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SECURITIES AND EXCHANGE COMMISSION

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Company Information

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

Document Information

Document ID	108142013003009
Document Type	17-A (FORM 11-A:AANU)
Document Code	17-A
Period Covered	December 31, 2012
No. of Days Late	0
Department	CFD
Remarks	

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

14 August 2013
CIO-RSD-040-2013L

Ms. JANET A. ENCARNACION
Head, Disclosure Department
PHILIPPINE STOCK EXCHANGE
Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Ave.,
Makati City 1226

Dear Ms. Encarnacion,

Please see attached a copy of 2012 Annual Report of Philippine National Construction Corporation which we have filed with the Securities and Exchange Commission.

Thank you.

Very truly yours,

ROSALYN S. DELIVIOS
Corporate Information Officer

KM. 15 EAST SERVICE ROAD, BICUTAN, PARAÑAQUE CITY, METRO MANILA, PHILIPPINES * ZIP CODE 1700
FAX O.P. 846-0591; DIRECT LINE : 846-0209 : TRUNK LINE : 846-3045

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

REPUBLIC OF THE PHILIPPINES)
City of Parañaque MUNTINLUPA CITY)

CERTIFICATION

I, JANICE DAY E. ALEJANDRINO, the duly designated Compliance Officer of Philippine National Construction Corporation ("the Corporation"), a corporation duly organized and existing under the laws of the Philippines, with business address at PNCC Compound, Km. 15 East Service Road, Bicutan, Parañaque City, after having been sworn to in accordance with law, do hereby certify that the information contained in the submitted hardcopy and softcopy of the 2012 Annual Report pursuant to Section 11 of the Revised Securities Act and Section 141 of Corporation Code of the Philippines are one and the same.

IN WITNESS WHEREOF, I have hereunto set my hands this AUG 13 2013 day of August 2013 in Parañaque City.

JANICE DAY E. ALEJANDRINO
Compliance Officer

SUBSCRIBED AND SWORN to before me this AUG 13 2013 day of August 2013, City of MUNTINLUPA CITY, affiant exhibiting to me her SSS ID No. 03-3911310-5.

Doc. No. 489;
Page No. 99;
Book No. XIII;
Series of 2013.

ATTY. REYNAN G. RETAZO
NOTARY PUBLIC FOR MUNTINLUPA CITY
APPT. NO. NC 13-021, UNTIL DECEMBER 31, 2014
EMERALD II BLDG. MONTILLANO ST., ALABANG MUNT. CITY
PTR NO. 1214588 / 01-02-13 / MUNT. CITY
IBP NO. 909324 / 12-14-12 / PPLM
MCLE COMPLIANCE NO. IV-0014942
TEL. NO. 994-0939 / retazolawoffices@yahoo.com

COVER SHEET

3 0 9 3 9

S.E.C. Registration Number

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

(Company's Full Name)

PNCC COMPLEX KM 15 EAST SERVIC
E ROAD BICUTAN PARANAQUE CITY

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

ATTY. JOSE A. BERNAS

Contact Person

822-57-25

Company Telephone Number

Month Day
Fiscal Year

S E C 1 7 A

FORM TYPE

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

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, 2012

2. SEC Identification Number 30939

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

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

Title of Each Class	*Number of Shares*
Common	75,000,000
Special Common	10,000,000
Preferred	10,000,000
	95,000,000

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 [x] 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);

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

Yes [x] 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	2,811,787
Universal Holding Corporation	24,780,746
Independent Realty Corporation	39,605
Others	19,393,378
Total	199,944,759
Par Value	x 10.00
	₱ 1,999,447,590

2012 ANNUAL REPORT

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

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PRESIDENT'S REPORT TO STOCKHOLDERS

FELLOW STOCKHOLDERS:

We are indeed grateful for 2012. There are so many things to be pleased about with the work done and accomplished by your Board and Management. For one, the plan of the present Board of Directors to hold a stockholders meeting, the very first since 1983, was conceived in 2011 and gained momentum in 2012. This is consistent with putting the company's house in order by being compliant with all the legal requirements imposed by both the SEC and the PSE. The target is to hold the meeting on March 26, 2013, as provided for in our Articles of Incorporation. We realize though that being the very first to be held in 30 years, and fully cognizant of the seeming influence of different conflicting interests, this endeavor will require a lot of cooperation from all the stakeholders.

I am also pleased to report that the Deed of Assignment of the Usufruct of the PNCC Franchise in relation to the Metro Manila Skyway Stage 3 Project have also been signed, pursuant to the Restated Second Supplement to the Business and Joint Venture Agreement, and conditioned that no further reassignment is made to any other party. These are the (1) Deed of Assignment of Usufruct of PNCC Franchise (for the operation and maintenance); and (2) Deed of Assignment of Usufruct of PNCC Franchise (for the construction). These shall become effective upon the approval of the President of the Philippines. All pertinent documents have already been submitted to the Office of the President for approval. Hoepfully this project that will connect the SLEX to the NLEX will have broken ground before the holding of the shareholders' meeting.

A breaktrough agreement between CITRA and PNCC leading to the above Deeds of Assignment are the following economic terms. PNCC shall own 20% of the shareholdings of the JV Company, Central Metro Manila Skyway Corporation (CMMSC) vis-à-vis Citra's 80%. The first 10% thereof shall be "Free Carry", and is absolutely free to PNCC. The second 10% should be paid by PNCC. However, should PNCC be unable to pay the amount necessary for the 10%, PNCC shall advise Citra in writing and Citra shall have the right to nominate another party to own the second 10% but subject to the approval by PNCC. The expected net income over 30 years would be about ₱24.1 billion or ₱803 million annually.

The issue of whether to dacion PNCC properties to the National Government as payment of its debts has also been reconsidered by the Board. Instead of outright conveyance of identified properties, the Board has approved the superior strategy of bidding out these properties in order to maximize returns therefrom, and grant us the opportunity of raising extra cash in order to allow us to engage in other business ventures to grow PNCC and to enhance further shareholder values.

For this purpose, the Macapagal Boulevard Property has been reconfigured, involving the correction of its technical description in joint agreement with both SSS and GSIS. This had to be done owing to the unintentional "encroachment" on our property by the GSIS in constructing its main office on property described as owned by PNCC.

In 2012, rental rates and collections from our leased properties, has improved, with an additional collection of ₱72.351 million. A large part of the amount is the proceeds from a new contract with Seaside Paluto and the resolution of the Ley problem, through a Compromise Agreement on the case arising out of non-payment of rentals. Additional collections come from our Toll Service Facilities concessionaires in the amount of ₱4.975 million and ₱33.21 million from other sources.

Another source of revenue is the disposal of other assets of PNCC by public bidding or negotiated sale after two failed auctions as provided by law. These assets consist mostly of old equipment and used vehicles, among others. The total sale realized from this is ₱14.59 million in 2012.

The thorny issue of how the PNCC Foundation, formed by the previous Board to handle the CSR activities of PNCC, which managed to elude the control of the present Board in the beginning has now been resolved, through a case we filed at the SEC. We have nominated new members of the Board of Trustees of the PNCC Foundation. We have sought to convene the Board of Trustees and hold the annual meeting to elect the new members of the Board of Trustees but only for the purpose of its dissolution. The COA has ruled that the funding from PNCC funds is not legal.

I report as well that the unresolved amount of ₱5.5 billion "owing" to the national government has been elevated to the Department of Justice for arbitration. The issue to be resolved is, whether this amount should be converted into equity under LOI 1295, or whether the amount is a debt and therefore subject to interest and penalties. PNCC has not reflected this amount as debt in its books.

Finally, we have turned over all shares in the JVAs over NLEX, SLEX and CMMTC to the National Government. We have also turned over ₱631.504 million to the NG in addition to those already turned over in the total amount of ₱337 million.

We look forward to 2013 filled with hope that what we have planted in 2012 will bear fruit, and bring us closer to our goal of reviving the company, not only through the resolve, dedication, hard work of your Board and Management, but also through your support and encouragement.

We have great faith that The Lord Almighty will see us through this great, but not impossible task. Thank you.

BUSINESS DEVELOPMENT

A distinguished partner in Philippine progress and economic development, the now Philippine National Construction Corporation (PNCC) is proudly known for its landmark projects, its expertise and its vision.

Established 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 accomplished over billions pesos worth in the engineering and construction of various facilities. Work done covers 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 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 were already then called the North and South Luzon Tollways, respectively, and the franchise granted to CDCP (now PNCC) 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 likewise 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 (MMEX), and the expanded and delineated NLEX and SLEX. PNCC was granted the *"right, privilege and authority to construct, maintain and operated 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 dvert 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 for the purpose of converting to equity all PNCC debt to all government financial institutions. However, only P1.5 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. Whether conversion should still be pursued after all these years has been has been put before the Department of Justice for arbitration.

The accomplished conversion 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 1983. The increase in its 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), which 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.

From 1987 to 2001, PNCC still implemented selected construction projects, but this resulted in losses. Since 2002, by virtue of the privatization mandate for PNCC, the Corporation has refrained from actively engaging in the construction business, and focused more on the operation and maintenance of its tollways. Starting 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 the tollways were operated and maintained, which had become difficult to PNCC due to its financial difficulties.

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 has 20% shareholding. FPIDC has been acquired by the Pangilinan (MVP) Group in November 2008, resulting in a much reduced PNCC ownership of 2.5% of MNTC. The dilution of ownership was caused by the inability of PNCC to respond to capital calls. In the O&M company for NLEX, however, PNCC is a 20% shareholder.

For the South Luzon Tollways, PNCC entered into a joint 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. PSC had to turn over the operation to the Skyway Operation and Maintenance Corporation (SOMCO). PNCC has 12% 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 difficulties 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, 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. (MATES). PNCC owns 20% of SLTC and 40% of MATES.

San Miguel Corporation and its partner Citra Group of Indonesia had acquired an 80% indirect equity interest in SLTC and 60% in MATES. 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 Operation Certificate (TOC) dated April 27, 2007 to PNCC, for the 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 shall not 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.

In addition to all of the above, a Subscription Agreement was 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, a joint venture of PNCC and NDC, incorporated to undertake the Daang Hari-SLEX connector road (DHLRP). 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%.

