | 0%    | 5                                  |
|   | Elpidio E. Jamora, Jr. | 11/20/2013          | 3                    | 0                        | 14.2% | 3                                  |
| <b>Note:</b><br>* Ceased to be a member of the Committee effective February 10, 2016. |                        |                     |                      |                          |       |                                    |

| Office  | Name                   | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|---|------------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| <b>Joint Audit and Finance Committee</b>  |                        |                     |                      |                          |      |                                    |
| Chairman  | Cristino L. Panlilio   | 11/20/2013          | 2                    | 2                        | 100% | 3                                  |
| Co-Chairman   | Rosanna E. Velasco     | 11/20/2013          | 2                    | 1                        | 50%  | 3                                  |
| Member (NED)  | Rosendo T. Capco       | 07/21/2014          | 2                    | 2                        | 100% | 3                                  |
|   | Nora O. Vinluan        | 1/11/2011           | 2                    | 2                        | 100% | 5                                  |
|   | Toni Angeli V. Co      | 07/21/2014          | 2                    | 0                        | 0%   | 3                                  |
|   | Luis F. Sison*         | 01/11/2011          | 2                    | 0                        | 0%   | 5                                  |
|   | Elpidio E. Jamora, Jr. | 11/20/2013          | 2                    | 1                        | 50%  | 3                                  |
| <b>Note:</b><br>* Ceased to be a member of the Committee effective February 10, 2016. |                        |                     |                      |                          |      |                                    |

## PROFILE OF THE AUDIT COMMITTEE MEMBERS

### ROSANNA E. VELASCO

Director since September 30, 2013 and Chairman of Audit Committee since November 20, 2013, member of Finance Committee since November 20, 2013 until July 21, 2014

Ms. Velasco served as the Academics and Programs Director of the center for Autism and Related Disorders Phils. – Professionals for Autism Foundation, Inc. from May 2005 – May 2007 and November 2012 until today, respectively. Ms. Velasco is the owner of RME Publishing since September 12, 2012, and is serving as Director of Intelexconsult Corp. starting June 2011. She was engaged as Senior Consultant in the Corporate Achievers Institute from May 2010 until November 2012. She completed the degree of Bachelor of Science in Commerce,



Major in Accounting, Minor in Management of Financial Institutions in 1979 and is a candidate for the degree of Masters in Education – Special Education at the De La Salle University.

**TOMAS C. ALVAREZ**

*Director since January 2011 to present, Chairman of Audit Committee since January 2011 until November 2013 and remains as member of the Audit Committee until present*

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

**NORA S. VINLUAN**

*Director, January 2011 to present*

Ms. Vinluan is a Trustee of the Multi-Saving and Loan Association, the Vice-Chairman of the Schuykill Assets Strategists, the Executive Vice-President of the Asset Custody & Resolution Managers, Inc. She was Consultant to the Philippine Bank of Communications (2003-2005), Eastern Telecommunications Philippines, Inc. (1999-2002), & Hydro-Resources Contractors, Inc. (1985-1986) & was the Treasurer & Vice President for Finance of the Construction & Development Corp. of the Philippines (now PNCC) from 1980-1986. She obtained her degree in Bachelor of Science in Business Administration, *Cum Laude*, from the University of the Philippines in 1961 & her Master of Arts (Economics) from Syracuse University in 1965.

**PROFILE OF THE FINANCE COMMITTEE MEMBERS**

**CRISTINO L. PANLILIO**

*Director since September 30, 2013 and Chairman of Finance Committee since November 20, 2013 member of Audit Committee since November 20, 2013 until July 21, 2014*

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

**ROSENDO T. CAPCO**

*Director, January 2011 to present*

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

**TONI ANGELI V. COO**

*Ex-Officio Director, January 20, 2014 to present*

Ms. Coo was an Associate of Lim and Leynes Law Offices from 2007 to 2010 and of Roque and Butuyan Law Offices from 2011 to 2012. She served as a Legal Counsel for Privatization and Management Office from January 2012 to July 2013 and as its Deputy Privatization Officer (DPO) for PMO's Marketing from August 2013 to present and DPO for Legal Division from August to November 2013. She became PMO's Officer in Charge of Office of the Chief Privatization Office from November 2013 to April 2015, then as Chief Privatization Officer starting May 2015 until today. She earned her Bachelor of Laws degree from the

University of the Philippines in 2006 and her Bachelor of Arts major in Social Sciences from Ateneo de Manila University in 2002. She passed the Philippine Bar in 2007.

#### LUIS F. SISON

*President/Director, January 2011 to present*

Mr. Sison was the Chairman of the Philippine Retirement Authority from August 1992 up to June 10, 1998. He served as Presidential Assistant for Legal & Judicial Affairs, with the rank of Undersecretary, in the Office of the President from July 15, 1992 until June 30, 1998. He served as Chairman & President of PNCC from March 2001 until June 2002 & as its President from June 2002 until October 2002, and again, from January 11, 2011 until today. He earned his B.S. Political Science degree in 1963 & his Bachelor of Laws degree from the Ateneo de Manila University in 1967. He passed the Philippine Bar in the same year.

#### ELPIDIO C. JAMORA, JR.

*Chairman of the Board of Directors since September 30, 2013 to present*

MR. Jamora is the President of Epsilon Maritime Services, Inc., CamnorteEzone Realty, Inc., Impress Land, Inc. and Bandera Realty, Inc. He serves as Director of Himawari International Promotion, Inc., Indo Phil Acrylic Mfg. Corp., Indo Pil Cotton Mills, Inc., Mahaveer Philippine Foundation, Inc. and Exquisite Focus, Inc. He is a Managing partner and Founding Member of Carag, Jamora, Somera & Villareal Law Offices. He earned his Bachelor of Arts, major in Political Science degree, from the Lyceum of the Philippines in 1977. He earned his Bachelor of Laws degree from the University of the Philippines in 1982.

#### Audit Committee's responsibility relative to the external auditors

The Audit Committee shall endorse to the Board the financial statements audited by COA.

#### (c) Nomination Committee

| Office       | Name                 | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|--------------|----------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman     | Rosendo T. Capco     | 07/18/2016          | 1                    | 1                        | 100% | 0 yr                               |
| Member (NED) | Antonio C. Pido      | 07/18/2016          | 1                    | 1                        | 100% | 0 yr                               |
|              | Cristino L. Panlilio | 07/18/2016          | 1                    | 1                        | 100% | 0 yr                               |

#### (d) Remuneration/Compensation Committee

| Office       | Name              | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee |
|--------------|-------------------|---------------------|----------------------|--------------------------|---|------------------------------------|
| Chairman     | Tomas C. Falguill | 01/20/2014          | 0                    | 0                        |   | 1yr                                |
| Member (NED) | Elisea G. Gozun   | 01/20/2014          | 0                    | 0                        |   | 1yr                                |
|              | Rosendo T. Capco  | 01/20/2014          | 0                    | 0                        |   | 1yr                                |
| Ex-officio   | Toni Angeli V. Co | 01/20/2014          | 0                    | 0                        |   | 1yr                                |

#### (e) Others

Provide the same information on all other committees constituted by the Board of Directors:

