



**PHILIPPINE NATIONAL  
CONSTRUCTION CORPORATION**

2 September 2013  
Ref.: OP-LFS-125-2013L

**SECURITIES AND EXCHANGE COMMISSION**  
SEC Bldg., EDSA, Greenhills  
Mandaluyong City

Attention: Atty. Justina F. Callangan  
Director, Corporation Finance Department

*Re: Letter dated 25 July 2013*

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We write in connection with your letter dated 25 July 2013 ("Letter"), a copy of which was received by Philippine National Construction Corp. ("PNCC") on 28 August 2013.

PNCC was advised that its 2013 First Quarter Report ("SEC Form 17-Q"), filed on 4 July 2013, does not fully comply with the disclosure requirements under SRC Rule 17.1(1)(A)(ii).

PNCC was directed to submit an amended SEC Form 17-Q supplying the deficiencies in the checklist attached to the Letter, and explain why the required information was not reflected in the original filing.

We note that the figures as of 31 December 2013 are already audited. We, however, failed to indicate such in the SEC Form 17-Q through oversight. Please note also that the SEC Form 17-Q already contains in Section 2.1 a schedule showing financial soundness indicators in two comparative periods, but is presented in a different format.

As instructed by the SEC, we submit herewith PNCC's Amended First Quarter SEC Form 17-Q, which complies with the disclosure requirements.

Very truly yours,

**LUIS F. SISON**  
President/CEO

**PART 1 - FINANCIAL INFORMATION**(Item 1 -Financial Statements)  
(Item 1.1 -Statement of Financial Position)**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION  
STATEMENT OF FINANCIAL POSITION**

As of March 31, 2013

With comparative figures as of December 31, 2012

(In Thousand Pesos)

	March 31 2013 (Interim)	December 31 2012 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P 150,694	P 27,726
Advances and other receivables, net	592,087	618,259
Receivables from contracts, net	139,177	229,717
Other current assets, net	29,288	22,620
<b>Total Current Assets</b>	<b>911,246</b>	<b>898,322</b>
<b>Noncurrent Assets</b>		
Investments	261,969	261,969
Investment property	7,848,246	7,848,246
Property and equipment, net	555,508	557,769
Other assets, net	192,074	191,347
<b>Total Noncurrent Assets</b>	<b>8,857,797</b>	<b>8,859,331</b>
	<b>P 9,769,043</b>	<b>P 9,757,653</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	P 19,950	P 15,604
Due to the National Government and its Instrumentalities	7,426,068	7,363,293
Due to Government Owned or Controlled Corporation	1,203,000	1,203,000
<b>Total Current Liabilities</b>	<b>8,649,018</b>	<b>8,581,897</b>
<b>Noncurrent Liabilities</b>		
Deferred rental income/others	205,451	210,643
Deferred tax liabilities	2,490,191	2,490,191
<b>Total Noncurrent Liabilities</b>	<b>2,695,642</b>	<b>2,700,834</b>
<b>Stockholders' Equity</b>		
Capital stock, net	2,227,599	2,227,599
Capital in excess of par value	46,137	46,137
Treasury Stocks	(16,699)	(16,699)
Revaluation increment in property	366,214	366,214
Equity adjustments	5,551,726	5,551,726
Deficit	(9,750,594)	(9,700,055)
<b>Capital Deficiency</b>	<b>(1,575,617)</b>	<b>(1,525,078)</b>
	<b>P 9,769,043</b>	<b>P 9,757,653</b>

PHILIPPINE NATIONAL CONSTRUCTION CORP. / ON  
 Aging Schedule of Receivables and Advances  
 As of March 31, 2013  
 (In Thousand Pesos)