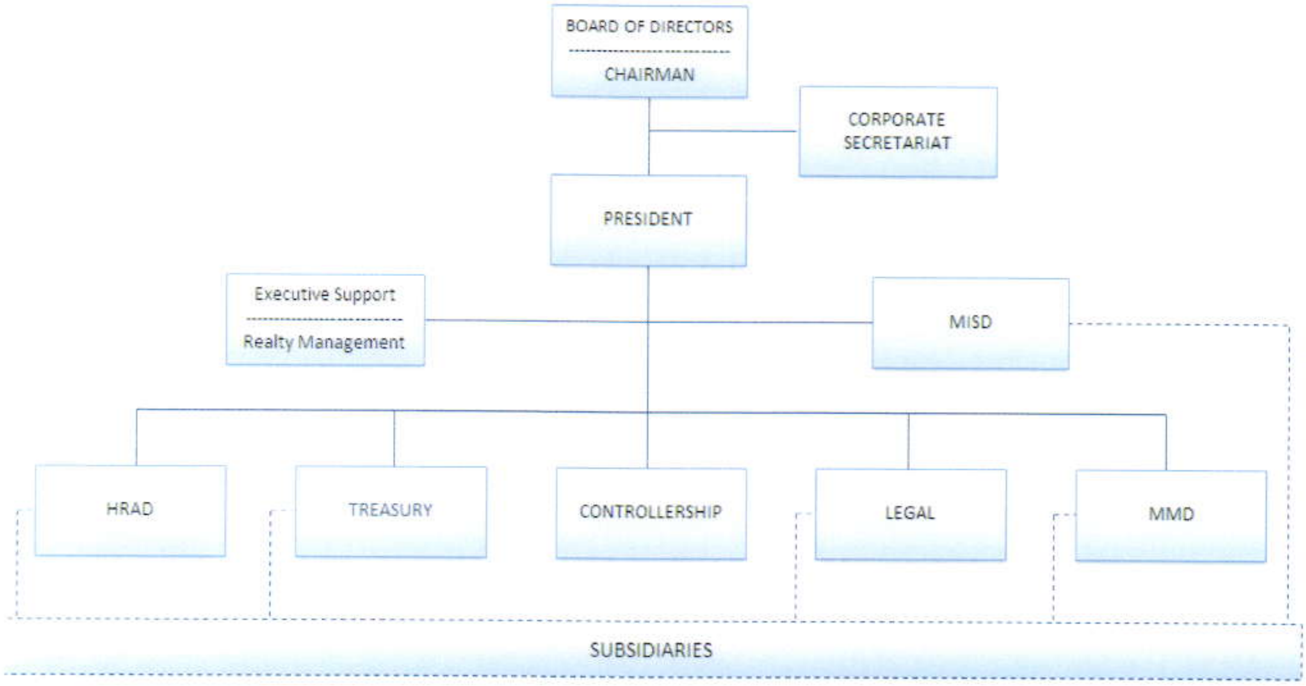
On December 15, 2009, a Memorandum of Agreement (MOA) for the Advance Works on the Daang Hari-SLEX Link Road Project (DHSLRP) was entered into by and among the ASDI and PNCC. The Corporation was designated as the Main Turnkey Contractor responsible for undertaking the Advance Works and for the implementation of the design and the construction of the Road Project, which consists of a toll road facility connecting Daang Hari Road in Cavite to the SLEX near 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 around ₱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 is valid from 18 March 2010 until 17 March 2013 and shall remain valid subject to satisfactory surveillance audits.

During about the same period, the Supreme Court, 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 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 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 craft 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." The impact of the aforesaid Supreme Court decision on the Radstock and Francisco cases in 2010 has been adequately reflected in our financial statements.

Organizational Set-up for 2012



Total Number of PNCC Employees Per Sector
As of December 31, 2012

Sector	Regular	Service Contract	Project Employee	Co-terminus	Total
Rank & File	2	3	4		**9**
Supervisor	10	2		1	**13**
Manager	13			1	**14**
Executive	7				**7**
TOTAL	**32**	**5**	**4**	**2**	**43**

Business Development & 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 Traffic Control Products Corp. (TCPC), Tierra Factors Corp. (TFC), CDCP Farms, Inc. and PNCC Skyway Corp. were among the inactive. The PNCC Board will take the necessary steps to dissolve them in the immediate future.

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.

DISC Contractor's, Builders and General Services, Incorporated (DCBGSI) is the lone subsidiary left active and financially viable.

DISC Contractor's, Builders and General Services, Incorporated (DCBGSI)

The Dasmariñas Industrial and Steelworks Corporation (DISC) is a steel fabrication arm of the PNCC. A wholly-owned subsidiary established in 1973 under the Systems Construction Group (SCG), its main industry was to manufacture prefabricated steel structures for the various construction projects of PNCC.

SCG marketed its products under the label "Systemas" and remarkably succeeded in helping PNCC reduce construction costs, accelerate completion dates and improve over-all product quality. In 1979, to further promote and enhance products, the PNCC Management decided to separate SCG from the mother company to become a totally independent enterprise and named it Dasmariñas Steelworks Corporation (DSC). The name was supposedly derived from the name of the place where the new company was primarily intended to be located -- in Dasmariñas, Cavite.

Meanwhile, in that same year, another subsidiary was established by CDCP, the Dasmariñas Industrial Corporation (DIC), which was a spun off from the Special Operations Group of the CDCP. This new firm handled the manufacturing, assembly and repowering of heavy construction equipment.

In 1981, in order to support the country's efforts to upgrade the local steel fabrication industry, DSC and DIC were merged and recognized to become what was known as the Dasmariñas Industrial and Steelworks Corporation or DISC.

Since then, DISC continued to support the country's industrial program by supplying the structural steel requirements of the nation. It offers services that cover fabrication and erection of necessary structural steels. It also undertakes design and detailed engineering works; sandblasting and painting; rebar works as well as dismantling and demolition of existing facilities, equipment leasing; as well as construction materials testing.

In the first quarter of 2006, the Securities and Exchange Commission has issued a certificate approving the quasi-reorganization of the company, with corporate acts involving the increase of capitalization where PNCC converted its receivables into equity, and changed the name of the corporation to DISC Contractor's, Builders and General Services, Incorporated (DCBGSI).

On April 30, 2011, the Corporation decided to close its operations in Iligan City due to the recurring overhead expenses without compensatory revenues. To mitigate the growing deficit, the Corporation's workforce was reduced.

The Corporation now holds office at the PNCC Compound, Km. 15 East Service Road, Bicutan, Parañaque City.

DCBGSI offers the following services :

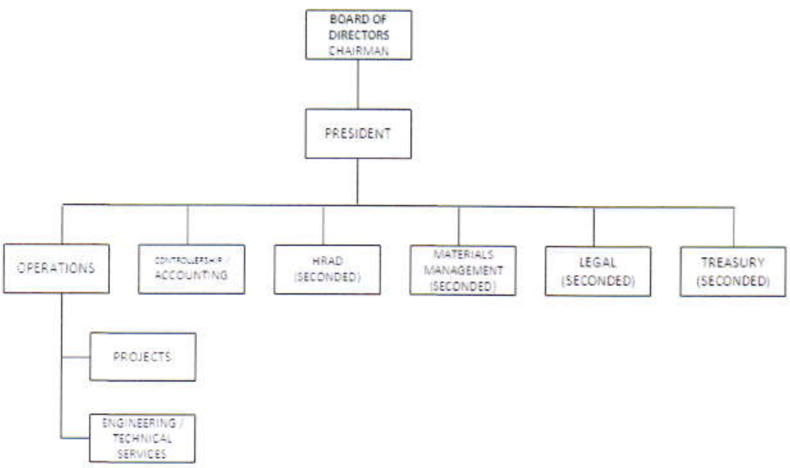
- **General Engineering** which includes Civil and Architectural, Road and Bridges, Site Development, Infrastructure Works, Water Supply and Drainage, Pile Driving;
- **Steel Fabrication and Erection Works** comprises Structural Steel Frames & Structural Components, Ducts, Penstocks & Piping Works, Sheet Metal Fabrication and Finishes, Demolition and Dismantling, Sandblasting and Painting, Heat Exchanges, Atmospheric and Pressure Vessels Tower, Tanks and Silos;
- **Materials Testing & Quality Control** for Soils and Soil Aggregate, California Bearing Ratio, Grading, Liquid / Plastic Limit, Field Density, Coarse and Fine Aggregates, Grading, Specific Gravity, Unit Weight, Abrasion, Field Density, Asphalt, Extraction/Grading, Marshall Stability & Flow, Specific Gravity, Field Density Determination, Concrete, Compressive/flexure strength, Reinforcing Steel Bars (all sizes), Tensile strength and Bending
- **General Services** consists of Janitorial, Towing, Greening and Grass Cutting, Landscaping Services, Patrol Services and Job Contracting
- **Heavy Equipment Leasing** for cranes, backhoes, graders, concrete power, etc.

The DCBGSI's client roster includes Philippine National Construction Corporation, Skyway Operations and Maintenance Corp. (SOMCO), Philippine Phosphate Fertilizers, Inc., Global Steelworks (NSC), various equipment lessees and materials testing clients. Its competitors are TAISEI Philippines, Roblette Corporation, TACOPHILE Engineering, Metaphil, Meiscor, Grand Span, Stonerich Builders.

Steel materials suppliers of the company includes Remington Industrial, Topmark Steel Corporation, P.I. Hardware & Milling Supply, Rapid Forming Corporation, Jowood Industries and Regan Industrial Supply.

Organizational Setup of DCBGSI for 2012 is as follows:

2012 TABLE OF ORGANIZATION



Manpower Complement

	2012
Executive	2
Managerial	1
Supervisor	13
Rank & File	212
TOTAL	**228**

Financial Highlights

DCBGSI's gross revenue experienced a marked decrease of 5%, 32% and 16% in 2010, 2011 and 2012 respectively. The decrease in gross revenue was largely attributed to the completion of some awarded projects in Philphos and PNCC-Daang Hari SLEX Link Road Project in Luzon.

Among the major projects undertaken and expanded during these previous three (3) years were: (1) PhilPhos Structural Steel Rehabilitation Projects, (2) supply of manpower for PNCC, (3) construction works for the DHSLRP project as subcontractor to PNCC, and (4) various equipment rental projects in Luzon.