### Legal Committee

| Office       | Name                   | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %      | Length of Service in the Committee |
|--------------|------------------------|---------------------|----------------------|--------------------------|--------|------------------------------------|
| Chairman     | Antonio C. Pido        | 01/11/2011          | 3                    | 1                        | 33.33% | 5yrs                               |
| Member (NED) | Rosendo T. Capco       | 01/11/2011          | 3                    | 3                        | 100%   | 5yrs                               |
|              | Luis F. Sison          | 01/11/2011          | 3                    | 3                        | 100%   | 5yrs                               |
|              | Elpidio C. Jamora, Jr. | 09/30/2013          | 3                    | 3                        | 100%   | 3yrs                               |

### PAN (Performance Agreement Negotiation) Committee

| Office              | Name                   | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %      | Length of Service in the Committee |
|---------------------|------------------------|---------------------|----------------------|--------------------------|--------|------------------------------------|
| Chairman            | Nora O. Vinluan        |                     | 3                    | 3                        | 100%   | 1yr                                |
| Member (NED)        | Rosanna E. Velasco     |                     | 3                    | 3                        | 100%   | 1 yr                               |
|                     | Elisea G. Gozun        |                     | 3                    | 2                        | 66.67% | 1 yr                               |
| Member (Ex-Officio) | Elpidio C. Jamora, Jr. |                     | 3                    | 2                        | 66.67% | 1 yr                               |

### JOINT AUDIT AND PAN Committee

| Office              | Name                   | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | %    | Length of Service in the Committee |
|---------------------|------------------------|---------------------|----------------------|--------------------------|------|------------------------------------|
| Chairman            | Nora O. Vinluan        |                     | 2                    | 2                        | 100% | 1yr                                |
| Co-Chairman         | Rosanna E. Velasco     |                     | 2                    | 2                        | 100% | 1yr                                |
| Member (NED)        | Tomas C. Alvarez       |                     | 2                    | 0                        | 100% | 1 yr                               |
|                     | Elisea G. Gozun        |                     | 2                    | 0                        | 0%   | 1 yr                               |
| Member (Ex-Officio) | Elpidio C. Jamora, Jr. |                     | 2                    | 1                        | 50%  | 1 yr                               |

### 3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

| Name of Committee | Name | Reason |
|-------------------|------|--------|
| Executive         | N/A  | N/A    |
| Audit             | N/A  | N/A    |
| Finance           | N/A  | N/A    |
| Nomination        | N/A  | N/A    |
| Remuneration      | N/A  | N/A    |
| Others (specify)  |      |        |

### 4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.



**REFER TO ANNEX "B"**

**5) Committee Program**

Provide a list of programs that each committee plan to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

**REFER TO ANNEX "C"**

**E. RISK MANAGEMENT SYSTEM**

- 1) The incumbent Board does not have a Risk Management Committee. However, the Audit Committee's function already includes the assessment and management of enterprise risks. As provided for in Section 16.3 of Code of Corporate Governance for the GOCC sector, it does not preclude the Governing Board of the GOCC from combining the functions of the committees into such combinations that will best serve the interest of the GOCC.

**2) Risk Policy**

**(a) Company**

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

The main risk arising from the Company's financial instruments is liquidity risk. The Board of Directors and management review and approve the policies for managing this risk.

| Risk Exposure  | Risk Management Policy & Objectives   |
|----------------|---|
| Liquidity Risk | The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and short-term deposits. The Company also monitors its risk to shortage of funds through monthly evaluation of the projected and actual cash flow information. |

**(b) Group**

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

| Risk Exposure   | Risk Management Policy | Objective |
|---|------------------------|-----------|
| This is not applicable since the Company has no identified Group. |                        |           |

**(c) Minority Shareholders**

Indicate the principal risk of the exercise of controlling shareholders' voting power.

| Risk to Minority Shareholders |
|-------------------------------|
| There is nothing to report.   |

### 3) Control System Set Up

#### a. Company

| Risk Exposure  | Risk Assessment<br>(Monitoring and Measurement Process)   | Risk Management and Control<br>(Structures, Procedures, Actions Taken)   |
|----------------|---|--|
| Liquidity Risk | Monitors its risk to shortage of funds through monthly evaluation of the projected and actual cash flow information | Coordinates with appropriate Board Committee should any matter relating to this be referred to them by Management for policy formulation and implementation by Management. |

#### b. Group

| Risk Exposure               | Risk Assessment<br>(Monitoring and Measurement Process) | Risk Management and Control<br>(Structures, Procedures, Actions Taken) |
|-----------------------------|---|--|
| There is nothing to report. |   |  |

#### c. Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanism, and give details of its functions:

| Committee/Unit              | Control Mechanism   | Details of its Functions   |
|-----------------------------|---|--|
| Audit and Finance Committee | Assists the Board in the development and oversight of the company's risk management program   | Generally oversees the risk management process to be an integral part of planning and operations of the Company to meet corporate goals and objectives |
|                             | Assists the Board in fulfilling its oversight responsibilities for financial reporting process, system of internal control, audit process | Responsible for recommending the report of external auditors to the Board; monitor the system of internal controls                                     |

## F. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

- While policies are set by the Board, Management is primarily responsible for the implementation and maintenance of the internal control system of the Company. The Board through its Audit Committee oversees the actions of Management and monitors the effectiveness of the Internal Control System put in place. Recommendations are provided by Management and/or the Board, and in some cases by the External Auditor – Commission on Audit (COA) to address certain issues and concerns of the Company.
- The Board established an internal audit system that can reasonably assure the Board, Management and stockholders that the company's key organizational and operational controls are faithfully complied with, effective and adequate.
- Period covered by the review –year 2016;
- The Board reviews the internal controls on a yearly basis.

## 2) Internal Audit

### (a) Role, Scope and Internal Audit Function

| Role  | Scope  | Indicate whether In-house or Outsource Internal Audit Function | Name of Chief Internal Auditor/Auditing Firm | Reporting process  |
|---|--|--|--|--|
| Provides reliable and timely analysis, appraisals, recommendations and pertinent comments on the conformance / compliance of financial and business operations to established laws, norms, controls, rules and regulations to determine their integrity, effectivity and efficiency | <ul style="list-style-type: none"> <li>Compliance with established prevailing government policies, plans, procedures, rules and regulations</li> <li>Corporate assets and other resources</li> <li>Reliability and integrity of the financial and operating information</li> </ul> | No Internal Auditor has been appointed to date                 |  | Submits report to the Audit Committee for their review and recommends resolution |

(b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?  
YES

(c) The Board has established and identified the reporting line of the Internal Auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the Internal Auditor, he shall be free from interference by outside parties.

(d) Resignation, Re-assignment and Reasons

| Name of Audit Staff | Reason |
|---------------------|--------|
| N/A                 | N/A    |

(e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

|                        |  |
|------------------------|--|
| Progress Against Plans | Whenever applicable, the company adopts audit recommendations on issues and findings by the Commission on Audit, since no Internal Auditor has been appointed to date. |
| Issues <sup>5</sup>    |  |
| Findings <sup>6</sup>  |  |
| Examination Trends     |  |

<sup>5</sup>"Issues" are compliance matters that arise from adopting different interpretations.