	Amount	Allowance For Doubtful Account	Net Amount	Current	PAST DUE					
					1-30	31-60	61-90	91-120	Over 120	Over 5 Yrs.
01. UNBILLED CONTRACT RECEIVABLE	234	234								
02. BILLED CONTRACT RECEIVABLE	163,632	92,262	71,370		18,763					52,607
03. CONTRACTUAL RETENTION RECEIVABLE	5,135	2,380	2,755							2,755
04. ACCOUNTS RECEIVABLE-TRADE	57,016	57,016								
05. ACCOUNTS RECIBL/PAYABLE-SUBS. & AFI	334,261	241,343	92,918	(406)	240	390	1,937	(61,007)	151,764	
06. A/R OFFICERS & EMPLOYEES	52,087	174	51,913	428	23		10	4	50,778	670
07. CLAIMS RECEIVABLE	105,411	40,359	65,052							65,052
08. OTHER ACCOUNTS RECEIVABLE	420,950	175,545	245,405	8,061	4,584	4,449	24,324	5,692	167,290	31,005
09. ADVANCES TO SUPPLIER	4,128	2,190	1,938	1,879	8	51				
10. ADVANCES TO SUB-CON	6,685	542	6,143							
11. ADVANCES TO CONTRACT OWNER	636	636								6,143
12. ADVANCES TO SSS/ECC BENEFITS	8		8							
<b>Sub-total</b>	<b>1,150,183</b>	<b>612,681</b>	<b>537,502</b>	<b>9,962</b>	<b>23,618</b>	<b>4,890</b>	<b>28,271</b>	<b>(56,311)</b>	<b>389,840</b>	<b>168,232</b>

12. ADVANCES TO BUREAU OF TREASURY	150,000
13. ADVANCES TO JOINT VENTURE (net)	74,022
14. ADVANCES TO CESLA	64
15. INPUT TAX	2,221
16. OUTPUT TAX	(15,565)
17. DEFERRED INPUT TAX	470
18. DEFERRED OUTPUT TAX	(17,450)
<b>Sub-total</b>	<b>193,762</b>

<b>Total</b>	<b>731,264</b>
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**PART 1 - FINANCIAL INFORMATION**

(Item 1 -Financial Statements)

(Item 1.2 -Statement of Income)

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION  
STATEMENT OF COMPREHENSIVE INCOME**

For the First Quarter of 2013 and 2012

(In Thousand Pesos)

	January to March	
	2013	2012
<b>REVENUES</b>		
Revenue share from Joint Venture Companies	P 18,821	P 16,152
Rental income	13,275	10,347
	<u>32,096</u>	<u>26,499</u>
<b>GENERAL AND ADMINISTRATIVE OVERHEAD</b>	22,264	41,128
<b>INCOME(LOSS) FROM OPERATIONS</b>	<u>9,832</u>	<u>(14,629)</u>
<b>OTHER INCOME (CHARGES):</b>		
Penalty charges	(62,775)	(62,775)
Interest income	-	-
Other income	3,253	1,784
	<u>(59,522)</u>	<u>(60,991)</u>
<b>NET INCOME (LOSS)</b>	<u>P (49,690)</u>	<u>P (75,620)</u>

Earnings (loss) per share:

(a) income (loss)	(0.28)	(0.43)
(b) number of outstanding common shares	174,444,749	174,444,749

**PART 1 - FINANCIAL INFORMATION**(Item 1 -Financial Statements)  
(Item 1.3 -Statement of Changes in Equity)**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION  
STATEMENT OF CHANGES IN EQUITY**

For the First Quarter of 2013 and 2012

(In Thousand Pesos)

	January to March	
	2013	2012
<b>CAPITAL:</b>		
Capital stock		
Issued/subscribed	P 2,283,758	P 2,283,758
Subscription receivable	(56,159)	(56,159)
Balance at beginning of the year and end of the quarter	2,227,599	2,227,599
Capital in excess of par value		
Balance at beginning of the year and end of the quarter	46,137	46,137
Treasury stock		
Balance at beginning of the year and end of the quarter	(16,699)	(16,699)
	2,257,037	2,257,037
<b>REVALUATION INCREMENT IN PROPERTY:</b>		
Balance at beginning of the year	366,214	525,466
Revaluation decrease(realization of revaluation surplus)	-	-
Balance at end of the quarter	366,214	525,466
<b>EQUITY ADJUSTMENTS:</b>		
Under rehabilitation plan-loans transferred to National Government	5,551,726	5,551,726
<b>DEFICIT:</b>		
Balance at beginning of the year	(9,700,055)	(7,109,292)
Net income (loss)	(49,690)	(75,620)
Correction of prior years' earnings	(849)	14,994
Balance at end of the quarter	(9,750,594)	(7,169,918)
<b>EQUITY (DEFICIENCY)</b>	P (1,575,617)	P 1,164,311