During these years, cost to revenue ratios also experienced slight improvements for the same years. A decrease was posted from 90% in 2010 to 89% in 2011 and 2012, as a result of improvements in labor productivity and instituting standards for monitoring raw material prices relative to total budgeted amounts. Also, the hiring of local labor was promoted to reduce the overall cost of employee benefits, compared to hiring from Iligan or Luzon which would have cost DCBGSI more in employee costs for the Philphos Project.

Net profit margins in the last three (3) years were posted at ₱ 17 million in 2010, ₱14 million in 2011 and ₱ 9 million in 2012. Retrenchment/Separation expenses of ₱ 23M in 2011 resulted in a net loss of ₱9M for the year 2011. Net profit ratio were posted at 10% in 2010, 13% in 2011 and 10% in 2012.

DCBGSI has maintained its liquidity to acceptable and viable levels, maintaining a current ratio averaging 3:1 yearly from 2011 to 2012. Solvency ratios have also been generally kept at financeable levels from 1.8x to 2.5x during the period. DISC has been able to sustain its operations largely from internal cash and more favorable supplier credit terms.

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 which PNCC is holding in trust for the National Government, 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. Detailed description of investments in joint venture companies were described in item 2 of Notes to Financial Statement titled *Turn-over of equity share in joint venture companies*.

The only joint venture companies left to PNCC after the turn over to National Government were Citra Metro Manila Tollways Corporation (CMMTC) and Skyway Operation and Maintenance (SOMCO) in which the creation of the two were pursuant to Presidential Decree No. 1894, wherein PNCC's original franchise was expanded 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).

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 diluted 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 holds 20% participation. To this day 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.

Description of Properties

The list of Real Property as of December 31, 2012 are presented below:

ITEM NO.	LOCATION	TCT No.	AREA (sq .m.)	REGISTERED OWNER
A.	**BOOKED PROPERTIES:**			
1.	TAGOLOAN PROPERTY Bo. Casinglot, Tagoloan, Misamis Oriental	T-6198 T-6199 T-6200 T-7904 T-7905 TD No. 08-14-0003-02663	20,687 13,785 16,380 1,065 5,316 3,387 **60,620**	CDCP CDCP CDCP CDCP CDCP CDCP
2.	BICUTAN PROPERTY Paranaque City	T-29715 T-29716 T-452587	107 54 27,762 5,123 **33,046**	CDCP CDCP CDCP
3.	ALBAY PROPERTY (Legaspi Lot) Bo. Estrella, Jovellar, Albay	T-78161	**1,038,821**	PNCC

ITEM NO.	LOCATION	TCT No.	AREA (sq .m.)	REGISTERED OWNER
4.	MABALACAT LOT Bo. Maisac, Mabalacat, Pampanga	T-134297-R T-134298-R T-134299-R	10,000 15,000 2,905 **27,905**	CDCP CDCP CDCP
5.	TAGAYTAY PROPERTY Bo. Tolentino, Tagaytay City	P-169 P-170	49,107 49,100 **98,207**	CDCP CDCP
6.	ANTIPOLO PROPERTY • Victoria Valley Subdivision • Town & Country Estate Subd.	 T-7424 T-7425 T-7426 T-485276 T-485277 T-485278 N-3320	 840 850 958 741 680 701 10,000 **14,770**	 CDCP CDCP CDCP CDCP CDCP CDCP CDCP
7.	MORONG LOT Morong, Rizal	M-18602 M-18603 M-18604 M-18605 M-18606 M-18607 M-18608 M-18609 M-18610 M-18611	240 240 240 240 240 240 240 240 240 382 **2,542**	CDCP CDCP CDCP CDCP CDCP CDCP CDCP CDCP CDCP CDCP
8.	FINANCIAL CENTER AREA (FCA) Pasay City	T-34997	**129,548**	R. P.
9.	DASMARINAS LOT Bo. Langkaan, Dasmarinas, Cavite	T-98739	**75,000**	
10.	PORAC LOT Porac, Pampanga	T-7052	**116,591**	PNCC
11.	STA. RITA PROPERTY (NLT Office) Sta. Rita, Guiguinto, Bulacan	T-260678	**20,000**	Remedios Bengzon
12.	BOCAUE REST AREA NLEX, Bocaue, Bulacan	T-29.308M T-26.154M T-26.560M T-29.309M TD-6807	733 2,801 4,404 1,141 847 **9,926**	CDCP CDCP CDCP CDCP CDCP
B. **B.I**	**UNBOOKED PROPERTIES** **PNCC LISTED PROPERTIES**			
1.	PILILLA PROPERTY Pililla, Rizal	M-13027 M-13028 M-13031 M-13032 M-13033 M-13034 M-13038 M-13039 M-13040 M-13041 M-13042 M-13043 M-13044	500 500 500 500 500 500 459 702 607 500 500 500 500	M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone M. de Jesus & P. Castalone

ITEM NO.	LOCATION	TCT No.	AREA (sq .m.)	REGISTERED OWNER
B.	**UNBOOKED PROPERTIES**			
B.I	**PNCC LISTED PROPERTIES**			
		M-13045	500	M. de Jesus & P. Castalone
		M-13046	500	M. de Jesus & P. Castalone
			7,768	
2.	GULOD RESORT CONDOMINIUM Nasugbu, Batangas			
	• Apartment 5-102	C-321	34.65	Land Bank
	• Apartment 5-302	C-335	34.65	Land Bank
			69.30	
B.2	**CDCP FARMS CORP. PROPERTIES**			
1.	TABANG PROPERTY Tabang, Guiguinto, Bulacan	T-131500	4,945	CDCP Farms Corporation
		T-131501	678	CDCP Farms Corporation
			5,623	
2.	BUKIDNON PROPERTY Bukidnon, Mindanao	OCT P-11636	31,600	Eduardo Martin
		OCT P-3357	52,900	Leona Sumael
		OCT P-5817	64,600	Candelario Tutanes
		TCT T-14452	129,900	Romeo Mata
		OCT P-13741	66,100	Romeo Mata
		OCT P-13740	56,000	Romeo Mata
			401,100	

RIGHT OF WAY LOTS NOT RECORDED IN THE BOOKS

DAU-MABALACAT EXPRESSWAY	T-311209-R	3,022	PNCC	Original TCT with Treasury Vault
	T-318876-R	17,279	PNCC	Original TCT with Treasury Vault
	T-318413-R	65,093	PNCC	Original TCT with Treasury Vault
	T-318878-R	5,473	PNCC	Original TCT with Treasury Vault
	T-292577-R	42,154	PNCC	Original TCT with Treasury Vault
	T-292400-R	10,663	PNCC	Original TCT with Treasury Vault
	T-250431-R	4,290	PNCC	Original TCT with Treasury Vault
	T-250433-R	524	PNCC	Original TCT with Treasury Vault
	T-270509-R	15,182	PNCC	Original TCT with Treasury Vault
	T-486760-R	16,064	PNCC	Original TCT with Treasury Vault
	T-412604-R	3,728	PNCC	Original TCT with Treasury Vault
	T-486761-R	15,545	PNCC	Original TCT with Treasury Vault
	T-483506-R	6,113.50	PNCC	Original TCT with Treasury Vault
	T-396409-R	13,236	PNCC	Original TCT with Treasury Vault
	T-422175-R	5,621	PNCC	Original TCT with Treasury Vault
	T-389849-R	16,316	PNCC	Original TCT with Treasury Vault
	T-32250	1,328	PNCC	
	T-383725-R	14,093	RP/PNCC	
	T-324511	6,757	RP/PNCC	Original TCT with Treasury Vault
	T-326189	2,717	RP	
	T-326191	98,550	RP	
	T-326195	12,717	RP	
	T-170048	5,871	PNCC	Original TCT with Treasury Vault
	T-170047	8,394	PNCC	Original TCT with Treasury Vault
		390,730.50		
	T-146085	2,770	Jose Angeles, et.al.	Documents with RD, awaiting transfer to PNCC
	T-281288	1,833	Justinio Pare, et.al.	With deficient transfer documents.
	T-157403	529	Cirilio Tuazon	With deficient transfer documents.
	T-147137	6,561	Marina Gueco	With deficient transfer documents.
	T-30884	1,989	Angelo Hizon	On-going transfer process
	T-246299	4,818	Teodoro Tiglao, Jr.	With deficient transfer documents.
	T-9330	10,298	Julian Dycaico	With deficient transfer documents.
	T-236300	122	DBP	With deficient transfer documents.
	T-236300	2,683	DBP	With deficient transfer documents.
	T-251670	18,913	NHA/TeresitaTiglao	Double sale case. Case with Corp. Legal.
	7-251671	27,275	NHA/TeresitaTiglao	Double sale case. Case with Corp. Legal.
	Total	**838,951**		
MABALACAT-BAMBAN NLT EXTENSION Bamban,Tarlac	T-310371	45,989	Horacio Mercado, et.al. & PNCC	With deficient transfer documents.
	T-17220	34,704	L. Galang & I. Gatus	Double sale case. Former owner cannot be located.
	Total	**80,693**		
MEXICO-SAN FERNANDO SECTION Mexico, Pampanga	T-376428-R	**918**	RP	
BALINTAWAK TOLL PLAZA Bagong Lote, Malabon	T-453508	**93**	Damaso Borgonia	No documents on the acquisition of property.

Legal Proceedings

1. ***Radstock Securities Limited vs. PNCC***
Civil Case No. MC 01-1398; CA G.R. No. 66654; SC G.R. No. 156887
(Handled by the Office of the Government Corporate Counsel (OGCC))
Date of Institution: January 23, 2001
Amount Involved: PhP13,000,000,000.00

This is a complaint for sum of money and damages filed by Radstock Securities Limited (Radstock) as the assignee of the credit obligations of PNCC to Marubeni Corporation, amounting to more or less P3Billion, including interest and penalties. The obligation arose from two (2) transactions which the Basay Mining Corporation (Basay), a former subsidiary of CDCP (now PNCC), with Marubeni Corporation (Marubeni) to wit: (a) Advance Payment Agreement dated August 9, 1978 wherein Marubeni advanced to Basay an amount of US$5,000,000.00 for the purchase of copper concentrates, and (b) Loan Agreement dated May 19, 1980 whereby Marubeni loaned to Basay a total of Y5,460,000,000.00 for its expansion project. It is alleged that PNCC is bound by a Letter of Guarantee dated September 29, 1980, which was executed by CDCP Executive Vice-President Alfredo V. Asuncion, binding CDCP to guarantee irrevocably in favor of Marubeni the loan and all obligations of Basay. PNCC alleges, by way of defense, that Radstock's cause of action is barred by prescription and that Alfredo V. Asuncion, who executed the Letter of Guarantee, was not duly authorized to do so by the Board of Directors.

