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SECURITIES AND EXCHANGE COMMISSION

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

(Company's Full Name)

P N C C C O M P L E X K M 1 5 E A S T S E R V I C
E R O A D B I C U T A N P A R A N A Q U E C I T Y
(Business Address: No. Street City / Town / Province)

ATTY. HENRY B. SALAZAR
Contact Person

846-2906
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

17-Q
FORM TYPE

0 3 4th Tuesday
Month Day
Annual Meeting

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

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

Yes No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE (PSE)

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports);

Yes No

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

Yes No

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Financial Statements and, if applicable, Pro Forma Financial Statements meeting the requirements of RSA Rule 68, Form and Content of Financial Statements shall be furnished as specified therein. (Refer to attached)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. (Refer to attached)


PART II – OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously report in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**

Signature and Title  President/CEO

Date November 11, 2014

Duly Authorized Representative LUIS F. SISON

Signature and Title  Chief Finance Officer

Signature and Title  Corporate Controller

Date November 11, 2014

Principal Financial/Accounting Officer/Controller MIRIAM M. PASETES / SUSAN R. VALES

PART 1 - FINANCIAL INFORMATION

(Item 1 -Financial Statements)
(Item 1.1 -Statements of Financial Position)

**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2014

With comparative figures as of December 31, 2013

(in Thousand Pesos)

	June 30 2014 (Interim)	December 31 2013 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	P 252,627	P 181,265
Advances and other receivables, net	632,660	641,308
Receivables from contracts, net	139,177	139,177
Other current assets	20,838	22,733
Total Current Assets	1,045,302	984,483
Noncurrent Assets		
Investments	261,364	261,751
Investment property	10,442,198	10,442,198
Property and equipment, net	566,253	569,204
Other assets, net	190,111	194,484
Total Noncurrent Assets	11,459,926	11,467,637
	P 12,505,228	P 12,452,120
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	P 34,359	P 36,114
Due to the National Government and its Instrumentalities	7,749,236	7,621,295
Due to Government Owned or Controlled Corporation	1,203,000	1,203,000
Total Current Liabilities	8,986,595	8,860,409
Noncurrent Liabilities		
Deferred tax liabilities	3,273,432	3,273,432
Other payables	186,827	187,883
Total Noncurrent Liabilities	3,460,259	3,461,315
Stockholders' Equity	58,374	130,396
	P 12,505,228	P 12,452,120

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

Aging Schedule of Receivables and Advances

As of June 30, 2014

(In Thousand Pesos)

	Amount	Allowance for Doubtful Account	Net Amount	Current	PAST DUE					
					01-30 days	31-60 days	61-90 days	91 days but not over 1 year	Over 1 year but not over 5 years	Over 5 years
01. Unbilled contract receivable	234	234	-							
02. Billed contract receivable	161,893	90,523	71,370						18,763	52,607
03. Contract retention receivable	5,135	2,380	2,755							2,755
04. Accounts receivable - trade	60,150	60,150	-							
05. Accounts receivable/payable - subs. and aff.	339,567	240,360	99,207	103	1,970	249	255	416	96,214	
06. Accounts receivable - officers and employees	592	10	582	38	417	16	1	1	109	
07. Claims receivable	89,458	24,406	65,052							65,052
08. Other accounts receivable	478,358	175,707	302,651	8,998	12,873	9,202	6,559	3,678	229,666	31,675
09. Advances for SSS/EC benefits	5	-	5		5					
10. Advances to suppliers	2,203	2,190	13	9				4		
11. Advances to subcontractor	17,169	11,027	6,142							6,142
12. Advances to Contract Owner	636	636	-							
Sub-total	1,155,400	607,623	547,777	9,148	15,265	9,467	6,815	4,099	344,752	158,231
13. Advances to Bureau of Treasury			150,000							
14. Advances to Joint Venture, net			74,022							
15. Advances to Cesla			38							
Sub-total			224,060							
Total			771,837							

PART 1 - FINANCIAL INFORMATION

(Item 1 -Financial Statements)

(Item 1.2 -Statements of Profit or Loss)