**PART 1 - FINANCIAL INFORMATION**(Item 1 -Financial Statements)  
(Item 1.4 -Statement of Cash Flows)**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION  
STATEMENT OF CASH FLOWS**For the First Quarter of 2013 and 2012  
(In Thousand Pesos)

	January to March	
	2013	2012
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers:		
Work accomplishments	P 84,881	P -
Revenue share	46,230	-
Rental	12,257	32,558
Others	4,663	949
	148,031	33,507
Cash paid to suppliers	(16,977)	(15,187)
Cash paid to employees/directors/consultants	(13,318)	(13,603)
Cash generated from operations	117,736	4,717
Penalties paid	-	(52)
Interests paid	-	-
Income tax paid	-	-
Net cash flows provided by (used in) operating activities	117,736	4,665
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(1,729)	(18)
Proceeds from sale of fixed assets/scrap materials	4,874	3,411
Interests received	-	-
Dividends received	2,087	-
Net cash flows provided by (used in) investing activities	5,232	3,393
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Payment of loan:		
Principal	-	-
Interests	-	-
Penalties	-	-
Others	-	-
Net cash flows provided by (used in) financing activities	-	-
<b>NET DECREASE (DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>122,968</b>	<b>8,058</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>27,726</b>	<b>212,642</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FIRST QUARTER</b>	<b>150,694</b>	<b>220,700</b>

Item 1.5 Earnings (loss) Per Share

*The Company's earning (loss) per share is presented on the face of the Income Statement (Item 1.2). Said earning (loss) per share is computed by dividing the net income (loss) by the number of outstanding common shares.*

Item 1.6 Disclosure that the issuer's interim financial report is in compliance with the generally accepted accounting principles

*The interim financial statements of the Philippine National Construction Corporation 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. The amounts are rounded off to the nearest thousand pesos.*

Item 1.7 Notes to Financial Statements

1.7.a Accounting Policies and Methods

1.7.a.1 *The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.*

1.7.a.2 Revenue Recognition

*Tollway income consists mainly of toll collections in connection with the franchise granted to the Company to construct, maintain, and operate toll facilities in the North and South Luzon Tollway. These revenues are no longer recorded in the books pursuant to the Supreme Court decision in the Ernesto B. Francisco vs. TRB, PNCC et.al. and in the Strategic Alliance Development Corporation vs. Radstock Securities Limited et.al. cases.*

*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% of its share from the Joint Venture Companies' gross toll revenues, in accordance with the interim guidelines issued by the Toll Regulatory Board (TRB).*

*Rental income arising from the investment property is accounted for on a straight-line basis over the term of the lease.*

*Construction income is recognized on a percentage of completion method or completed contract basis. Other revenue is recorded on accrual basis.*

1.7.a.3 *Allowance for Doubtful Accounts*

*Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables. The level of allowance is based on past collection experience and other factors that may affect collectibility. Evaluation of the receivables, on a per account basis, is performed on a continuous basis throughout the year.*

1.7.a.4 *Inventories*

*Inventories consisting principally of construction materials, spare parts, and supplies 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 of the inventory account.*

1.7.a.5 *Prepayments*

*Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises of insurance premiums, other prepaid items, and creditable withholding taxes. Prepayments that are expected to be realized for no more than twelve (12) months after the reporting date are classified as current assets, otherwise, these are classified as other non-current assets.*

1.7.a.6 *Investments*

*The Corporation accounted its investments in wholly-owned/controlled subsidiaries and joint ventures at cost. Allowance for impairment in losses, however, is provided for investments in subsidiaries and affiliates.*



The Company believes that the effects of not consolidating the subsidiaries are not material to the financial statements because these are no longer operating.