RECENT DEVELOPMENTS:

On January 10, 2007, Radstock and PNCC filed a Joint Motion for Judgment based on a Compromise Agreement before the Court of Appeals, which approved said agreement on January 25, 2007.

On January 30, 2007, Strategic Alliance Development Corporation (STRADEC), Intervenor of the said case, filed a Motion for Reconsideration of the Decision dated January 25, 2007, and Motion to Defer Issuance of Entry of Judgment.

On May 11, 2007, Asiavest Merchant Bankers Berhad filed an Opposition and Motion-in-Intervention (re: Judgment Based on Compromise) before the Court of Appeals

On May 31, 2007, the Court of Appeals issued a Resolution denying the (1) Motion for Reconsideration of the Decision dated 25 January 2007 and Motion to Defer Issuance of Entry of Judgment filed by STRADEC, and (2) Rodolfo M. Cuenca's Motion for Intervention and Motion to Admit (Attached Motion for Reconsideration and New Trial). The Court of Appeals also denied Asiavest's Motion-in-Intervention.

On July 2, 2007, the Supreme Court, acting on the Petition for Review on Certiorari, with prayer for a temporary restraining order and/or writ of preliminary injunction filed by STRADEC, issued a Status Quo Ante Order directing PNCC and Radstock to maintain the *Status Quo Ante* effective as of this date, and continuing until further orders from the Supreme Court.

On December 04, 2009, the Supreme Court rendered a decision nullifying the Compromise Agreement entered into between PNCC and Radstock.

On February 23, 2010, the Supreme Court denied the Motion for Reconsideration filed by Radstock.

On April 20, 2010, the Supreme Court denied with Finality the Second Motion for Reconsideration filed by Radstock.

On March 7, 2011 the Court of Appeals issued a Resolution considering the case resolved on the merits by the Supreme Court.

2. ***Asiavest Merchant Berhad vs. CA and PNCC***
G.R. No. 110263, Supreme Court
Date of Institution :July 14, 1988
Amount Involved: MYR5,200,000

This case involves the enforcement of a foreign judgment. Judgment was rendered against the PNCC in Malaysia for guarantees it issued on various construction projects. The amount involved is 5,200,000 Malaysian Ringgit. The trial court and the Court of Appeals rendered a decision in favor of the PNCC.

The Supreme Court rendered a decision reversing the decision of the Court of Appeals. Inasmuch as said decision of the Supreme Court is now final and executory, counsel for Asiavest is now moving for execution of the above foreign judgment before the Regional Trial Court of Pasig City.

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.

RECENT DEVELOPMENTS:

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, RTC- Branch 67, Pasig City, the Hon. Amorfina Cerrado-Cezar presiding, issued an Omnibus Order DENYING Asiavest's Motion for Reconsideration and Motion for Appointment of Receiver.

Asiavest has filed a Petition for Certiorari (Rule 65) with the Court of Appeals assailing the RTS's Omnibus Order. In its October 28, 2008 Decision, the Court of Appeals 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 before 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** of the April 15, 2009 resolution of the Supreme Court denying Asiavest's Petition on the following ground: (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 from RTC 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 is set on February 8, 2012 and April 11, 2012 at 8:30 a.m.

The RTC granted Asiavest's Motion to take deposition through written Interrogatories of its last witness to be conducted by the DFA. Still awaiting action from DFA.

3. ***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 which is now pending resolution.

4. ***Strategic Alliance Development Corporation vs. Privatization Management Office et.al. Civil Case No. 05-882, RTC Branch 146, Makati City Date of Institution: October 2005***

This concerns a complaint filed by Strategic Alliance Development Corporation (Stradec) against the PMO and PNCC for Declaration of Right to a Notice of Award and/or Damages, summons of which was received on October 13, 2005.

The complaint alleges that on 30 October 2000, the APT now PMO offered for sale, through public bidding, the National Government's (NG) shares of stock in Philippine National Construction Corporation (PNCC) and the receivables of the National Government in the form of advances of NG to PNCC, all the future receivables of NG from PNCC, and the securities related thereto. In the said bidding, Dong-A Consortium, to which plaintiff STRADEC was a member, offered the highest bid. Said bid however, was rejected by the APT Board of Trustees and the Privatization Council for being way below the indicative price.

STRADEC therefore prays that PMO and PNCC be directed to declare Dong-A Consortium as the winning bidder and that the notice of award be issued on their favor, they likewise prayed in their second, third and forth causes of action that they be reimbursed of their actual and other damages in the amount of P15,000,000.00 .

Perusal of the complaint shows that, except for being the subject of the bidding, there are no other allegations which can be considered to constitute a cause of action against PNCC. It is likewise very clear in the documents attached to the complaint that STRADEC, through its consortium, had signified its acceptance of the terms and conditions of the bidding which provides, among others, that *"3.1. The indicative price for the Shares, Receivables, and the Securities shall be announced on the day of the bidding"; and "4.3.1. APT reserves the right to reject any or all bids, including the highest bid, or to receive any defect or required formalities therein."*

PNCC seasonably filed its Answer to the Complaint. The issues having been joined, the Court has set the case for Pre-Trial Conference after no settlement was reached during Mediation proceedings.

On July 1, 2010, the RTC rendered a decision (received by PNCC on July 12, 2010) in favor of the plaintiff directing the PMO to issue a Notice of Award of Sale to Dong-A Consortium, herein represented by plaintiff STRADEC, the National Government's shares of stock in the PNCC, and the receivables of the National Government in the form of advances to PNCC, all future receivables of the National Government from PNCC and the securities related thereto, under the procedure stated in the Asset Specific Bidding Rules (ASBR) for the public auction held on October 30, 2000, and directing PMO and PNCC to pay plaintiff, jointly and severally, the sum of ₱500,000.00 as and by way of exemplary and cost of suit.

On July 21, 2010, a Notice of Appeal was filed by PNCC through the Office of the Government Corporate Counsel (OGCC).

On January 27, 2012 the Court of Appeals rendered a Decision affirming the Decision of the Trial Court PNCC filed a Motion for Reconsideration.

5. ***Strategic Alliance Development Corporation vs. PNCC and Radstock Securities Ltd Asiavest Merchant Luis F. Sison vs. PNCC and Radstock. G.R. No. 178158, Supreme Court, First Division***

This is an appeal by certiorari under Rule 45 of the Rules of Court from the Decision of the Court of Appeals in CA-G.R. CV No. 87971 approving the Compromise Agreement between PNCC and Radstock denying STRADEC's Motion for Intervention.

On January 30, 2007, STRADEC, Intervenor of said case, filed a Motion for Reconsideration of the Decision dated January 25, 2007, and Motion to Defer Issuance of Entry of Judgment.

On February 20, 2007, Atty. Luis F. Sison, a stockholder and former PNCC President and Board Chairman filed a Petition for Annulment of Judgment Approving the Compromise Agreement before the Court of Appeals.

On May 11, 2007, Asiavest Mechant Bankers Berhad filed an Opposition and Motion-in-Intervention (re: Judgment Based on Compromise) before the Court of Appeals.

On May 31, 2007, the Court of Appeal issued a Resolution denying the (1) Motion for Reconsideration of the Decision dated January 25, 2007 and Motion to Defer Issuance of Entry of Judgment filed by Stradec and, (2) Rodolfo M. Cuenca's Motion for Intervention and Motion to Admit (Attached Motion for Reconsideration and New Trial). The Court of Appeals also denied Asiavest's Motion-in-Intervention.

On June 12, 2007, the Court of Appeals dismissed the Petition of Atty. Sison on the ground that it had no jurisdiction to annul a final and executory judgment also rendered by the Court of Appeals.

Atty. Sison filed a Motion for Reconsideration. However the Court of Appeals denied the same on November 05, 2007.

On November 26, 2007, Atty. Sison filed a Petition for review with the Supreme Court.

On July 2, 2007, the Supreme Court, acting on the Petition for Review on Certiorari, with prayer for a temporary restraining order and/or writ of preliminary injunction filed by STRADEC, issued a Status Quo ante Order directing PNCC and Radstock to maintain the ***Status Quo Ante*** effective as of this date and continuing until further order form the Supreme Court.

On December 4, 2009, the Supreme Court rendered a decision nullifying the Compromise Agreement entered into between PNCC and Radstock.

On February 23, 2010, the Supreme Court denied the Motion for Reconsideration filed by Radstock.

On April 20, 2010, the Supreme Court denied with Finality the Second Motion for Reconsideration filed by Radstock.

6. ***PNCC, et al vs. NLRC, et al., CA GR SP 125293 (ERNESTO VALENTIN) Amount Involved: PhP177,000,000.00***

This case involved claim for additional Separation Pay Benefits. A total of **810** complainants were former employees assigned at the North Luzon Tollway Division in Sta. Rita, Bulacan. These complainants were retrenched/separated from the company and were paid 250% of their monthly salary for every year of service rendered. With regard to complainants, 16 were legally dismissed for cause in January 2005 and one was dismissed for cause in 2003. During this period when NLEX employees were retrenched, the Exit Bonus was not part of the retrenchment program being implemented by PNCC. The Productivity Bonus and the ISO Bonus, on the other hand, were not grant that did not consider those already separated from the company.

In January 2009, **the union of SLEX employees made a request with PNCC management for an additional grant of EXIT BONUS** in the amount of ₱200,000.00 and other benefits intended primarily for the employees of PNCC assigned at the time of the grant at the Southern Luzon Tollways (SLEX) to be affected by impending accelerated hand over of SLEX operation to Manila Toll Expressways Systems, Inc. (MATES). This request to the PNCC management was forwarded by the PNCC Finance Committee for approval of the PNCC Board of Directors. The PNCC Management, through Board Resolution BD-22-2010, approved the recommendation of the Finance Committee for the grant of an Exit Bonus amounting to PhP100,000.00 to all entitled PNCC employees assigned at SLEX;

On November 8, 2011, the Labor Arbiter issued a Decision awarding the Complainants their money claims. PNCC filed a Motion for Reconsideration, but it was denied, PNCC then filed an appeal to the Commission which was also dismissed.