<sup>6</sup>"Findings" are those with concrete basis under the company's policies and rules.



(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation."

| Policies & Procedures  | Implementation   |
|--|--|
| Manages activities to ascertain the extent of compliance with established prevailing government policies, plans, procedures, rules and regulations   | Whenever applicable, the company adopts audit recommendations on issues and findings by the Commission on Audit, since no Internal Auditor has been appointed to date. |
| Ascertains the extent to which assets and other resources of the company are properly accounted for and safeguarded from loss or abuse   |  |
| Reviews the degree of reliability and integrity of the financial and operating information developed within the company  |  |
| Appraising the economy and efficiency with which company resources are employed and develops / recommend effective controls at reasonable costs  |  |
| Reviewing the operations and programs to ascertain whether results consistent with established management objectives and whether the operations or programs are being carried out as planned |  |

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

| Auditors<br>(Internal and External)  | Financial Analysts | Investment Banks | Rating Agencies |
|--|--------------------|------------------|-----------------|
| As a GOCC, the financial statements of PNCC is statutorily mandated to be audited by COA. PNCC does not engage the service of Financial Analysts and Investment Banks. Trading of the Company's shares in the Philippine Stock Exchange has been suspended since May 2008. |                    |                  |                 |

- (h) Chairman Elpidio C. Jamora, Jr. and President Luis F. Sison are the officers who will have to attest to the company's full compliance with the SEC Code of Corporate Governance.

## G. ROLE OF STAKEHOLDERS

### 1) Company's policy and activities relative to the following:

|  | Policy  | Activities   |
|--|---|--|
| Customers' welfare                     | The PHILIPPINE NATIONAL CONSTRUCTION CORPORATION is committed to provide full client satisfaction through quality, safe and timely completion of infrastructure projects, delivery of products and services, and to operate its tollway system by providing safe and convenient travel for its users.   | Continuously adopt an effective and efficient quality management system.   |
|  | <p><i>Section 37 of Code of Corporate Governance for GOCCs – GCG Memorandum Circular 2012-07 provides:</i></p> <p>Integrity and honesty in dealings with customers is necessary for a successful and sustained business relationship. Every GOCC should operate a highly effective and efficient organization, focused on meeting customer objectives with the aim of providing services which give fair value and consistent quality, reliability and safety in return for the price paid for the same. GOCCs should operate policies of continuous improvement, of both processes and the skills of the staff, to take best advantage of advances in all aspect of society in order to ensure that it continues to add value to its customers' businesses.</p>                                    | Strong lines of communication with customers through email, comments/suggestions link in the company's website                               |
| Supplier/contractor selection practice | <p>The selection/accreditation of supplier/contractors/sub-contractors is necessary to ensure the development of a pool of competent supplier/contractors/ sub-contractors for all types of work that may be undertaken / subcontracted by the company.</p> <p><i>Section 38 of Code of Corporate Governance for GOCCs – GCG Memorandum Circular 2012-07 provides:</i></p> <p>As with other relationships with the Stakeholders, GOCCs should aim to develop relationships and improve networking with business partners and suppliers, the best combination of state-of-the-art technology and world class service, strong customer relations and deep industry knowledge and experience, together with the capacity to implement and deliver value-added solutions on time and within budget.</p> | Periodic revalidation of previously accredited contractors/subcontractors to ensure the maintenance of the contractors/subcontractors' pool. |

|  | Policy  | Activities  |
|--|---|---|
| Environmentally friendly value-chain       | The company's efforts are focused on its assistance with other government agencies and local government unit programs   | The company participates in other government agencies and local government units related projects undertaken from time to time through donations, sponsorship.  |
| Community interaction                      |   |   |
| Anti-corruption programmes and procedures? | <p>The Company does not condone any dishonest, unethical or unprofessional behavior and actions displayed by an employee, regardless of his/her level of authority.</p> <p>It is the responsibility of each employee to report legitimate concerns so that issues can be properly investigated or resolved and corrective measures can be instituted.</p> <p>These concerns may involve commission of fraud, theft or corruption, unauthorized use of Company funds and properties.</p> | <p>Concerns may be raised in writing to the (Human Resource) Asset Management and Administration Division while concerns involving the APMD (HRAD ) head should be raised to the President and CEO while complaints concerning the President and CEO shall be raised to the Chairman of the Board of Directors.</p> <p>Management shall maintain the confidentiality of the all the concerns or complaints raised and the anonymity of the person making the complaint to the fullest extent.</p> |
| Safeguarding creditors' rights             | The company manages its cash and investment position to meet its obligations arising from its operations and other financial liabilities.   | <p>The company's excess cash is invested in high yield savings account and special savings account.</p> <p>All valid claims are settled judiciously as apt of the company's commitment to its clients.</p>  |

- 2) The company has no separate corporate responsibility (CR) report/section or sustainability report/section since the suspension of operations of PNCC Foundation, Inc., the corporate responsibility arm of the company.
- 3) Performance-enhancing mechanisms for employee participation.

(b) Company's policy for its employees' safety, health, and welfare

**PNCC commits to safeguard the safety and health of its employees, contractors and the general public and to preserve the environment in undertaking its operations and activities.**