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF PROFIT OR LOSS

For the Second Quarter of 2014 and 2013

(In Thousand Pesos)

	January to June		April to June	
	2014	2013	2014	2013
REVENUES				
Revenue share from Joint Venture Companies	P 53,535	P 44,116	P 27,401	P 25,295
Rental income	42,687	28,569	21,357	15,294
	96,222	72,685	48,758	40,589
GENERAL AND ADMINISTRATIVE OVERHEAD	34,805	38,343	16,610	16,079
PROFIT FROM OPERATIONS	61,417	34,342	32,148	24,510
OTHER INCOME (CHARGES):				
Penalty charges	(127,941)	(127,941)	(64,324)	(65,166)
Interest income	973	788	491	788
Other income	1,959	4,440	169	1,187
	(125,009)	(122,713)	(63,664)	(63,191)
NET LOSS	(63,592)	(88,371)	(31,516)	(38,681)

Earning (loss) per share:

(a) income (loss)	(0.36)	(0.51)	(0.18)	(0.22)
(b) number of outstanding common shares	174,444,749	174,444,749	174,444,749	174,444,749

PART 1 - FINANCIAL INFORMATION(Item 1 -Financial Statements)
(Item 1.3 -Statements of Changes in Equity)**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CHANGES IN EQUITY**For the Second Quarter of 2014 and 2013
(In Thousand Pesos)

	January to June	
	2014	2013
CAPITAL:		
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	(16,700)	(16,700)
	2,257,036	2,257,036
REVALUATION INCREMENT IN PROPERTY		
Balance at beginning of the year and end of the quarter	378,011	366,214
EQUITY ADJUSTMENTS:		
Under rehabilitation plan-loans transferred to National Government	5,551,726	5,551,726
DEFICIT		
Balance at beginning of the year	(8,056,378)	(9,700,053)
Net loss	(63,592)	(88,371)
Correction of prior years' earnings	(8,429)	(6,184)
Balance at end of the quarter	(8,128,399)	(9,794,608)
EQUITY (DEFICIENCY)	P 58,374	P (1,619,632)

PART 1 - FINANCIAL INFORMATION

(Item 1 -Financial Statements)
(Item 1.4 -Statements of Cash Flows)**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION****STATEMENTS OF CASH FLOWS**

For the Second Quarter of 2014 and 2013

(In Thousand Pesos)

	January to June	
	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash receipts from customers:		
Work accomplishments	P -	P 84,881
Revenue share	49,918	52,463
Rental	56,176	25,939
Others	1,789	8,831
	<u>107,883</u>	<u>172,114</u>
Payments to:		
Suppliers	(33,148)	(31,601)
Employees	(17,757)	(27,920)
Directors	(1,188)	(2,720)
Consultants/retainers	(269)	(439)
Cash provided by operations	55,521	109,434
Penalties	(100)	(100)
Taxes and licenses	(1,537)	-
Deficiency taxes	(4,819)	-
Net cash flows provided by operating activities	<u>49,065</u>	<u>109,334</u>
CASHFLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(2,211)
Proceeds from sale of fixed assets/scrap materials	2,004	7,013
Interests	879	788
Dividends	19,414	7,208
Net cash flows provided by investing activities	<u>22,297</u>	<u>12,798</u>
CASHFLOW FROM FINANCING ACTIVITIES:		
Payment of loan:	-	-
Net cash flows provided by (used in) financing activities	<u>-</u>	<u>-</u>
NET DECREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	71,362	122,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	181,265	27,726
CASH AND CASH EQUIVALENTS AT END OF SECOND QUARTER	252,627	149,858

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

Pursuant to the Supreme Court En Banc Decision, 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% 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 write down 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, Financial Instruments: Recognition and Measurement.