On 25 June 2012, PNCC filed a Petition for review on certiorari with the Court of Appeals with application for TRO/Preliminary Injunction.

On 17 July 2012, the CA issued a resolution denying PNCC application for TRO/Preliminary Injunction.

On 03 August 2012, PNCC filed a Motion for Reconsideration of said resolution.

Meanwhile, a Petition for Review was filed with the NLRC on August 02, 2012 ascribing grave abuse of discretion on the part of Labor Arbiter in issuing the Writ of Execution without filing first their claim with the COA.

On October 15, 2012, NLRC, First Division rendered a Decision declaring null and void the labor Arbiter's Resolution dated July 17, 2012 for failure to comply with the requirement for filing a claim before the COA.

7. ***Syarikat Binariya vs. The Government of Pahang and CDCP as Third Party***
   Civil Case, High Court 47985, Malaysia
   Amount Involved: PhP147,171,850.00

This case is essentially a claim for payment of the aggregate amount of RM11,166,781.20 representing particular losses which the plaintiff allegedly incurred by reason of defendant's delays/breaches, with interest at 15% per annum. Filed on September 30, 1985, the case was in the meantime "archived" and revived only in 1996.

On June 11, 1997, Third Party PNCC (co-defendant) received a Summons-in-Chambers supporting with affidavit from Kuantan High Court Civil Suit No. 479/85. Initial hearing is set on September 9, 1997.

On April 23, 2004, the Decision of Kuantan High Court is in favor of the defendant without the need of joining the Third Party.

On January 12, 2010, Decision of Kuantan High Court directing the Government of Pahang, Malaysia to pay MYR10,512,275.00 to Syarikat Binaraya. Appealed by the Gov't of Pahang, Malaysia to the Court of Appeals in Putrajaya, Malaysia. Continuation of the Court of Appeals hearing is set on April 15 2013.

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 February 4, 2008, high at ₱6.00 per share and February 11, 2008 and low at ₱3.60 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 ₱9.700 billions in 2012, ₱7.109 billion in 2011 and ₱6.912 billion in 2010 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 often 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 under item 16 of Notes to Financial Statements.

Shareholders

TOP TWENTY (20) COMMON SHAREHOLDERS OF PNCC *as of December 31, 2012*

Shareholder	No. of Shares	Percentage of Ownership
Republic of the Philippines/Privatization Management Office	79,271,024	45.4419
Government Service Insurance System	47,490,383	27.2237
Universal Holdings Corporation	24,780,746	14.2055
PCD Nominee Corporation - Filipino	10,789,797	6.1852
Cuenca Investment Corporation	2,088,132	1.1970
PCD Nominee Corporation – Non-Filipino	1,762,740	1.0105
Cuenca, Rodolfo M.	698,116	0.4002
Land Bank of the Philippines	657,836	0.3771
Unigrowth Development Corporation	630,625	0.3615
Gow, Jimmy N.	274,000	0.1571
Cruz, F.F. & Co., Inc.	252,630	0.1448
Blue Chip Asset, Inc.	244,700	0.1403
Adachi, Sueo - Foreign	184,025	0.1055
Chung, Felix	173,900	0.0997
Alpapara, Johnson	170,000	0.0975
Go, Manuel	150,000	0.0860
Benpres Corporation	140,000	0.0803
Cruz, Felipe F.	135,993	0.0780
Motelibano A. Hijos, Inc.	120,750	0.0692
Carnet Machineries & Invest. Corp.	119,842	0.0687

Total No. of Shareholders : 4,815

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

Security Ownership of Certain Record and Beneficial Owners and Management

Owners of record of more than ten percent 10% of the company's voting securities *as of December 31, 2012*			
Title of Class	Name & Address of Record/Beneficial Owner	Amount/ Nature of Record Beneficial Ownership	Percent of Class
Common	**PRIVATIZATION MANAGEMENT OFFICE** 104 Gamboa Street, Legaspi Village Makati City 1229, Philippines	79,271,024	39.64%
Common	**GOVERNMENT SERVICE INSURANCE SYSTEM** Roxas Blvd., Manila	47,490,383	23.75%
Common	**UNIVERSAL HOLDINGS CORP.** CVCLAW Center, 11th Ave. cor. 39th St. Bonifacio Global City, 1634 Metro Manila	24,780,746	12.39%
Common	**VARIOUS STOCKHOLDERS**	22,902,176	11.12%
Preferred D	**PRIVATIZATION MANAGEMENT OFFICE** 104 Gamboa St., Legaspi Village, Makati City 1229, Metro Manila Philippines	25,500,000	12.75%

By virtue of LOI 1295 (1983) 76.48% of voting equity has been held by various government financial institutions (GFIs), namely: PNB, PhilGuarantee, NDC, DBP, GSIS, and Land Bank, under the mandated debt-to-equity conversion scheme.

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

Only 23.51% of PNCC's voting equity is strictly under private ownership and 5.43% of which is being held by PCD Nominee Corporation (Filipino).

Security Ownership of Management

BENEFICIAL STOCK OWNERSHIP OF EACH DIRECTORS AND OFFICERS *as of December 31, 2012*		
Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership
DIRECTORS		
Common	Jose Vicente C. Bengzon III	50
Common	Luis F. Sison	01
Common	Thomas G. Aquino	01
Common	Rodolfo C. Naguit	02
Common	Elmer C. Hernandez	100
Common	Tomas C. Alvarez	101
Common	Antonio T. Pido	50
Common	Nora O. Vinluan	02
Common	Roman Felipe F. Reyes	100
Common	Rosendo T. Capco	10
OFFICERS		
Common	Luis F. Sison	01
Common	Yolanda C. Mortel	13

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 is prohibited under existing laws and regulations.

CORPORATE GOVERNANCE

It is the policy of Philippine National Construction Corporation (PNCC) to actively promote and pursue corporate governance reforms and to continuously observe the principles of fairness, accountability and transparency. The Board of Directors adopted the Revised Manual on Corporate Governance on March 23, 2011 to significantly enhance PNCC's corporate organization and operations, and to make it a valuable partner of the national government.

BOARD STRUCTURE AND PROCESS

Key Role and Responsibilities

The Board of Directors is primarily responsible for fostering long-term success to the corporation, and sustaining its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders.

The Board formulates the corporation's vision, mission, strategic objectives, policies and procedures that guides its activities, including the means to effectively monitor Management performance.

Composition

The Board is composed of eleven (11) directors. The directors are nominated by the President of the Philippines.

The Board possesses a combined expertise in various business fields. Each director adds value and exercises independent judgment. The Board structure provides a clear division of responsibilities between the Board and Management.

Chairman and Vice Chairman

The Acting Chairman of the Board was Jose Vicente C. Bengzon III since December 2011. Atty. Luis F. Sison who was elected President/CEO holds the position of Vice Chairman.

Board Performance

Board meetings are held monthly or as often as necessary. The Board has separate and independent access to the Corporate Secretary, who is responsible for informing the Board members of the agenda of their meetings and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their consideration and approval. Average attendance in the Board's 20 meetings was more than 91.81%. Directors Jose Vicente C. Bengzon III, Luis F. Sison and Rosendo T. Capco had perfect attendance during their incumbency in 2012.

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Jose Vicente C. Bengzon III	01/21/2011	20	20	100%
Member	Luis F. Sison	01/11/2011	20	20	100%
Member	Tomas C. Alvarez	01/11/2011	20	19	95%
Member	Thomas G. Aquino	01/11/2011	20	14	70%
Member	Rosendo T. Capco	01/11/2011	20	20	100%
Member	Elmer C. Hernandez	01/11/2011	20	19	95%
Member	Rodolfo C. Naguit	01/11/2011	20	19	95%
Member	Antonio C. Pido	01/11/2011	20	18	90%
Member	Roman Felipe S. Reyes	01/11/2011	20	19	95%
Member	Karen G. Singson	03/22/2011	20	15	75%
Member	Nora O. Vinluan	01/11/2011	20	19	95%

Board Committees

The Board maintained the following committees to assist in good governance:

Audit & Finance Committee. Consists of four (4) directors, who are Certified Public Accountants. The committee oversees the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations. The committee had 12 meetings in 2012 where it reviewed and approved the 2011 and 2012 audited financial statements of PNCC and reviewed the Corporate Operation Budget for 2013.

Nomination and Compensation Committee. The Nomination and Compensation Committee, composed of three directors, establishes a formal and transparent procedure for developing a policy on remuneration of directors and corporate officers. The committee aims to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates. The committee endorsed the approval of nomination of the five incumbent members of the Board as members of the Board of Trustees of the PNCC Foundation, Inc. The committee had 2 meetings in 2012.

Committee	Executive	Nomination & Compensation	Finance	Audit	Legal
Rainier B. Butalid	C				M
Jose Vicente C. Bengzon III		M		M	
Luis F. Sison	M				
Nora O. Vinluan			M		
Tomas C. Alvarez				C	
Thomas G. Aquino		C			
Elmer C. Hernandez		M			
Rodolfo C. Naguit			C	M	
Rosendo T. Capco					M
Antonio C. Pido					C
Roman Felipe S. Reyes			M	M	

Legal Committee. The Legal Committee is composed of two directors with the Acting Chairman and the President as ex-officio members, it is responsible for the review of legal issues that affect the company. The committee, together with Management and company's Legal counsel, reviews legal matters that could have a material impact on the company's financial operations. The committee also ensures company's compliance with applicable laws and regulations. The committee had 20 meetings in 2012 where it resolved actions to be undertaken in various PNCC legal cases.

The Board approved the creation of a Board Special Projects Committee for the negotiation of the terms for the Joint Venture Agreement (JVA) between CITRA and PNCC in connection with Stage 3 and 4 of the Project. The committee is composed of President Luis Sison, Acting Chairman Jose Vicente Bengzon and Directors Alvarez, Naguit, Vinluan and Pido. The terms negotiated by the committee has been submitted to the Board for approval and ratification. Members of said committees were entitled to receive compensation not to exceed Fifty Thousand Pesos (₱50,000) each to cover all working days until the JVA is concluded.