(c) Data relating to health, safety and welfare of its employees

| ACTIVITIES |  | INCLUSIVE DATES    |
|------------|--|--------------------|
| 1.         | Physical Fitness Training for Employees  | January 7, 2016    |
| 2.         | Philippine Nuclear Research Institute Inspection   | January 26, 2016   |
| 3.         | 1 <sup>st</sup> CSHEC Meeting  | January 28, 2016   |
| 4.         | Report on Safety Organization (DOLE)   | February 3, 2016   |
| 5.         | Report on Decorum and Investation (DOLE)   | February 3, 2016   |
| 6.         | CSHEC Plans and Programs for 2016  | February 3, 2016   |
| 7.         | PNCC Operation Assessment by DOLE Representative   | February 23, 2016  |
| 8.         | Accomplished DOLE/BWC/OHSD/IP6b  | February 3, 2016   |
| 9.         | 2 <sup>nd</sup> CSHEC Meeting  | March 1, 2016      |
| 10.        | Annual Medical Report for the period January 1, 2015 to December 31, 2015 (DOLE)   | March 3, 2016      |
| 11.        | Compressed Work Week (DOLE)  | March 3, 2016      |
| 12.        | Fire Orientation and Drill   | March 16, 2016     |
| 13.        | Report regarding Fire Orientation and Drill (DOLE-MUNTAPARLAS)   | March 19, 2016     |
| 14.        | Random Drug Test for Employees   | March 22-23, 2016  |
| 15.        | 3 <sup>rd</sup> CSHEC Meeting  | March 29, 2016     |
| 16.        | Electrical Inspection by General Services Department   | March 30,, 2016    |
| 17.        | Instalation of Signages for fire exits/fire extinguishers  | April 6, 2016      |
| 18.        | Purchase of 30 new fire extinguishers  | April 6, 2016      |
| 19.        | Training on Occupational First Aid (PNRC Rizal Chapter)  | April 22-23, 2016  |
| 20.        | 4 <sup>th</sup> CSHEC Meeting  | April 28, 2016     |
| 21.        | 5 <sup>th</sup> CSHEC Meeting  | May 31, 2016       |
| 22.        | Application for Registration of Contractor (DOLE)  | June 13, 2016      |
| 23.        | Orientation/Seminar in regard to Dept. Order No. 18-A, s. 2011 (DOLE)  | June 17, 2016      |
| 24.        | Certificate of Registration (D.O. No. 18-A, s. 2011)   | June 30, 2016      |
| 25.        | Fire Safety Inspection Certificate (BFP)   | July 7, 2016       |
| 26.        | 6 <sup>th</sup> CSHEC Meeting  | July 28, 2016      |
| 27.        | Family Welfare Program Seminar   | September 15, 2016 |
| 28.        | Medical and Dental Services Agreement (DOLE)   | September 6, 2016  |
| 29.        | 7 <sup>th</sup> CSHEC Meeting  | September 28, 2016 |
| 30.        | Family Welfare Program Committee (DOLE)  | October 4, 2016    |
| 31.        | Request for COC Issuance (DOLE)  | October 6, 2016    |
| 32.        | Participation in the 2016 Chairman's Cup Karate-do Tournament held at Sta. Rosa Educational Institution, Sta. Rosa, Laguna | October 16, 2016   |
| 33.        | DOLE Certification on Flexible Working Hours for Solo Parent Employee  | October 25, 2016   |
| 34.        | 8 <sup>th</sup> CSHEC Meeting  | October 26, 2016   |
| 35.        | Certificate of Accreditation as OSH Practitioner (DOLE-MUNTAPARLAS)  | October 25, 2016   |
| 36.        | Promotion to Green Belt of 12 PNCC Karatekas   | November 15, 2016  |
| 37.        | Issuance of Memo regarding Proper Use of Garbage Bins  | November 23, 2016  |
| 38.        | Request for re-assessment of PNCC Application for COC  | November 24, 2016  |
| 39.        | 9 <sup>th</sup> CSHEC Meeting  | December 7, 2016   |
| 40.        | Safety reminders during Christmas Season   | December 15, 2016  |

(d) The company has no provision in the Corporate Operating Budget for the year 2015 for training. Attendance in training has been on a case by case basis, and as required by relevant regulatory bodies.

(e) The company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures has been put on hold.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

- **THE COMPANY HAS PROVIDED A FACILITY IN ITS WEBSITE WHEREIN A WHISTLE BLOWER OR ANYBODY CAN REPORT ILLEGAL AND UNETHICAL ACTS AND BEHAVIOR CONCERNING EMPLOYEES, OFFICERS AND MEMBERS OF THE BOARD. ALL REPORTS WILL BE HANDLED WITH STRICT CONFIDENTIALITY. THUS ANYBODY WHO REPORTS SUCH ILLEGAL AND UNETHICAL ACTS AND BEHAVIOR IS PROTECTED FROM RETALIATION.**
- **ANY EMPLOYEE CAN FILE A COMPLAINT AGAINST ANYBODY IN THE COMPANY WHOM HE DEEMS HAS COMMITTED AN INFRACTION AGAINST HIMSELF OR THE COMPANY IN GENERAL.**
  - An employee may file a complaint with his immediate superior while a non-employee may file a complaint with the Head, Admin and Property Management Division (APMD) or Head of the Department concerned, copy furnished the Head, APMD. The same shall be referred to the appropriate Personnel Officer concerned or to the Admin Board.
  - The complaint shall be written in clear, simple and concise language and in a manner as to apprise the respondent of the nature of the charge against him and to enable him to intelligently prepare his defense or answer. Said complaint shall be under oath to merit appropriate action otherwise the same shall not be given due course.
  - A complaint may also be initiated at the instance of the APMD/Personnel Officer based on verbal report that a violation of Company regulations has been committed. Said complaint need not be under oath.
  - The withdrawal of the complaint does not necessarily discharge the respondent from administrative liability but where there is obvious truth or merit to the charges or complaint, the same shall be given due course.
  - Immediately upon receipt of a complaint which is sufficient in form and substance, the Administrative Board, Special Administrative Board or Safety Committee shall issue a notice to explain containing the nature and details of the charge to the person complained of and requiring him to explain in writing within at least 48 hours from receipt thereof why no disciplinary action shall be taken against him, copy furnished his department head. The notice shall also advise him to indicate in his explanation/answer whether or not he elects a formal investigation of the charge(s).
  - The person complained of shall submit his explanation/answer to the Administrative Board, Special Administration Board or Safety Committee. Failure to answer will be considered a waiver of opportunity to be heard.
  - Within five (5) days from receipt of the complaint and answer, the Local Board, Administrative Board, Special Administration Board or Safety Committee shall conduct a preliminary investigation. The Personnel Officer may form an Investigation Committee comprising of five (5) members for the purpose of conducting the same. The Personnel Officer may also refer the complaint to an Investigator. A preliminary investigation involves the *ex parte* examination of records, documents and written statements submitted by the complainant, respondent and the witnesses.
  - The Administrative Board, Special Administration Board or Safety Committee shall determine whether or not a prima facie case is established during the preliminary investigation. If it appears that the case is not meritorious, the complaint shall be dismissed outright. Otherwise, the Administrative Board, Special Administration Board or Safety Committee will summon the complainant, witnesses and the respondent to a formal investigation. The respondent shall be given notice specifying the offense, indicating the dates of the formal investigation and informing him of his rights to be assisted by a counsel of his choice.
  - After conducting the preliminary investigation, the Personnel Officer will determine which board has the jurisdiction over the case for its proper disposition.
  - A formal investigation shall nevertheless be conducted even if the respondent does not request the same where from the allegations as well as the records and supporting documents of the contending parties, the merits of the case cannot be decided judiciously without conducting such investigation.
  - An order of preventive suspension, if necessary, may be issued by the Administrative Board, Special Administration Board or Safety Committee pending an investigation.

- The preliminary investigation and formal investigation shall be terminated within 30 calendar days from its commencement but may be extended for a period not exceeding fifteen (15) calendar days when warranted by the circumstances of the case.
- The Administrative Board, Special Administration Board or Safety Committee shall render its decision within five (5) calendar days after the conclusion of the investigation. A notice of the disciplinary action shall be prepared stating the offense, findings, corresponding penalty and its effectivity date. The said notice together with the copy of the decision shall be forwarded to the Department Head.
- The notice of the disciplinary action to the employee concerned must be duly signed and served by the Department Head. In case the employee refuses to accept or sign the notice of disciplinary action, the person serving shall make a notation to such effect. If for some reason the employee could not be found at his given address, notice shall be sent by registered mail to his given or last known address.
- The employee adversely affected may file a motion for reconsideration with the Administrative Board, Special Administration Board or Safety Committee within ten (10) calendar days from receipt of the notice of the disciplinary action. Only one motion for reconsideration shall be entertained.
- In case the motion for reconsideration filed is denied, the aggrieved party may appeal the decision to the Administrative Board Special Administration Board or Safety Committee within five (5) calendar days from receipt of the Order denying the motion for reconsideration.
- The Motion for reconsideration/appeal shall be decided by the Administrative Board, Special Administration Board or Safety Committee within five (5) calendar days from receipt of the same.
- The filing of motion for reconsideration or appeal within the reglementary period of ten (10) calendar days shall stay the execution of the decision sought to be reconsidered.
- A decision rendered by the Administrative Board, Special Administration Board or Safety Committee shall be final and executory after the lapse of the reglementary period without the employee having filed a motion for reconsideration or appeal.
- Where the penalty is dismissal, the Personnel Department shall directly submit to the Department of Labor and Employment (DOLE) the relevant report.