In a regular board meeting held on November 14, 2011, PNCC resolved to comply with the mandate of the Supreme Court to transfer and turnover the shares of stock in tollway joint venture companies which PNCC is holding in trust for the National Government. Thus, the investment in joint venture companies is accounted at cost.

Available for sale equity securities (club shares) are recorded/measured/presented at fair market value as provided under PAS 39.

#### 1.7.a.7 Investment Property

Investment property are 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 the profit or loss.

#### 1.7.a.8 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:

<u>Asset Type</u>	<u>Estimated Useful Lives</u>
Land improvements	10 years
Buildings and improvements	10 to 33 years
Construction equipment	2 to 10 years
Transportation equipment	3 to 5 years

Office equipment-furniture and fixtures  
Others

5 years  
2 to 7 years

*Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation are 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 the disposal is directly charged or credited in the current operations.*

1.7.a.9 Revaluation Increment in Property

*The increase in the asset's carrying amount as well 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 surplus is being realized as the asset is used. Realization of the revaluation increment is credited to Retained Earnings account.*

*Piecemeal realization of the revaluation increment is effected on a yearly basis.*

1.7.a.10 Borrowing Costs

*Borrowing costs are expenses as incurred.*

1.7.a.11 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 the balance sheet 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 statement of 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 income tax assets can be utilized.*

*The carrying amount of deferred tax assets is reviewed at each balance sheet 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 income 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 balance sheet date.*

**1.7.a.12 New and Revised Standards**

*The following standards which are effective on or after January 01, 2013 are applicable to the Company and is currently evaluating the impact based on the audited figures as of December 31, 2012:*

<i>PAS 27 (Amended)</i>	<i>Separate Financial Statements</i>
<i>PAS 28 (Amended)</i>	<i>Investment in Associates and Joint Ventures</i>
<i>Amendments to PFRS 1</i>	<i>Government Loans</i>
<i>Amendments to PFRS 7</i>	<i>Disclosures-Offsetting of Financial Assets and Financial Liabilities</i>
<i>PFRS 10</i>	<i>Consolidated Financial Statements</i>
<i>PFRS 11</i>	<i>Joint Arrangements</i>
<i>PFRS 12</i>	<i>Disclosure of Interests in Other Entities</i>
<i>PFRS 13</i>	<i>Fair Value Measurements</i>

*The prescribed information and the recognition of the impact of the said standards will be disclosed in the amended interim financial statements starting with the period ended June 30, 2013.*

**1.7.b Comments about the seasonality or cyclicity of interim operations**

*- Not applicable -*

**1.7.c Nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size, or incidents**

Cash and cash equivalents increased by P122.968 million or 443.51% from P27.726 million as of December 31, 2012 to P150.694 million as of the first quarter of 2013 due to the collections of share from the Joint Venture Companies' gross toll revenue and work accomplishments for the Daang Hari SLEX Linkroad Project (DHSLRP).

Receivable from contracts decreased by P90.54 million or 39.41% from P229.717 million as of December 31, 2012 to P139.177 million as of March 31, 2013 attributable to the collection of work accomplishments for the DHSLRP.

The Prepayments account in the amount of P22.834 million as of the first quarter of 2013 increased by P6.719 million or 41.69%, when compared to the P16.115 million as of December 31, 2012. The said increase is mainly due to the acquisition of group hospitalization insurance for the period February 23, 2013 to February 22, 2014.

Accounts payable increased by P3.209 million or 38.75% from P8.282 million as of December 31, 2012 to P11.491 million as of March 31, 2013 due to the purchases of goods and services.

Accrued costs and other payables increased by P1.137 million or 15.53% from P7.322 million as of December 31, 2012 to P8.459 million as of March 31, 2013 due to the accrual of the mandatory employee benefits and leave credits and accrual of other costs and expenses.