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	5 years
Others	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 expensed 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 Adoption of New and Revised Standards

The Company adopted the following PFRS effective January 01, 2012, summarized as follows:

- PFRS 7, Financial Instruments: Disclosures – Enhanced Derecognition and Transfer of Financial Assets Disclosure Requirements – The amended standard requires additional disclosure on financial assets that have been transferred but not derecognized and an entity's continuing involvement in the derecognized assets. This disclosure is required to enable the user of the financial statements to evaluate any remaining risk on the transferred assets.
- PAS 12, Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amended) – The amendment clarifies that the deferred tax on investment property measured using the

fair value model in PAS 40 , Investment Property, should be determined considering that the carrying value of the investment property will be recovered through a sale transaction. Deferred tax on non-depreciable assets that are using the revaluation model in PAS 16, Property and Equipment, should also be measured by determining the recoverability of the non-depreciable assets in a sale transaction.

The Company had also adopted the standard effective on or before July 01, 2012:

- PAS 1, Financial Statement Presentation, Presentation of Items of Other Comprehensive Income – The amendment changed the presentation of items in Other Comprehensive Income (OCI). Items that could be reclassified to profit or loss at a future point in time should be presented separately from items that cannot be reclassified.

These new and revised PFRS have no significant impact on the amounts and disclosures in the financial statements of the Company.

1.7.a.13 New and Revised PFRS Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 01, 2013 and have not been applied in preparing the financial statements.

Under prevailing circumstances, the adoption of the following new and revised PFRSs is not expected to have any material effect on the financial statements.

Effective for annual periods beginning on or after January 01, 2013:

- PAS 19, Employee Benefits (Amendment) – There were numerous changes ranging from the fundamental such as removing the corridor mechanism in the recognition of actuarial gains or losses and the concept of expected returns on plan assets to simple clarifications and re-wording.
- PAS 27, Separate Financial Statements (as Revised in 2011) As a consequence of the new PFRS 10 and PFRS 12, PAS 27 is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- PAS 28, Investments in Associates and Joint Ventures (as Revised in 2011) – This standard prescribes the application of

the equity method to investments in joint ventures and associates.

- PFRS 7, Financial Instruments Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments) – The amendment requires entities to disclose information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The new disclosure is required for all recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement.
- PFRS 10, Consolidated Financial Statements – The standard replaces the portion of PAS 27, Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and SIC-12, Consolidation - Special Purpose Entities. It establishes a single control model that applies to all entities including special purpose entities. Management will have to exercise significant judgment to determine which entities are controlled, and are required to be consolidated by a parent company.
- PFRS 11, Joint Arrangements - PFRS 11 replaces PAS 31, Interests in Joint Ventures and SIC-13, Jointly-controlled Entities - Non-monetary Contributions by Venturers – The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, joint venture entities that meet the definition of a joint venture must be accounted for using the equity method.
- PFRS 12, Disclosure of Interests with Other Entities – The standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosure requirements that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance – The amendments provide additional transition relief in PFRS 10, PFRS 11 Joint Arrangements and PFRS 12, Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before PFRS 12 is first applied.

- PFRS 13, Fair Value Measurement – The standard establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

- Improvements to PFRS

The omnibus amendments to PFRS issued in May 2012, which are effective for annual periods beginning on or after January 1, 2013, were issued primarily to clarify accounting and disclosure requirements to assure consistency in the application of the following standards.

- PFRS 1, First-time Adoption of International Financial Reporting Standards
- PAS 1, Presentation of Financial Statements
- PAS 16, Property Plant and Equipment
- PAS 32, Financial Instrument: Presentation
- PAS 34, Interim Financial Reporting

Effective for annual periods beginning on or after January 01, 2014;

- Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities – The amendments provide an exception from the requirements of consolidation to investment entities and instead require these entities to present their investments in subsidiaries as a net investment that is measured at fair value. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.
- Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities – The amendments address inconsistencies in current practice when applying the offsetting criteria in PAS 32, Financial Instruments: Presentation. The amendments clarify (1) the meaning of 'currently has a legally enforceable right of set-off'; and (2) that some gross settlement systems may be considered equivalent to net settlement.

Effective for annual periods beginning on or after January 01, 2015:

- PFRS 9, Financial Instruments: Classification and Measurement – This standard is the first phase in replacing PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the separate financial statements.