#### H. DISCLOSURE AND TRANSPARENCY

##### 1) Ownership Structure

##### (b) Holding 5% shareholding or more

| Shareholder                           | Number of Shares | Percent | Beneficial Owner                      |
|---------------------------------------|------------------|---------|---------------------------------------|
| Republic of the Philippines thru PMO* | 126,256,145      | 55.33%  | Record owner is also beneficial owner |
| Government Service Insurance System   | 47,490,383       | 20.79%  | Record owner is also beneficial owner |
| Universal Holdings Corp.              | 24,780,746       | 10.85%  | Record owner is also beneficial owner |

| Name of Senior Management | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | % of Capital Stock |
|---------------------------|-------------------------|--|--------------------|
| N/A                       | N/A                     | N/A  |                    |



2) Does the Annual Report disclose the following:

|   |     |
|---|-----|
| Key risks   | YES |
| Corporate objectives  | YES |
| Financial performance indicators  | YES |
| Non-financial performance indicators  | YES |
| Dividend policy   | YES |
| Details of whistle-blowing policy   | YES |
| Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners | YES |
| Training and/or continuing education programme attended by each director/commissioner   | YES |
| Number of board of directors/commissioners meetings held during the year  | YES |
| Attendance details of each director/commissioner in respect of meetings held  | YES |
| Details of remuneration of the CEO and each member of the board of directors/commissioners  | YES |

3) External Auditor's fee

| Name of auditor     | Audit Fee               | Non-audit Fee |
|---------------------|-------------------------|---------------|
| Commission on Audit | ₱ 2,168,438.00 annually | N/A           |

4) Medium of Communication

The company utilizes the following modes of communication for dissemination information : memoranda, email, telephone (mobile & landline), corporate website, print ad.

5) Date of release of audited financial report:

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

|  |     |
|--|-----|
| Business operations  | YES |
| Financial statements/reports (current and prior years)                             | YES |
| Materials provided in briefings to analysts and media                              | YES |
| Shareholding structure   | YES |
| Group corporate structure  | YES |
| Downloadable annual report   | YES |
| Notice of AGM and/or EGM   | YES |
| Company's constitution (company's by-laws, memorandum and articles of association) | YES |

7) Disclosure of RPT entered into by the Company in the past three (3) years

| RPT  | Relationship  | Nature                 | Value |
|--|---------------|------------------------|-------|
| CITRA Central Expressway Corp.   | Joint Venture | Subscription Agreement |       |
| CITRA Intercity Tollways, Inc.   | Joint Venture | Subscription Agreement |       |
| P.T. CITRA LAMTORO GUNG PERSADA & Stage 3 Connector Tollways Holdings Corporation (S3HC) | Joint Venture | Deed of Adherence      |       |
| P.T. CITRA LAMTORO GUNG PERSADA & SMC Infraventures Inc. (SMCI)                          | Joint Venture | Deed of Adherence      |       |

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

*All related party transactions are fully disclosed to the Board of Directors. Contracts and agreements are done in the regular course of business and conducted on an arm's length basis, negotiated based on prevailing commercial terms and approved by the Board of Directors. None of the Company's shareholders are granted special privileges or concessions.*

I. RIGHTS OF STOCKHOLDERS

1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

(a) Quorum

|                 |   |
|-----------------|---|
| Quorum Required | A majority of the outstanding capital stock, represented in person, or by proxy, shall constitute a quorum at any meeting of shareholders |
|-----------------|---|

(b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

|             |                                       |
|-------------|---------------------------------------|
| System Used | By voting during stockholders meeting |
| Description | Majority rule                         |

(c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

| Stockholders' Rights under The Corporation Code | Stockholders' Rights <u>not</u> in The Corporation Code |
|---|---|
| NONE  | NONE  |

## Dividends

The company has not declared any dividend for the year 2016.

| Declaration Date | Record Date | Payment Date |
|------------------|-------------|--------------|
| N/A              | N/A         | N/A          |

## (d) Stockholders' Participation

- The company held a stockholders' meeting in 2016.

| Measures Adopted                | Communication Procedure |
|---------------------------------|-------------------------|
| Sending out of SEC Form 20 – IS | Via courier, hand carry |

- State the company policy of asking shareholders to actively participate in corporate decisions regarding:
  - Amendments to the company's constitution  
**AMENDMENT TO ARTICLE IV OF ARTICLES OF INCORPORATION TO EXTEND CORPORATE TERM TO ANOTHER 50 YEARS.**
  - Authorization of additional shares **N/A**
  - Transfer of all or substantially all assets, which in effect results in the sale of the company **N/A**
- Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up? **YES**
  - Date of sending out notices: **AUGUST , 2016**
  - Date of the Annual/Special Stockholders' Meeting: **OCTOBER 17, 2016**

- State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

- Result of Annual/Special Stockholders' Meeting's Resolutions

| Resolution   | Approving  | Dissenting   | Abstaining  |
|--|--|--|---|
| Approval of President' report and the Audited Financial Statements as of December 31, 2015 | 156,229,316<br>or<br>98.47%<br>of total number of votes cast | 156<br>or<br>.00%<br>of total number of votes cast | 2,385,836<br>or<br>1.52%<br>of total number of votes cast |
| Amendment of Articles of Incorporation   | 155,316,532<br>or 99.57%<br>of total number of votes cast    | 157<br>or .00%<br>of total number of votes cast    | 658,002<br>or .42%<br>of total number of votes cast       |

- Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:  
**October 18, 2016**

## (e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

| Modifications | Reason for Modification |
|---------------|-------------------------|
| N/A           | N/A                     |



(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

| Type of Meeting | Names of Board members / Officers present | Date of Meeting  | Voting Procedure (by poll, show of hands, etc.) | % of SH Attending in Person | % of SH in Proxy | Total % of SH attendance |
|-----------------|---|------------------|---|-----------------------------|------------------|--------------------------|
| Annual          | N/A                                       | OCTOBER 17, 2016 | BY POLL   | 109,415,880                 | 49,199,428       | 158,615,308              |
| Special         | N/A                                       | N/A              | N/A   | N/A                         | N/A              | N/A                      |

(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs? **YES, REPRESENTATIVES OF COMMISSION ON AUDIT AND STOCK TRANSFER AGENT (PROFESSIONAL STOCK TRANSFER, INC.)**

(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares. **EACH COMMON AND PREFERRED D SHARE OF STOCK IS ENTITLED TO ONE (1) VOTE.**