Revenue share from Joint Venture Companies increased by P2.669 million or 16.52% from 16.152 million for the quarter ended March 31, 2012 to P18.821 million for the quarter ended March 31, 2013 due to the recognized revenue share which is in direct relationship to the Joint Venture Companies' reported gross toll revenue.

Rental income increased by P2.928 million or 28.3% from P10.347 million for the quarter ended March 31, 2012 to P13.275 million for the quarter ended March 31, 2013 due to the recognition of rental income from new tenants in the leased FCA property.

Other income increased by P1.469 million or 82.34% from P1.784 million for the quarter ended March 31, 2012 to P3.253 million for the quarter ended March 31, 2013 due to the realized gain on asset disposal.

*General and administrative overhead decreased by P18.864 million or 45.87% from P41.128 million for the quarter ended March 31, 2012 to P22.264 million for the quarter ended March 31, 2013 due mainly to the implementation of cost reduction measures to match the Company's present revenue level.*

- 1.7.d Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have material effects in the current interim period

- Not applicable -

- 1.7.e Issuances, repurchases, and repayments of debt and equity securities

*PNCC was not able to make any settlement of its concession fee obligation to the Toll Regulatory Board (TRB) during and as of the first quarter of March 31, 2013. The last payment was made on July 16, 2010.*

*Penalty charges of 2% accruing from the TRB loan are continuously recognized in the books.*

*The Board earlier approved the settlement of the obligations with the TRB and the National Government by way of dacion en pago using the real estate assets of PNCC, notably the 12.9 hectare Financial Center area. In the latter months of 2012, however, the Board reconsidered the option to bid out the property proposed for dacion to attain a higher dacion value and forestall all legal problems that may arise from the option of direct dacion.*

- 1.7.f Payment of dividend

*There were no dividends paid during and as of the first quarter of 2013.*

- 1.7.g Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting

PNCC's sources of revenues are as follows:

1. Revenue share from Joint Venture Companies; and
2. Rental income from the leased FCA property.

The turn over of the NLEX and SLEX operations to the new operators in February 2005 and in May 2010, respectively, resulted to PNCC's entitlement/recognition of 10% of its share from the Joint Venture Companies gross toll revenues, in accordance with the interim guidelines issued by

Rental income is derived out of the PNCC's real estate properties not used in business and being leased out to third parties, renewable under such terms and conditions as maybe agreed upon by both parties.

The following tables present the revenue and income information and certain asset and liability information regarding the business segments for the quarters ended March 31, 2013 and March 31, 2012. Segment assets and liabilities exclude income tax assets and liabilities.

<b>For the Period Ended March 31, 2013 (P000):</b>	<b>Revenue Share</b>	<b>Rental Income</b>	<b>Others</b>	<b>Total</b>
<i>Revenue:</i>				
Total revenue	18,821	13,275		32,096
Segment results				0
Net income	18,821	13,275	(81,786)	(49,690)
<i>Assets and Liabilities:</i>				
Segment assets			1,365,289	1,365,289
Segment liabilities			8,854,469	8,854,469
<i>Other segment information:</i>				
Investment Property			7,848,246	7,848,246
Property, Plant, & Equipment (net)			555,508	555,508
Depreciation/Amortization			2,111	2,111

<b>For the Period Ended March 31, 2012 (P000):</b>	<b>Revenue Share</b>	<b>Rental Income</b>	<b>Others</b>	<b>Total</b>
<i>Revenue:</i>				
Total revenue	16,152	10,347		26,499
Segment results				0
Net income	16,152	10,347	(102,119)	(75,620)
<i>Assets and Liabilities:</i>				
Segment assets			1,308,983	1,308,983
Segment liabilities			8,557,849	8,557,849
<i>Other segment information:</i>				
Investment Property			7,848,246	7,848,246
Property, Plant, & Equipment (net)			564,931	564,931
Depreciation/Amortization			16,650	16,650

1.7.h Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

- None -

1.7.i Effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition, or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

- Not applicable -

1.7.j Changes in contingent liabilities or contingent assets since the last annual balance sheet date

- None -

1.7.k Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period

1.7.k.1 Pending Lawsuits and Litigations:

*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 has been made in the books. The Company's management and its legal counsels believe that the final resolutions of these claims will have material effect on the financial position of the Company as this will involve undeterminable amount of money.*

*The labor cases consist of those filed against the Company involving mostly of illegal dismissal, backwages, and separation pay. Most of these cases have been ruled by Labor Arbiter in favor of the complainant. However, these cases are on appeal by PNCC before the National Labor Relation Commission (NLRC).*

*The civil cases filed against the Company consist of cases involving damages, collection of money, and attorney's fees which are still on litigation before the various Regional Trial Courts (RTC). Those filed by the Company against other individual companies consist of suits involving sum of*

*money, damages, and breach of contract which involve undeterminable amount of money.*

1.7.k.2 Tax Matters:

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

1.7.k.2.a 1980 Deficiency income tax, deficiency contractor's tax and deficiency documentary stamp tax assessments by the BIR totaling P212.52 million.

*PNCC sought reinvestigation of the case on November 08, 1995, and as a consequence, the BIR issued a final decision on September 09, 2004 ordering PNCC to pay the amount of P101.46 million or a reduction of P111.87 million representing deficiency contractor's tax. The BIR resolved to cancel and withdraw the said assessment, it being bereft of merit and lack of legal basis, thus finding PNCC's contention meritorious.*

*The BIR, however, reiterated the demand to pay the amount of P101.46 million for deficiency income tax (P97.42 million) and deficiency documentary stamp tax (P4.04 million) plus increments that may have accrued until actual payment.*

*PNCC, in its letter of February 15, 2005 to the BIR, informed the latter through its Collection and Enforcement Division, that in the interest of fairness and due process, the Company had filed a Petition with the Department of Justice (DOJ) seeking reversal of the Bureau's resolution holding PNCC still liable for the aforesaid tax deficiencies and had applied for an interim order or measure from the DOJ to suspend or stop the collection of subject amount pending resolution of the Petition.*



1.7.k.2.b Deficiency business tax of P64 million due the Belgian Consortium, the Company's partner in its LRT Project.

1.7.k.2.c 1992 Deficiency income tax, deficiency value-added tax and deficiency expanded withholding tax of P1.04 billion which was reduced to P709 million after the Company's written protest.

*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 Bureau has not responded to date.*

1.7.k.2.d 2002 Deficiency internal revenue taxes 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 avilment of the tax amnesty had substantially reduced the aforesaid tax deficiency.*

1.7.k.2.e 2006 Proposed deficiency taxes 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 based on the following grounds:*

*Prescription of limitation upon assessment and collection pursuant to Section 203 of the NIRC of 1997, which provides that "Except as provided in Section 222, internal revenue taxes shall be assessed within three (3) years after the last day prescribed by law for the filing of the return, and no proceeding in court without assessment for the collection of such taxes shall begun after the expiration of such period: Provided, That in case where a return is filed beyond the period prescribed by law, the three (3) year period shall be counted from the day the return was filed. For purposes of this Section, a return filed before the last day prescribed by law for the filing thereof*

*shall be considered as filed on such last day."*

*The Company did not waive the aforesaid defense of prescription under the statute of limitation. The Company deemed the pertinent "Waiver" unnecessary because all the required documents were timely provided and the books of accounts were made available to the team upon conduct of the examination.*

*Between the period from May 07, 2008 (the date the Letter of Authority was received by PNCC) to October 21, 2010 (the day before the Notice was issued by the BIR and received by the Company), there were no presentation of any findings that will require the Company to request extension or more time to submit documents to deny any or all of the same.*

*Revenue Regulations (RR) No. 12-99 provides that the Revenue Officer who audited the taxpayer's records shall initially discuss with the latter the result of the investigation prior to submission of the report of his investigation to the Chief of the Division 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 Bureau after its letter of October 29, 2010.*

- 1.7.k.2.f 2009 Proposed deficiency taxes in the amount of P51.957 million (exclusive of interest and penalty charges of P35.457 million).