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 P71.362 million or 39.37% from P181.265 million as of December 31, 2013 to P252.627 million as of the second quarter of 2014 due to the collections of revenue/dividend shares from the Joint Venture Companies and receivables from tenants in the leased FCA property.

The Prepayments account in the amount of P14.253 million as of the second quarter of 2014 decreased by P2.103 million or 12.86 %, when compared to the P16.356 million as of December 31, 2013. The said decrease is mainly due to the amortization of the prepaid expenses.

Revenue share from Joint Venture Companies increased by P9.419 million or 21.35% from P44.116 million for the quarter ended June 30, 2013 to P53.535 million for the quarter ended June 30, 2014 due to the recognized dividend and revenue share which is in direct relationship to the Joint Venture Companies' reported gross toll revenue.

Rental income increased by P14.118 million or 49.42% from P28.569 million for the quarter ended June 30, 2013 to P42.687 million for the quarter ended June 30, 2014 resulting from the renewal of the existing Contracts of Lease with corresponding increase in rental rates.

Interest income increased by P0.185 million or 23.48% from P0.788 million for the quarter ended June 30, 2013 to P0.973 million for the quarter ended June 30, 2014 due to the interests earned from bank savings deposits and from money market placements.

Other/miscellaneous income decreased by P2.481 million or 55.88% from P4.440 million for the quarter ended June 30, 2013 to P1.959 million for the quarter ended June 30, 2014 due to the realized gain on asset disposal in the second quarter of 2013.

General and administrative overhead decreased by P3.538 million or 9.23% from P38.343 million for the quarter ended June 30, 2013 to P34.805 million for the quarter ended June 30, 2014 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

- None -

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 quarter ended June 30, 2014. 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 second quarter of 2014.

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 the 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 the Toll Regulatory Board (TRB).

Rental income is derived out of the PNCC's real estate properties not used in business and being leased out of 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 June 30, 2014 and June 30, 2013. Segment assets and liabilities exclude income tax assets and liabilities.

For the Period Ended June 30, 2014 (P000):	Revenue Share	Rental Income	Others	Total
<i>Revenues:</i>				
Total revenue	53,535	42,687		96,222
Segment results				0
Net income (loss)	53,535	42,687	(159,814)	(63,592)
<i>Assets and Liabilities:</i>				
Segment assets			1,486,526	1,486,526
Segment liabilities			9,173,422	9,173,422
<i>Other segment information:</i>				
Investment Property			10,442,198	10,442,198
Property, Plant, & Equipment (net)			566,253	566,253
Depreciation/Amortization			2,942	2,942

For the Period Ended June 30, 2013 (P000):	Revenue Share	Rental Income	Others	Total
<i>Revenues:</i>				
Total revenue	44,116	28,569		72,685
Segment results				0
Net income (loss)	44,116	28,569	(161,056)	(88,371)
<i>Assets and Liabilities:</i>				
Segment assets			1,381,519	1,381,519
Segment liabilities			8,914,904	8,914,904
<i>Other segment information:</i>				
Investment Property			7,848,246	7,848,246
Property, Plant, & Equipment (net)			555,695	555,695
Depreciation/Amortization			3,791	3,791

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 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, 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 the Company 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 availment 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 Company 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, the Company 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, which requests were likewise granted by the Bureau.

As a result thereof, the proposed deficiency taxes of P87.414 million are reduced by P62.403 million or 71.4%, while the balance of P25.013 million or 28.6%, is covered by the BIR's Formal Assessment Notice (FAN) dated October 07, 2013. The amount of P25.013 million consists of deficiency tax of P11.490 million and interest and penalty charges of P13.523 million.

On November 11, 2013, the Company filed a written protest to its disagreement against the FAN, more specifically on the final withholding vat of P10.615 million (P4.925 million basic tax and P5.69 million interest/penalty charges) and expanded withholding tax of P2.156 million representing interest/penalty charges.

The Company, however, considered payment of the undisputed deficiency taxes of P6.565 million on November 28, 2013. Said amount has been substantially reduced from the proposed deficiency

taxes of P31.699 million and request for another time extension is no longer practical as this may result to minimal deduction in the basic tax but may entail additional charges computed at 20% per annum.