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

|   | Company's Policies  |
|---|---|
| Execution and acceptance of proxies<br>Notary<br>Submission of Proxy<br>Several Proxies<br>Validity of Proxy<br>Proxies executed abroad<br>Invalidated Proxy<br>Validation of Proxy<br>Violation of Proxy | <p>At all meetings of the stockholders, a stockholder may vote by proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact, only on forms prescribed by the Board of Directors and sealed with the Corporate seal that, at his request, shall be furnished to him by the Secretary of the Corporation, who shall keep a record of all stockholders to whom proxy forms have been issued. Such proxies should be acknowledged before the Secretary of the Corporation or a notary public, and shall be filed with the Secretary at least three (3) business days before the meeting.</p> <p>Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the By-Laws of such provision, as the Board of Directors of such Corporation may, by resolution determine. A certificate of the Secretary of such corporation attesting to the vote authority of the officer, agent or proxy to vote the stock standing in its name shall be conclusive on the right to vote said shares.</p> <p>Shares held by an administrator, executor, guardian or judicial trustee may be voted by him, either in person or by proxy, without a transfer of such shares in his name, upon presentation to the Secretary of the certified true copy of the letters of administration, testamentary guardianship or trusteeship duly issued to him. Share standing in the name of the voting trust or trustee may be voted by him, either in person or by proxy, but no such trustee shall be entitled to vote shares held by him without a transfer of such shares in his name.</p> |

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

| Policies / Procedure  |
|---|
| <p>Notice of the annual or any special meeting of the stockholders shall be sent by registered mail, and shall be considered complete upon deposit in the Post Office at least five (5) days before such meeting postage prepaid, addressed to each stockholder at his last known place of residence appearing on the books of the Corporation, in a sealed envelope containing written or printed notice stating the date, hour and place of such meeting; and is a special meeting also the purpose or purposes for which it is called. Failure of or defect in the notice shall not invalidate any annual meeting of the stockholders or any of the proceedings had thereat, if the business transacted at such meeting is within the powers of the corporation and all the stockholders of the Corporation are present or represented at the meeting; and any defect in the notice or failure to state the purpose or purposes for which a special meeting is called shall not invalidate the same except when so provided by law, and all statements of purposes shall not be deemed exclusive, but any matter may be taken up in such meetings, unless otherwise required by law.</p> |

(i) Definitive Information Statements and Management Report

|   |  |
|---|--|
| Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials  | 4,813 (As of December 31, 2016)  |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners | August 26, 2016  |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders                                  | August 26, 2016  |
| State whether CD format or hard copies were distributed   | CD Format  |
| If yes, indicate whether requesting stockholders were provided hard copies  | Yes, requesting stockholders were provided with hard copies. Hard copies were also available during the meeting. |

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

|   |     |
|---|-----|
| Each resolution to be taken up deals with only one item.  | YES |
| Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election. | YES |
| The auditors to be appointed or re-appointed.   | N/A |
| An explanation of the dividend policy, if any dividend is to be declared.   | N/A |
| The amount payable for final dividends.   | N/A |
| Documents required for proxy vote.  | YES |

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

## 2) Treatment of Minority Stockholders

### (a) Company's policies with respect to the treatment of minority stockholders

| Policies  | Implementation  |
|---|---|
| <b>Voting Right</b> – Shareholders shall have the right to elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.  | Cumulative voting shall be used in the election of directors  |
| <b>Pre-emptive Right</b> – All stockholders shall have pre-emptive rights in accordance with law, unless the same is denied in the Articles of Incorporation or an amendment thereto. They shall have the right to subscribe to the capital stock of the corporation. The Articles of Incorporation shall lay down the specific rights and powers of stockholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code. |   |
| <b>Power of Inspection</b> – all stockholders shall be allowed to inspect corporate books and records including minutes of the Board meetings and stock registries in accordance with the Corporation Code and shall be furnished with annual reports, including financial statements, without cost or restrictions.  | Stockholders may address the letter to the Corporate Secretary requesting to inspect corporate books and records via e-mail or registered mail. |
| <b>Right to information</b> – The stockholders shall be provided, upon request, with specific reports which disclose personal and professional information about the directors and officers and certain other matters such as their holdings of the corporation's share, dealings with the corporation, relationship among directors and key  | Stockholders may address the letter to the Corporate Secretary to request for specific report via e-mail or registered mail.                    |



| Policies   | Implementation   |
|--|--|
| <p>officers and the aggregate compensation of directors and officers. The minority stockholder shall have access to any and all information relating to matters for which the management is accountable for. If not included, then the minority stockholders shall be allowed to propose such matters in the agenda of a stockholders' meeting, being within the definition of "legitimate purposes" and in accordance with law, jurisprudence and best practice.</p>  |  |
| <p><b>Right to Dividends</b> – stockholders shall have the right to receive dividends subject to the discretion of the Board</p>   | <p>The corporation shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-up capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances</p>   |
| <p><b>Appraisal Right</b>– Any stockholder of the Registrant shall have the right to dissent and demand payment of the fair value of his shares only in the following instances, as provided by the Corporation Code:</p> <p>(1) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;</p> <p>(2) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;</p> | <p>The appraisal right when available, may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares; Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder upon surrender of his certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.</p> |
| <p>(2) In case of merger or consolidation; and</p> <p>(3) In case of investments in another corporation, business or purpose.</p>  | <p>If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made:</p>   |

| Policies | Implementation  |
|----------|---|
|          | Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; and Provided, Further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation. |

(b) Do minority stockholders have a right to nominate candidates for board of directors? **YES**

#### 1. INVESTORS RELATIONS PROGRAM

- 1) The company establish a standard procedure for internal communication at various levels and functions within the organization 1) to receive, document, respond and control the relevant communication issues from and for external interested parties and 2) ensure prompt and appropriate delivery of information and attendant action. The Office of the President reviews major company announcements and disclosure and submitted for approval of the Board.
- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

|                                 | Details  |
|---------------------------------|--|
| (1) Objectives                  | <ul style="list-style-type: none"> <li>• To establish a standard procedure for internal communication at various levels and functions within the organization</li> <li>• To provide procedure in receiving, documenting, responding and controlling of relevant communication issues from and for external interested parties</li> <li>• Ensure prompt and appropriate delivery of information and attendant action</li> </ul> |
| (2) Principles                  |  |
| (3) Modes of Communications     | Email, letter, print ad, telephone   |
| (4) Investors Relations Officer | Renato M. Monsanto, Assistant Corporate Secretary<br>Email Address : <a href="mailto:pncc@pncc.ph">pncc@pncc.ph</a><br>Office Address : PNCC Complex, KM 15 East Service Rd., Bicutan, Paranaque City<br>Telephone No.: 8460209 / 8463045  |

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?  
N/A

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price. **N/A**

## K. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Since the suspension of operations of PNCC Foundation, Inc., the corporate responsibility arm of the company and responsible for addressing the CSR of the corporation, community involvement and environmental-related programs have been put on hold. However, PNCC has maintained corporate social responsibility initiatives, although not in the level previously undertaken.