Directors Compensation

The incumbent members of the Board adopted Executive Order (E.O.) No. 24, which governs the compensation of members of the board of directors/trustees in Government-Owned or Controlled Corporations, including Government Financial Institutions. In accordance with the said E.O., PNCC is classified under "C" which prescribes the following per diems for board meetings and committee meetings:

Board meetings:	**₱15,000.00** per meeting but not to exceed the maximum annual amount of ₱360,000.00.
Committee meetings:	**₱9,000.00** per meeting but not to exceed the maximum annual amount of ₱216,000.00.

The Board also approved the following allowances for each Director:

Transportation & Gasoline: Allowance	**₱20,000.00** per month subject to submission of receipts, including normal/ordinary vehicle maintenance costs ang gasoline expenses but not to exceed ₱240,000.00 per annum.
Meals and Representation: Allowance	**₱20,000.00** per month subject to submission of receipts, but not to exceed ₱240,000.00 per annum.

CORPORATE SECRETARY

There had been three (3) consecutive Corporate Secretaries in 2012. Atty. Alex G. Almario was appointed Corporate Secretary since October 11, 2011 until he resigned in January 2012. Atty. Vernette U. Paco was appointed Acting Corporate Secretary vice Atty. Almario on March 15, 2012. Atty. Jose A. Bernas replaced atty. Paco on September 17, 2012 and serves as Corporate Secretary until today.

COMPLIANCE OFFICER & COMPLIANCE MONITORING

On March 23, 2011, the Board of Directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission under its Memorandum Circular No. 6, Series of 2009.

The Compliance Officer monitors PNCC's compliance to the Corporate Governance Code and the rules and regulations of regulatory agencies. Ms. Janice Day E. Alejandrino, Senior Vice President for Human Resource and Admnistration was appointed Compliance Officer in March 15, 2012 vice Mr. Segundo M. Gaston.

MANAGEMENT

Management is accountable to the Board of Directors for the corporation's organizational and operational controls. Management is lead by Atty. Luis F. Sison as President/CEO.

The President/CEO has overall responsibility for the successful administration of the affairs and business of the corporation. The President is supported by a Management Committee composed of key executives who meet as often as necessary to discuss issues vital to the operation of the company.

ADEQUATE AND TIMELY INFORMATION

Management provides the members of the Board with complete, adequate and timely information on matters to be taken up in their meetings to enable them to fulfill their duties and responsibilities.

However, reliance on information volunteered by Management would not be sufficient in all circumstances and further inquiries may be made by the Board members. The members of the Board had been given independent access to Management information that includes background or clarification on matters brought before the Board such as disclosures, budgets, forecast and internal financial documents.

ACCOUNTABILITY AND AUDIT

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

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

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

The aggregate audit fees billed for each of the last two calendar year indicated in the TOR are ₱750,000 for CY 2010, ₱1,243,748 for 2011 and ₱ 2,602,724.00 for 2012.

TRAINING PROCESS

The table below shows the training attendance of the remaining member of the Board who has not able to attend the Corporate Governance Seminar in 2011.

Name of Director/Officer	Date of Training	Program	Name of Training Institution
Thomas G. Aquino	May 18-19, 2012	Corporate Governance	Center for Professional Development in Business and Economics – De La Salle University

The members of the incumbent Board are accomplished in their line of exposure and have extensive relevant business experience. A formal board and director development program is not seen as necessary at this time. In case a new member is elected, he/she will be briefed and oriented regarding the company's operations and its pressing concerns. Likewise, in case he/she had not attended the required Corporate Governance seminar, the company shall arrange his/her attendance in said seminar.

STOCKHOLDER'S RIGHTS AND PROTECTION OF MINORITY STOCKHOLDER'S INTERESTS

PNCC highly respects the rights of the stockholders as prescribed by the Corporation Code.

Stockholders Meeting. Stockholders are informed of the schedule of annual or special meeting at least five (5) days before such meeting, through registered mail containing the notice of meeting stating the date, hour and place of such meeting, and if a special meeting, also contains the purpose or purposes for which it is called.

Voting Right. At all stockholder's meeting, Preferred "D" and Common shareholder is entitled to one vote for each share of stock standing in his name on the books of the Corporation. Cumulative voting is used in the election of the members of the Board of Directors.

Pre-emptive right. All stockholders have pre-emptive rights in accordance with law as provided for in the PNCC's Articles of Incorporation, i.e., specific rights and powers of stockholders with respect to the particular shares they hold.

Power of Inspection. All stockholders are allowed to inspect corporate books and records including minutes of the Board meetings and stock registries.

Right to information. All stockholders have access to any and all information relating to matters for which the management is accountable for. Upon request, stockholders are provided with periodic reports which disclose directors and officers and certain matters.

DISCLOSURE AND TRANSPARENCY

All material information about the corporation which could adversely affect its viability or the interests of the stockholders shall be publicly and timely disclosed. All disclosures and reports submitted to Securities and Exchange Commission and the Philippine Stock Exchange may be viewed and downloaded at company website.

CODE OF CONDUCT AND EMPLOYEE DISCIPLINE

PNCC Management and employees are guided by three (3) core values such as excellence, professionalism and dynamism. These values are expressed in the PNCC Code of Conduct and Employee Discipline which outlines the rules and regulations that the company has set to govern ethical behavior and instill discipline in its employees and includes remedial actions for each.

COMPANY WEBSITE

Additional information on the company's products and services, results of business operations, financial statements, career opportunities, corporate governance initiatives and other relevant information may be viewed at www.pncc.ph.

Mission

We Deliver!

We build infrastructure for socio-economic development. We provide quality construction and tollways management services, guided by the values of execellence, professionalism and dynamism.

Vision

By the year 2007, the Philippine National Construction Corporation shall have reasserted its strength in tollways systems management, revitalized its construction capabilities and realized the synergies brought about by its subsidiary alliances.

Our tollways franchise shall be secure and joint venture partnership shall be equitable. We shall ensure our ability to meet our customers' expectations.

We shall re-establish the significant presence of PNCC in the construction industry by aggressively pursuing projects. This requires upgrading our manpower and equipment. Self-sufficiency and maximum contribution to company overhead will be our guiding norms. Likewise, we shall maintain contribution to company overhead will be our guiding norms. Likewise, we shall maintain existing subsidiaries based on their ability to enhance overall efficiency.

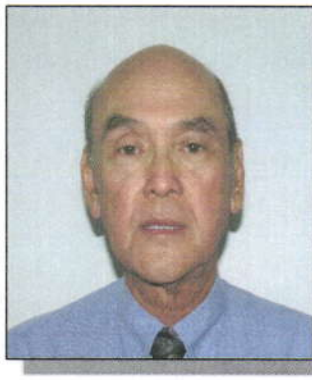
We will continually improve our systems and procedures to streamline the organization structure. Accordingly, we shall develop our human resources and establish a work environment of excellence, professionalism and dynamism. These conditions shall facilitate our gaining ISO accreditation.

Prudent funds management, highlighted by a reduction of debts, increased collection efforts, and liquefication of non-performing assets underlies all our plans.

Board of Directors

JOSE VICENTE C. BENGZON III
Acting Chairman, December 2011 to present

Mr. Bengzon is the President of the Jose P. Laurel Rural Bank since 2010. He is the President & Chief Operating Officer of the Duma Group of Companies. He is also the Chairman of Vitarich Corporation since 2007, the director of UCPB Holdings Corporation since 2006, & the Philippine Business Leaders Forum, Inc. since 2005. He has served as a Trustee of the Philippine Quality Awards Foundation since 1998. He earned his Bachelor of Arts degree, major in economics & Bachelor of Science in Commerce degree, major in accounting in 1980 from the De La Salle University. He is a Certified Public Accountant.



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.

TOMAS C. ALVAREZ
Director, since January 2011 to 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.

THOMAS G. AQUINO
Director, since January 2011 to present

Mr. Aquino is a Senior Fellow at the Center for Research & Communication at the University of Asia & the Pacific (UA&P). Until recently, he was the Senior Undersecretary of the Department of Trade & Industry. He was conferred the Presidential Service Award (Lingkod Bayan) & the Gawad Mabini Award with the rank of Grand Cross (Dakilang Kamanong) for distinguished service to the country. Mr. Aquino obtained a Doctorate in Business Administration in 1980 from the IESE Business School of the University of Navarre in Spain, an MS in Industrial Economics in 1972 from the UA&P in 1970, & an AB in Economics in 1970 from the University of the Philippines.

ROSENDO T. CAPCO
Director, since 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 199-2001. He was elected twice as Mayor of the Municipality of Pateros – for terms 2001-2004 & 2004-2007. He is presently a Managing Partner of the Capco, Campanilla & Santos Law Firm. He earned his B.S. Business Administration degree in 1972 & his Bachelor of Laws degree in 1977 from the University of the East. He passed the Philippine Bar in the1978.

ELMER C. HERNANDEZ
Director, since January 2011 - present

Mr. Hernandez served as Department of Trade & Industry Undersecretary for Industry & Investments and Vice Chairman & Managing Head of the Board of Investments (BOI) from 2004-2010. At the BOI, he served in earlier years as the Executive Director of the Industry Development Group, and in concurrent capacity, as Executive Director of both the Industry Development Council & the Presidential Iron & Steel Committee. He obtained his degrees in Bachelor of Science in Mining Engineering in 1970, Master of Science in Geology in 1976 & Master of Public Administration in 1980 from the University of the Philippines.

RODOLFO C. NAGUIT
Director, since January 2011 to present

Mr. Naguit served as a Project Consultant of Pilipinas Shell Petroleum Corporation (PSPC) from March 2006 until today, except in 2008. From June 2002 to September 2003, he was Deputy Chairman of the Shell Companies in the Philippines. He served as VP-Finance & Director from July 2001-February 2006, not only of the PSPC but also of its various affiliate corporations such as the Shell Gas Easter Petroleum, Inc., the Shell Gas Trading Asia Pacific, Inc., & the Shell Chemicals Co. (Phils.) Inc. He earned his Bachelor of Science degree in Business Administration from the Lyceum of the Philippines in 1971 & passed the CPA Board in 1972.