*An informal conference between the BIR examiners and the PNCC representatives was held on November 15, 2012, wherein the Company requested for extension of time within which to submit the required schedules and other supporting documents against the findings. Said request was favorably granted by the BIR.*

*The Company, in its letter of December 14, 2012, presented its position and submitted several documents to negate the BIR's initial findings.*

*In another letter dated February 12, 2013, PNCC transmitted additional documents and emphasized therein the substantial reduction in the deficiency taxes from P51.957 million to P9.394 million. In the said letter, the Company also requested for another time extension to substantiate the remaining P9.394 million deficiency taxes and to be advised on the result of the BIR team's evaluation of the submitted documents. Thus, on March 14, 2013, the Company submitted additional documents.*

**PART 1 - FINANCIAL INFORMATION** (Item 2 – Management Discussion and Analysis [MDA] of Financial Condition and Results of Operations)

Item 2.1 Comparable discussion that will enable the reader to assess material changes in financial condition and results of operation since the end of the last fiscal year and for the comparable interim period in the preceding financial year.

Financial Condition:

*As of March 31, 2013, the Company's resources totaled P9.769 billion, higher by P11.39 million or 0.12 % compared to the December 31, 2012 figure of P9.758 billion.*

*The increase in resources was mainly attributable to the increase in cash and cash equivalents resulting from the collection of receivables from: ASDI (Daang Hari SLEX Linkroad Project work accomplishments); Joint Venture Companies (revenue share and dividend), FCA Property tenants (rental); and proceeds from asset disposal.*

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

Performance Indicators	PNCC		Explanation
	As of 03/31/13	As of 03/31/12	
Current Ratio (Current Assets / Current Liabilities)	0.105	0.121	The Company's ability to meet its current obligations as they fall due decreased from P0.121 to P1.00 as of the 1st quarter of 2012 to P0.105 to P1.00 as of the same period of 2013. This was mainly due to the 11.54% decrease in current assets vis-à-vis the 1.71% increase in current liabilities.
Quick Ratio (Quick Assets / Current Liabilities)	0.102	0.118	The decrease in the quick ratio or acid test ratio was also due to the reason stated above.
Total Debt to Total Assets	116.1%	88.02%	The ratio measures the Company's ability to pay its maturing obligations. The Company's debt to assets ratio increased due to the increase in the total liabilities brought about by the recognition of debts to the National Government and deferred tax liabilities (deemed tax on the increase in the value of investment property and property and equipment).
Total Debt to Equity	-720.0%	735.01%	The ratio measures the Company's ability to pay its maturing obligations. The Company's poor debt to equity ratio is due to the increase in the total liabilities as discussed above and the reported capital deficiency.

#### Results of Operation:

*The Company's net loss of P49.69 million for the quarter ended March 31, 2012 decreased by P25.93 million or 34.29% compared to the reported net loss of P75.62 million for the same period of 2012. This is mainly attributable to the 45.87% decrease in general and administrative overhead resulting from the Company's Cost Reduction Program.*

*As a result of the DPWH's take over of the Daang Hari SLEX Linkroad Project for purposes of bidding it out (pursuant to its PPP mandate) and the turn over of the operation and maintenance of the North Luzon Tollway and South Luzon Tollway to the Manila North Tollway Corporation (MNTC) on February 10, 2005 and the South Luzon Tollway Corporation/MATES*

*on May 02, 2010, respectively, Company's revenue is generated by its 10% share from Joint Venture Companies' gross toll revenue and its earnings from the leased FCA property.*

Item 2.2 Discussion and analysis of material event/s and uncertainties known to Management that would address the past and would have an impact on future operations on the following:

2.2.a Any known trends, demands, commitments, events, uncertainties that will have a material impact on the issuer's liquidity

2.2.a.1 *The Company's inability to settle its outstanding obligations with the TRB and the National Government brought about by the difficulties in collecting receivables from various government agencies.*

2.2.a.2 *Pending labor cases which consist of those filed against the Company involving dismissal, backwages, and separation pay; most of which had been ruled by the Labor Arbiter in favor of the complainants, pending appeal by PNCC before the National Labor Relation Commission (NLRC).*