The Company, on January 10, 2014, paid the remaining undisputed deficiency withholding vat of P4.814 million on the grounds discussed in the preceding page. On even date, Management 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.

As of reporting quarter, the Company has not received any formal communication from the Bureau with regard to its request for reconsideration of the aforesaid attendant charges.

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 June 30, 2014, the Company's resources totaled P12.505 billion, higher by P53.108 million or 0.43% compared to the December 31, 2013 figure of P12.452 billion.

The increase in resources was mainly attributable to the increase in cash and cash equivalents resulting from the collections of receivables from: Joint Venture Companies (revenue and dividend shares) and FCA Property tenants (rental).

Results of Operation:

The Company's net loss of P63.592 million for the quarter ended June 30, 2014 decreased by P24.779 million or 28.04% compared to the reported net loss of P88.371 million for the same period of 2013. This is mainly attributable to the 9.23% 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.

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

Performance Indicators	As of 06/30/14	As of 06/30/13	Explanation
Current Ratio (Current Assets / Current Liabilities)	0.116	0.106	The Company's ability to meet its current obligations as they fall due increased from P0.106 to P1.00 as of the 1st quarter of 2013 to P0.116 to P1.00 as of the same period of 2014. This was mainly due to the 6.18% increase in current assets vis-a-vis the 1.42% increase in current liabilities, which increase was brought about by the accrual of the 2% penalty charges on unpaid concession fee payable to the TRB.
Quick Ratio (Quick Assets / Current Liabilities)	0.114	0.103	The increase in the quick ratio or acid test ratio was also due to the reason stated above.
Total Debt to Total Assets	99.5%	116.6%	The ratio measures the Company's ability to pay its maturing obligations. The Company's debt to assets ratio improved due to the 33.05% increase in total assets brought about by the appraisal of its real estate properties vis-a-vis the 1.02% increase in total liabilities due to the accrual of the 2% penalty charges on unpaid concession fee.
Total Debt to Equity	21322.6%	-704.2%	The ratio measures the Company's ability to pay its maturing obligations. The Company's improved debt to equity ratio is due to the reversal of its capital deficiency to equity.

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
	06/30/14	12/31/13	Amount	%	
Cash and Cash Equivalents	252,627	181,265	71,362	39.37	Collections: revenue/dividend share from Joint Venture Companies and receivables from tenants in the FCA leased property.
Prepayments	14,253	16,356	(2,103)	(12.86)	Amortization of the prepaid expenses.

Income Statement (P000)	For the Second Quarter Ended		Increase (Decrease)		Explanation of Variances
	06/30/14	06/30/13	Amount	%	
Revenue/Dividend Share from Joint Venture Companies	53,535	44,116	9,419	21.35	Recognized dividend and revenue share from the Joint Venture Companies' reported gross toll revenue during the quarter.
Rental Income	42,687	28,569	14,118	49.42	Renewal of existing Contracts of Lease with corresponding increase in rental rates.
General and Administrative Overhead	34,805	38,343	(3,538)	(9.23)	Due to the implementation of various cost reduction measures, more particularity in manpower unloading.
Interest Income	973	788	185	23.48	Interests from bank savings deposits and money market placements.
Other Income	1,959	4,440	(2,481)	(55.88)	Attributable to the realized gain on asset disposal in the 2nd quarter of 2013.

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 Second Quarter of 2014 and 2013

	January to June	
	2014	2013
1 Current/Liquidity Ratios:		
Current Ratio	0.116	0.106
Quick Asset Ratio	0.114	0.103
2 Solvency Ratios:		
Debt to Assets	99.53%	116.55%
Debt to Equity Ratio	21322.60%	-704.18%
3 Asset to Equity Ratio	21422.60%	-604.18%
4 Interest Rate Coverage Ratio	0.480	0.261
5 Profitability Ratios:		
Gross Profit Ratio	63.83%	46.59%
Return on Assets	-0.51%	-0.90%
Return on Equity	-108.94%	-5.46%