ANTONIO C. PIDO
Director, since January 2011 to present

Mr. Pido is a Senior Partner of the Siguion Reyna, Montecillo & Ongsiako Law Offices from 1994 until today. He was a Partner in the Pido, Quimbo & Guades Law Office from December 1991 until December 1993. He served as Labor Arbiter at the National Labor Relations Commission from June 1986 until May 1991. He obtained his degree in Bachelor of Science in Commerce from the Colegio de San Jose–Recoletos in 1976 and in Bachelor of Laws from the University of the Philippines in 1982 and passed the Philippine Bar in the same year.

ROMAN FELIPE S. REYES

Director, since November 2010 to present

Mr. Reyes is a Trustee of the Government Service Insurance System from September 2010 until today. He is a member of the Board of Directors of the Bank of Commerce, RPN 9, Pasudeco & Victory Liner, among others. He served as Senior Partner & Vice-Chairman of the Client Service & Accounts from 1984 until 2009. In 2009, he served as Chairman of the Advisory Group on Vocational Training of the SGV Foundation. He earned his Bachelor of Commerce degree, major in Accounting from San Beda College in 1972 & his Master of Business Administration, major in Finance, from the University of Detroit in 1975.

NORA S. VINLUAN

Director, since January 2011 to present

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

KAREN G. SINGSON

Director, Ex-officio, since March 2011

Ms. Singson is the Chief Privatization Officer of the Privatization & Management Office from 2011 until today. Before then, she held various positions as Equity Research Analyst, Equity Research Associate, Research Associate and Investment Banking Analyst in the following U. S. firms – the Boston Company Asset Management, Capital Research & Management, Morgan Stanley and in a subsidiary of Swiss Re Capital Management & Advisory and Fox-Pit Kelton, Inc. She was awarded First Honors when she took up the Legal Management Program in the Ateneo de Manila University from 1996-1998 and completed a double major in Economics and International Relations from the Brown University, *magna cum laude.* She also enrolled in the Master in Business Administration program of the Harvard Business School from 2006-2008.

Management Committee

Atty. Luis F. Sison	President & CEO
Patricia Louise S. Punsalan	Executive Assistant to the President
Janice Day E. Alejandrino	Senior Vice President, Head - Human Resources and Administration Division
Miriam M. Pasetes	Vice President, Acting Treasurer
Yolanda C. Mortel	Vice President, Head - Materials Management Division
Atty. Vernette U. Paco	Vice President, Head - Corporate Legal Division
Susan R. Vales	Senior Assistant Vice President, Head – Corporate Controllership Division
Rosalyn S. Delivios	Manager, Head – Management Information System Department

Compensation of Directors/Executive Officers

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

Paid to		**Amount**
Luis F. Sison	President	
Janice Day E. Alejandrino	Senior Vice President	
Miriam M. Pasetes	Vice President	
Yolanda C. Mortel	Vice President	
Vernette U. Paco	Vice President	
All above named officers as a group		**₱ 15.748M**
All other directors and above named officers as group		**₱ 23.217M**

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

FINANCIAL INFORMATION

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

Year End 2012 vs. Year End 2011 (as restated)

Results of Operation:

Revenue. The gross revenue decreased by 27.58% or P44.257 million, from P160.427 million in the year ended December 31, 2011 to P116.17 million in the year ended December 31, 2012. The decrease in revenue was mainly attributable to the decline in construction activities, resulting from the DPWH's (pursuant to its PPP mandate) take over of the Daang Hari SLEX Link Road Project for purposes of bidding it out.

Costs and Expenses. Costs and Expenses decreased by 100% equivalent to the December 31, 2011 figure of P46.833 million. The decrease was in direct relationship to the decline in the Company's revenue from the construction activities.

Gross Margin. The positive margin of P116.17 million for the year ended December 31, 2012 is higher by 2.26% or P2.576 million compared to the December 31, 2011 figure of P113.594 million. This was likewise in direct relationship to the decrease in construction income and costs/expenses during the year as mentioned above.

General and Administrative Overhead. This account decreased by 73.49% or P257.422 million from P350.273 million in the year ended December 31, 2011 to P92.851 million in the year ended December 31, 2012, due to the Company's continuing effort to cut down on costs and expenses.

Income (Loss) from Operation. Income from operation for the year ended December 31, 2012 amounted to P23.319 million, higher by P259.998 million compared to the December 31, 2011 loss from operation of P236.679 million. The favorable variance was due to reduction in general and administrative overhead as discussed above.

Other Income (Charges). Other income decreased by 21.77% or P6.525 million from P29.963 million in the year ended December 31, 2011 to P23.438 million in the year ended December 31, 2012, primarily due to minimal interests earned on bank deposits and money market placements.

Net Income (Loss). Net loss decreased by 54.2% or P250.057 from of P461.303 million in the year ended December 31, 2011 to P211.246 million in the year ended December 31, 2012. The decrease in net loss was due to the reasons mentioned above.

Financial Condition:

Current Assets. Total current assets as of December 31, 2012 amounted to P898.322 million, lower by 3.86% or P36.115 million compared to P934.437 million as of December 31, 2011. The decrease in current assets was the resulting effect of the decrease in cash and cash equivalents used in operating/investing activities, net of the increase in the receivable account due to the recognition of revenue share during the period.

Other Assets. The account increased by 62.84% or P73.839 million from P117.508 million as of December 31, 2011 to P191. 347 million as of December 31, 2012 primarily due to the guarantee/collateral for the labor bond in favor of Investors Assurance Corporation.

Current Liabilities. The account amounted to P8.582 billion as of December 31, 2012, higher by 1.64 % or P138.829 million compared to P8.443 billion as of December 31, 2011. This was due to the recognition of additional debt to TRB resulting from the reconciliation of account and accrual of the 2% penalty charges on unpaid concession fee, net of settlement of CMMTC loans via offsetting against the revenue share.

Long-term Debt. The account decreased by 0.89% or P24.325 million from P2.725 billion as of December 31, 2011 to P2.701 billion as of December 31, 2012 mainly attributable to the application of advance rental against monthly rental billing.

Capital Deficiency. The account balance as of December 31, 2012 totaled P1.525 billion, 5.89% or P84.961 million higher compared to the December 31, 2011 balance of P1.44 billion. The decrease was mainly due to the incurrence of net loss in 2012 and correction of prior year error.

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

Performance Indicators	As of 12/31/12	12/31/11 (As restated)	Explanation
Current/Liquity Ratios:			
Current Ratio (Current Assets Divided by Current Liabilities)	0.105	0.111	Evaluates the ability of the company to pay its current debt promptly. Current ratio as of December 31, 2012 decreased from that of December 31, 2011 due to the increase in the liability to NG resulting from the year-end reconciliation of accounts.
Solvency Ratios:			
Debt to Assets (Total Liabilities Divided by Total Assets)	1.156	1.148	Shows what percentage of the business in not owned by the stockholders. Determines how much of the company is financed by debts. The ratio increased due to the increase in total liabilities brought about by the recognition of additional liabilites toNG/TRB as discussed above.
Debt to Equity (Total Liabilities Divided by Total Equity)	-7.398	-7.755	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 the stockholders of the business. The ratio improved due to the increase in total liabilities brought about by the recognition of additional liabilites toNG/TRB as discussed above.
Asset to Equity Ratio (Total Assets Divided byTotal Equity)	-6.398	-6.755	Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts.
Interest Rate Coverage Ratio (Income Before Interest/Penalty Divided by Interest Expense/Penalty Charges)	0.090	-0.930	Determines how easily a company can pay interest on outstanding debt. The ratio improved in year 2012 due to the recognition of income from operation as a result of the cost reduction measures implemented by the company.
Profitability Ratios:			
Return on Assets (Net Income (Loss) Divided by Total Assets)	-2.165%	-4.742%	Measures the Company's earnings in relation to all the resources it had at its disposal. The ratio improved due to a lower net loss incurred/reported for the year ended December 31, 2012 compared with that of December 31, 2011.
Return on Equity (Net Income (Loss) Divided by Total Equity)	-13.851%	-32.032%	Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital. The ratio improved due to a lower net loss incurred/reported for the year ended December 31, 2012 compared with that of December 31, 2011.

(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 consist 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 PNCC before the National Labor Relation Commission (NLRC).

i.c 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).

i.d Pending assessments on deficiency taxes. Discussion is contained under Note 27 of the 2012 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

To address the above concerns, PNCC 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 2012 was significantly generated by its10% revenue share from Joint Venture Companies and augmented to some extent by its earnings from the leased FCA property.

Earlier, the PNCC Board approved the settlement of the obligation to the National Government by way of dacion en pago, using the real estate assets of PNCC notably the 12.9 hectare Financial Center Area. The property was valued at P7.43 billion by the Land Bank of the Philippines in the appraisal conducted from November to December 2011. In the latter months of 2012, 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. A letter touching on major issues on PNCC, including this matter among others, was sent to DOF in October 2012.

PNCC still 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 Stages 2 and 3 and the completion and commercial operation thereof, are projected to generate incremental revenues for PNCC 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.

(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 and the settlement of its recognized debts to the NG.

(iii) There are no material off-balance sheet transactions and 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 PNCC's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

(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 2012 compared to December 31, 2011 (increase/decrease of 5% or more)**

Cash and cash equivalents decreased by P84.589 million or 75.31% from P112.315 million as of December 31, 2011 to P27.726 million as of December 31, 2012 due to payment of payroll and related accounts and payments made to suppliers of goods and services .

Advances and other receivables increased by P45.223 million or 7.89% from P573.036 million as of December 31, 2011 to P618.259 million as of December 31, 2012 to due to accommodations made to DISC, a subsidiary, net of collections from tenants and joint venture companies.

Inventories decreased by P2.814 million or 30.2% from P9.319 million as of December 31, 2011 to P6.505 million as of December 31, 2012 due to the disposal of inventories and issuances of office supplies, medical supplies (medicine), and common supplies and hardware materials for repair and maintenance.

Prepayments decreased by P5.646 million or 25.95% from P21.761 million as of December 31, 2011 to P16.115 million as of December 31, 2012 due to the application of creditable withholding taxes against pertinent tax liabilities.

Other assets increased by P73.839 million or 62.84% from P117.508 million as of December 31, 2011 to P191.347 million as of December 31, 2012 due to the posting of guarantee/collateral bond in favor of a bonding Company in connection with a labor case filed against the Company.