2.2.a.3 *Pending civil cases which consist 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).*

2.2.a.4 *Pending assessments on deficiency taxes. Discussion is contained under Item 1.7.k.2 including courses of actions already undertaken by the Company to address the issue.*

*To address PNCC's liquidity concern, the Company implemented a program of manpower rightsizing in 2001 and has been pursued gradually during the quarter. The program will be considered in the succeeding quarters/years until the Company attains manpower complement to match its present revenue level which is generated by its share in the Joint Venture Companies' gross toll revenue and its earnings from the leased FCA property.*

*The Company does not have material off-balance sheet transaction and arrangement during the reporting period.*

*As of reporting quarter, there is nothing that trigger direct or contingent financial obligation that is material to the Company,*

*except for the default in payment of its TRB loan and the recognition of debts to the National Government.*

- 2.2.b Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures

*- None -*

- 2.2.c 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/revenues/income from continuing operations

*The following had affected the revenue generating capacity of the Company:*

- *The veering away from the construction business since 2002;*
- *The turn over of the North Luzon Tollway operations to the MNTC on February 10, 2005;*
- *The turn-over of its South Luzon Tollway operations to SLTC/MATES on May 02, 2010; and*
- *DPWH's take over of the Daang Hari Project (pursuant to its PPP mandate).*

- 2.2.d Any significant elements of income or loss that did not arise from the issuer's continuing operations

*- Not applicable -*

- 2.2.e The causes for any material change/s (5% or more) from period to period in one or more line items of the issuer's financial statements

Material change/s (5% or more) from period to period in one or more line items of the issuer's financial statements

Balance Sheet (P000)	As of		Increase (Decrease)		Explanation of Variances
	03/31/13	12/31/12	Amount	%	
Cash and Cash Equivalents	150,694	27,726	122,968	443.51	Collections: work accomplishment for the Daang Hari SLEX Linkroad Project and share from Joint Venture Companies' gross toll revenue.
Receivables from Contracts	139,177	229,717	(90,540)	(39.41)	Mainly due to the collection of the work accomplishment for the Daang Hari SLEX Linkroad Project.
Prepayments	22,834	16,115	6,719	41.69	Group hospitalization insurance for the period 02/23/2013 to 02/23/2014.
Accounts Payable	11,491	8,282	3,209	38.75	Purchases of goods and services.
Accrued Costs and Other Payables	8,459	7,322	1,137	15.53	Accrual of the mandatory benefits and leave credits of the employees and other costs and expenses.

Income Statement (P000)	For the First Quarter Ended		Increase (Decrease)		Explanation of Variances
	03/31/13	03/31/12	Amount	%	
Revenue Share from Joint Venture Companies	18,821	16,152	2,669	16.52	Recognized revenue share is in direct relationship to the Joint Venture Companies' reported gross toll revenue during the quarter.
Rental Income	13,275	10,347	2,928	28.30	Recognition of rental income from the new tenants in the leased FCA property.
General and Administrative Overhead	22,264	41,128	(18,864)	(45.87)	Due to the implementation of various cost reduction measures.
Other Income	3,253	1,784	1,469	82.34	Attributable to the realized gain on asset disposal.

2.2.f Any seasonal aspects that had a material effect on the financial condition or results of operations

- Not applicable -



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**FINANCIAL SOUNDNESS INDICATORS**  
**For the First Quarter of 2013 and 2012**

	January to March	
	2013	2012
1 Current/Liquidity Ratios:		
Current Ratio	0.105	0.121
Quick Asset Ratio	0.102	0.118
2 Solvency Ratios:		
Debt to Assets	116.13%	88.02%
Debt to Equity Ratio	-720.01%	735.01%
3 Asset to Equity Ratio	-620.01%	735.01%
4 Interest Rate Coverage Ratio	0.157	-0.233
5 Profitability Ratios:		
Gross Profit Ratio	30.63%	-55.21%
Return on Assets	-0.51%	-0.78%
Return on Equity	-3.15%	-6.49%