The company has sponsored some government projects for the past three (3) years:

| Initiative                                      | Beneficiary                              | Year |
|---|--|------|
| 14 <sup>th</sup> Christmas with angels          | Office of Congressman Gustavo Tambunting | 2014 |
| Supplemental Feeding Program – Children of PWDs | Handicare                                | 2015 |
| Office of Congressman Gustavo Tambunting        | Office of Congressman Gustavo Tambunting | 2015 |
| Leadership & Education Program                  | Caritas Manila                           | 2015 |
| Barangay personnel & senior Christmas Party     | Barangay San Martin de Porres            | 2016 |

As part of the company's CSR, the following activities were initiated:

- Every March since 2007, we join Earth Hour, a worldwide campaign against global warming and climate change. Our involvement expresses PNCC's support to help shape a more sustainable future. On March 19, 2016 between 8:30 p.m. and 9:30 p.m., company guards observed the Earth Hour by turning off the lights.
- On June 22, 2016 at exactly 9:00 a.m., PNCC employees joined the Metro Manila Shake Drill together with other establishments and local government.
- On November 9, 2016, PNCC has conducted Tree Planting activity within the municipality of Norzagaray, Bulacan located in Sitio Suha, San Mateo in response to the environmental responsibility program and in support with the DENR vision in creating a nation sustaining its natural resources.

## L. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President

|                      | Process   | Criteria   |
|----------------------|---|--|
| Board of Directors   | Adherence to Corporate Governance guidelines and best practices | <ul style="list-style-type: none"> <li>• Guidelines set by Phil. Stocks Exchange</li> <li>• Guidelines set by Governance Commission for Government Owned and Controlled Corporation</li> </ul> |
| Board Committees     |   |  |
| Individual Directors |   |  |
| CEO/President        |   |  |



## INTERNAL BREACHES AND SANCTIONS

Internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

| Violations  | Sanctions  |
|---|--|
| Violation of any of the provision of the Revised Manual on Corporate Governance | <ul style="list-style-type: none"><li>• First violation, subject person shall be reprimanded</li><li>• Suspension from office shall be imposed in case of a second violation. The duration of the suspension shall depend on the gravity of the violation</li><li>• For a third violation, the maximum penalty of removal from office shall be imposed. The commission of a third violation by any member of the Board of the Corporation or its subsidiaries and affiliates shall be sufficient cause for removal from directorship, subject to the provisions of the Corporation Code.</li></ul> |

## ANNEX "A" - Number of Members, Functions and Responsibilities

| Committee       | No. of Members          |                              |                           | Committee Charter | Functions  | Key Responsibilities                         | Power |
|-----------------|-------------------------|------------------------------|---------------------------|-------------------|--|--|-------|
|                 | Executive Director (ED) | Non-executive Director (NED) | Independent Director (ID) |                   |  |  |       |
| Executive Audit | N/A                     | N/A                          | N/A                       | N/A               | <ul style="list-style-type: none"><li>Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations</li><li>Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the corporation; shall include regular receipt from Management of information on risk exposures and risk management activities</li><li>Perform oversight functions over corporation's internal and external auditors; ensures that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions</li><li>Review the annual internal audit plan to ensure its conformity with the objectives of the corporation</li><li>Discuss with the external auditor the nature, scope and expenses of the audit and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts</li><li>Organize an internal audit department and consider the appointment of an independent internal auditor and the terms and condition of its engagement and removal</li><li>Monitor and evaluate the adequacy and effectiveness of the corporation's internal control system, including financial reporting control and information technology security</li><li>Review the reports submitted by the internal and external auditors</li><li>Review the quarterly, half-year and annual financial statements before their submission to the Board</li><li>Coordinate, monitor and facilitate compliance with laws, rules and</li></ul> | Recommendatory for the approval of the Board |       |

| Committee    | No. of Members          |                              |                           | Committee Charter | regulations |  | Power |
|--------------|-------------------------|------------------------------|---------------------------|-------------------|-------------|--|-------|
|              | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) |                   | Functions   | Key Responsibilities   |       |
| Audit        |                         | 3                            |                           | RMCG              |             | <ul style="list-style-type: none"> <li>Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditors in relation to their significance to the total annual income of the external auditor against the corporation's overall consultancy expenses.</li> <li>Establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities</li> <li>Review and evaluate the qualifications of all persons nominated to the Board and other appointments that require Board approval</li> <li>Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors</li> </ul>  |       |
| Nomination   |                         | 3                            |                           | RMCG              |             | <ul style="list-style-type: none"> <li>Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates</li> <li>Designate the amount of remuneration which shall be in sufficient level to attract and retain directors and officers who are needed to run the company successfully, subject to approval of the Board</li> <li>Develop a form on Full Business Interest Disclosure as part of pre-employment requirements for all incoming officers, which, among others, shall compel all officers to declare under the penalty of perjury all their existing business interests or shareholdings that may directly or indirectly conflict in their performance of the duties once hired</li> <li>Disallow any director to decide his or her own remuneration</li> <li>Provide in the Corporation's annual reports the information and proxy statement disclosure of all fixed and variable compensation that may be paid, directly or indirectly to its directors and top four (4) management officers during the preceding fiscal year</li> </ul> |       |
| Remuneration |                         | 3                            |                           | RMCG              |             | <ul style="list-style-type: none"> <li>Review of existing Human Resources Development or Personnel Handbook to strengthen provisions on conflict of interest, salaries and benefits policies, promotion and career advancement</li> </ul>  |       |



| Committee       | No. of Members          |                              |                           | Committee Charter | Functions  | Key Responsibilities | Power |
|-----------------|-------------------------|------------------------------|---------------------------|-------------------|--|----------------------|-------|
|                 | Executive Director (ED) | Non-executive Director (NED) | Independent Director (ID) |                   |  |                      |       |
| Legal Committee |                         | 2                            |                           | RMCG              | <ul style="list-style-type: none"> <li>• Review legal issues that affect the company</li> <li>• Review with Management and/or company's Legal counsel any legal matters (including status of pending litigation) that could have a material impact on the company's financials operation</li> <li>• Review compliance with applicable laws and regulations and any material reports or inquiries from regulatory or government agencies</li> </ul> |                      |       |

\*RMCG – Revised Manual on Corporate Governance

# ANNEX "B" - Work Done and Issues Addressed

| Name of Committee   | Work Done  | Issues Addressed  |
|---|--|---|
| Audit / Finance<br>Compensation<br>Legal<br>Special<br>Investigation<br>PAN | <ul style="list-style-type: none"> <li>Approved the renewal of lease contract of Ley Construction and Development Corporation in the Financial Center Area property</li> </ul>                           | <ul style="list-style-type: none"> <li>Maximize rental income of FCA property</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Approved the renewal of lease contract of Lola Taba Lolo Pato Palengke and Paluto sa Seaside in the Financial Center Area property</li> </ul>                     | <ul style="list-style-type: none"> <li>Maximize rental income of FCA property</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Approved the renewal of lease contract of Gift4U Company in the Financial Center Area property</li> </ul>   | <ul style="list-style-type: none"> <li>Maximize rental income of FCA property</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Approved PNCC's subscription of shares of stocks to Citra Intercity Tollways, Inc.</li> </ul>   | <ul style="list-style-type: none"> <li>To preserve interest of PNCC in the Joint Venture company</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Approved the assignment of the Chairman to handle settlement of issue on the ownership of SOMCO shares with CMMTC</li> </ul>                                      | <ul style="list-style-type: none"> <li>To preserve interest of PNCC in the Joint Venture company</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Approved and authorized the issuance and release of the Corporations' Audited Financial Statements for FY 2015</li> </ul>   | <ul style="list-style-type: none"> <li>To satisfy reportorial requirements of regulatory agencies</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Approved to lay claim to the property of CDCP Farms Corporation in payment of obligation to PNCC</li> </ul>   | <ul style="list-style-type: none"> <li>To collect from subsidiary company in payment of obligation to PNCC</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Approved the amendment of fourth article of the Articles of Incorporation to extend corporate life to another 50 years</li> </ul>                                 | <ul style="list-style-type: none"> <li>To ensure continued existence and operation of the company</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Approved the extension of lease contract of Pacific Concrete Products, Inc. in the Financial Center Area property</li> </ul>                                      | <ul style="list-style-type: none"> <li>Maximize rental income of FCA property</li> </ul>  |
|   | <ul style="list-style-type: none"> <li>Adopted the provisions of the GCG Memorandum Circular No. 2016-01 relative to per diems of Chairman and Chairpersons of the different Board committees</li> </ul> | <ul style="list-style-type: none"> <li>To improve compensation package of members of the Board</li> </ul>   |
|   | <ul style="list-style-type: none"> <li>Approved the holding of stockholders' meeting for 2016</li> </ul>   | <ul style="list-style-type: none"> <li>To comply with mandatory requirements of the law</li> <li>To resolve issues requiring stockholders approval</li> </ul> |

|  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"> <li>• Approved the of lease contract of JAC Liner, Inc. in the Financial Center Area property</li> </ul>  | <ul style="list-style-type: none"> <li>• Maximize rental income of FCA property</li> </ul>                     |
|  | <ul style="list-style-type: none"> <li>• Approved the of lease contract of Shifudo International, Corp. in the Financial Center Area property</li> </ul>   | <ul style="list-style-type: none"> <li>• Maximize rental income of FCA property</li> </ul>                     |
|  | <ul style="list-style-type: none"> <li>• Approved the of lease contract of Jecar Enterprises in the Financial Center Area property</li> </ul>  | <ul style="list-style-type: none"> <li>• Maximize rental income of FCA property</li> </ul>                     |
|  | <ul style="list-style-type: none"> <li>• Approved the of lease contract of 128 EL Enterprises Limited Company in the Financial Center Area property</li> </ul>   | <ul style="list-style-type: none"> <li>• Maximize rental income of FCA property</li> </ul>                     |
|  | <ul style="list-style-type: none"> <li>• Approved to remit to Bureau of Treasury the amount of P500M as partial payment of PNCC's obligation to the National Government covering the unremitted toll revenue in SLEX under Toll Operation Certificate (TOC)</li> </ul> | <ul style="list-style-type: none"> <li>• To reduce PNCC's outstanding obligations to NG</li> </ul>             |
|  | <ul style="list-style-type: none"> <li>• Implement the policies and guidelines for Integrated Corporate Reporting System pursuant to R.A. 10149</li> </ul>   | <ul style="list-style-type: none"> <li>• To satisfy reportorial requirements of regulatory agencies</li> </ul> |
|  | <ul style="list-style-type: none"> <li>• Approved the amendment of third article of the Articles of Incorporation to amend the company address</li> </ul>  | <ul style="list-style-type: none"> <li>• To satisfy reportorial requirements of regulatory agencies</li> </ul> |
|  | <ul style="list-style-type: none"> <li>• Approved compliance with the Bureau of Internal Revenue's Electronic Filing and Payment System</li> </ul>   | <ul style="list-style-type: none"> <li>• To satisfy reportorial requirements of regulatory agencies</li> </ul> |
|  |  |  |
|  |  |  |




# ANNEX "C" –Committee Programs

| Name of Committee | Planned Programs   | Issues to be Addressed  |
|-------------------|--|---|
| Executive         | N/A  | N/A   |
| Audit / Finance   | <ul style="list-style-type: none"> <li>Review of Corporate Operations Budget and Financial Statements</li> <li>Prepare Audit Plan for 2016</li> <li>Review of qualifications of Independent Directors</li> </ul> | <ul style="list-style-type: none"> <li>Compliance with SEC, PSE and BIR</li> <li>Compliance with PSE &amp; SEC</li> </ul> |
| Nomination        |  |   |
| Compensation      |  |   |
| Legal             | <ul style="list-style-type: none"> <li>Review of legal issues on matters for Board deliberation before presentation to the Board</li> </ul>  |   |

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Parañaque City on January 27, 2015.

**SIGNATURES**

  
**ELPIDIO C. JAMORA, JR.**

(Signature over Printed Name)

Chairman of the Board

  
**LUIS F. SISON**

(Signature over Printed Name)

President / Chief Executive Officer

\*\*\*

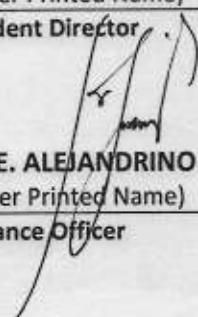
(Signature over Printed Name)

Independent Director

\*\*\*

(Signature over Printed Name)

Independent Director

  
**JANICE DAY E. ALEJANDRINO**

(Signature over Printed Name)

Compliance Officer

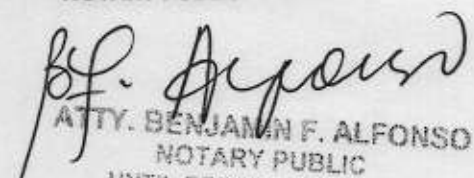
\*\*\* Election of directors was deferred on stockholders' meeting held in 2016 thus no Independent Director had been elected.

**JAN 31 2017**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of January 2016, affiant(s) exhibiting to me their government issued IDs, as follows:

| NAME                      | GOVT ID NO          | DATE OF ISSUE | PLACE OF ISSUE  |
|---------------------------|---------------------|---------------|-----------------|
| ELPIDIO C. JAMORA, JR.    | Passport EB42546859 | 12-12-2011    | PASAY CITY      |
| LUIS F. SISON             | SC ID No. 3926      | 05-29-2009    | MUNTINLUPA CITY |
| JANICE DAY E. ALEJANDRINO | SSS # 03-3911310-5  |               | QUEZON CITY     |

**NOTARY PUBLIC**

  
**ATTY. BENJAMIN F. ALFONSO**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2017  
PTR. NO. 3808846 - 1/16/2017 QUEZON CITY  
IBP NO. 1038379 - 11/24/2016 QUEZON CITY  
ROLL NO. 13296  
ADM. MATTER NO. NP-046 (2017-2018)  
ADD.: NO. 34 ASSET'S ST. GSIS VILL., PROJ. 0, Q.C.  
MCLE NO. II-0920276- OCT. 29, 2011

Doc No. 204  
Page No. 57  
Book No. 19 A  
Series of 2017