Accounts payable and accrued expenses decreased by P175.909 million or 91.85% from P191.513 million as of December 31, 2012 to P15.604 million as of December 31, 2012 due to the settlement of the liability to CMMTC and payments made to the suppliers of goods and services.

Deferred rental income/others decreased by P23.635 million or 10.09% from P234.278 million as of December 31, 2011 to P210.643 million as of December 31, 2012 due to the application of the tenants' advance rental/deposits against their respective monthly rental.

Material changes to the Company's Statement of Income for the year ended December 31, 2012 compared to the year ended December 31, 2011 (increase/decrease of 5% or more)

Rental income increased by P14.993 million or 56.13% from P26.709 million as of December 31, 2011 to P41.702 million as of December 31, 2012 due to contracts entered into with new tenants in the leased FCA property.

Construction income decreased by P60.092 million or 100% due to the DPWH's take over of the Daang Hari Project, pursuant to its PPP mandate.

Construction costs and expenses decreased by P46.833 or 100%, which decrease was in direct relationship to the decrease in the construction income discussed above.

General and administrative overhead decreased by P257.422 million or 73.49% from P350.273 million as of December 31, 2011 to P92.851 million as of December 31, 2012 due to the implementation of the Company's Cost Reduction Program resulting to reduction in the Company's employee costs and operating expenses. Except for depreciation, there are no non-cash items (provisions and allowances for losses) taken up in the books in 2012.

Other income (charges) decreased by P6.525 million or 21.77% from P29.963 million as of December 31, 2011 to P23.438 million as of December 31, 2012 mainly due to the minimal interests earned on savings and placements in 2012.

Year End 2011 vs. Year End 2010 (as restated)

Results of Operation:

Revenue. Revenue for the year ended December 31, 2011 stood at P160.427 million, lower by 45.76% or P135.366 million compared to P295.793 million as of December 31, 2010. The decrease in revenue was mainly attributable to the decline in construction activities, resulting from the DPWH's (pursuant to its PPP mandate) take over of the Daang Hari SLEX Link Road Project for purposes of bidding it out.

Costs and Expenses. Costs and expenses decreased by 66.41% or P92.600 million from P139.433 million in the year ended December 31, 2010 to P46.833 million as of December 31, 2011. The variance was in direct relationship to the reduction in the construction revenue.

Gross Margin. Gross margin decreased by 27.35% or P42.766 million from P156.36 million for the year ended December 31, 2010 to P113.594 million for the year ended December 31, 2011 due to the reason discussed above.

General and Administrative Overhead. Overhead account decreased by 47.07% or P311.593 million from P661.866 million in the year ended December 31, 2010 to P350.273 million in the year ended December 31, 2011 due mainly to the aggressive implementation of the Company's Retrenchment Program and adoption of cost cutting measures.

Loss from Operation. Loss from operation for the year ended December 31, 2011 stood at P236.679 million, lower by 53.17% or P268.827 million compared to the December 31, 2010 figure of P505.506 million. Said favorable variance was the resulting effect of the reasons discussed above.

Other Income (Charges). This account posted a negative balance of P219.115 million in the year ended December 31, 2011 compared to the positive amount of P781.335 million in the year ended December 31, 2010. This was mainly due to the recognition of toll related income and gain on changes in fair value of investment property account in 2010.

Interest and Financing Charges. Interest and financing charges decreased by 76.35% or P17.786 million from P23.295 million in the year ended December 31, 2010 to P5.509 million in the year ended December 31, 2011 primarily due to the prepayment of PNB loan on July 05, 2010.

Net Income (Loss). Net loss for the year ended December 31, 2011 amounted to P461.303 million compared to the net income of P252.534 million for the year ended December 31, 2010. The reduction in net income was due to the reasons discussed above.

Financial Condition:

Current Assets. Current assets decreased by 45.91% or P878.621 million from P1.913 billion as of December 31, 2010 to P1.035 billion as of December 31, 2011 mainly due to the collection of receivables from Joint Venture Company and the provision of allowance for doubtful accounts.

Deferred Charges and Other Assets. The account increased by 6.12% or P0.992 million from P16.188 million as of December 31, 2010 to P17.18 million as of December 31, 2011 mainly due to the set-up of Deferred Charges-MCIT.

Current Liabilities. Current liabilities decreased by 6.09% or P548.043 million from P8.991 billion as of December 31, 2010 to P8.443 billion as of December 31, 2011 mainly due to the payment of separation pay to affected employees and the settlement of CMMTC loan via offset against revenue share

Noncurrent Liabilities. Noncurrent liabilities increased by 37% or P16.317 million from P44.092 million as of December 31, 2010 to P60.109 million as of December 31, 2011 due to advance rental/deposits received from the tenant in leased FCA property.

Stockholders' Equity. The account balance as of December 31, 2011 totaled P1.225 billion, 22.24% or P350.417 million lower compared to the December 31, 2010 balance of P1.575 billion. The decrease was mainly due to the incurrence of net loss in 2011 and prior period adjustments.

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

Performance Indicators	As of 12/31/11	12/31/10 (As restated)	Explanation
Current Ratio (Current Assets / Current Liabilities)	0.123	0.213	The Company's ability to meet its current obligations as they fall due decreased from P0.213 to P1.00 as of December 31, 2010 to P0.123 to P1.00 as of the same period of 2011. This was brought about by the 45.91% decrease in the current assets vis-a vis the 6.09% decrease in the current liabilities.
Quick Ratio (Quick Assets / Current Liabilities)	0.119	0.210	The decrease in the quick ratio or acid test ratio was also due to the reasons stated above.
Total Debt to Total Assets	87.4%	85.2%	The Company's debt to assets ratio showed its inability to repay its maturing obligations, with an 87.4% ratio as of December 31, 2011 and an 85.2% ratio as of the same period last year. The ratios shows what percentage of the business is not owned by the company.
Total Debt to Equity	694.2%	573.5%	The poor total debt to equity ratio of the Company was brought about by its inability to pay maturing obligations. Said ratio shows the proportion of the creditors' capital to the company's total capital.
Asset Turnover (Sales or Revenue / Average Total Assets)	1.6%	2.7%	The very mininal asset turnover of the Company was attributable to the non-maximization of its resources/equipment due to the veering away with the construction business.

(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 The Company has also contingent liabilities with respect to the consolidated complaints filed and instituted by complainants against respondents PNCC and its President for the recovery of their separation pay package differentials. Discussions on these contingent liabilities are contained under Note 32 of the 2011 Audited Financial Statements.

i.c Pending labor cases which consist 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 PNCC before the National Labor Relation Commission (NLRC).

i.d 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).

i.e Pending assessments on deficiency taxes. Discussion is contained under Note 30 of the 2011 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

Having encountered this liquidity concern, PNCC 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 2011 was generated from its Construction operation, 10% revenue share from Joint Venture Companies, and augmented to some extent by its earnings from the leased FCA property.

The PNCC Board approved the settlement of the obligation to the National Government by way of dacion en pago, using the real estate assets of PNCC notably the 12.9 hectare Financial Center Area. The property was valued at P7.43 billion by the Land Bank of the Philippines in the appraisal conducted from November to December 2011.

PNCC still 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 Stages 2 and 3 and the completion and commercial operation thereof, are projected to generate incremental revenues for PNCC 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.

(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 contingent liabilities discussed in Note 32 of the 2011 Audited Financial Statements.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company.

The contingent liabilities discussed in Item i.b and Note 32 of the 2011 AuditednFinancial Statements.

(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 PNCC's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

(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 2011 compared to December 31, 2010 (increase/decrease of 5% or more)**

Cash and cash equivalents decreased by P165.261 million or 43.73% from P377.903 million as of December 31, 2010 to P212.642 million as of December 31, 2011 due to payment of retrenchment pay of separated employees, payments to suppliers of goods and services, and minimal collection of revenue shares.

Advances and other receivables decreased by P698.512 million or 54.93% from P1.272 billion as of December 31, 2010 to P573.036 million as of December 31, 2011 due to the collection of the revenue share and dividend from MNTC directly remitted to the NG and the additional provision of allowance for doubtful accounts.

Receivables from contracts decreased by P19.691 million or 8.28% from P237.697 million as of December 31, 2010 to P218.006 million as of December 31, 2011, which decrease was the resulting effect of the over accrual of the Daang Hari SLEX Linkroad Project accomplishments against the actual amount billed.

Inventories decreased by P1.078 million or 10.37% from P10.397 million as of December 31, 2010 to P9.319 million as of December 31, 2011 due to the disposal of scrap materials/supplies.

Prepayments increased by P5.922 million or 37.39% from P15.839 million as of December 31, 2010 to P21.761 million as of December 31, 2011 due to the increase in creditable withholding taxes.

Investments in available for sale securities decreased by P0.722 million or 25.82% from P2.796 million as of December 31, 2010 to P2.074 million as of December 31, 2011 mainly attributable to the disposition of club shares and additional market adjustment-available for sale securities

Deferred charges and other assets increased by P0.992 million or 6.13% from P16.188 million as of December 31, 2010 to P17.18 million as of December 31, 2011 due to payment of income tax due computed under the 2% MCIT.

Accounts payable decreased by P176.141 million or 52.84% from P333.376 million as of

December 31, 2010 to P157.235 million as of December 31, 2011 due to the payment of the liability to CMMTC via offsetting against revenue share from the Joint Venture Company's gross toll revenue.

Accrued costs and other payable decreased by P288.55 million or 89.38% from P322.828 million as of December 31, 2010 to P34.278 million as of December 31, 2011 due to the payment of retrenchment/separation pay of the Company's various employees.

Deferred rental income/others increased by P16.017 million or 36.33% from P44.092 million as of December 31, 2010 to P60.109 million as of December 31, 2011 due to advance rental/deposits from the new tenants in the leased FCA property in Pasay.

Stockholder's equity decreased by P350.417 million or 22.24% from P1.575 billion as of December 31, 2010 to P1.225 billion as of December 31, 2011 due to the losses incurred in 2011.

Material changes to the Company's Statement of Income for the year ended December 31, 2011 compared to the year ended December 31, 2010 (increase/decrease of 5% or more)

Income from joint venture companies decreased by P5.172 million or 6.56% from P78.798 million as of December 31, 2010 to P73.626 million as of December 31, 2011 due to the decrease in the revenue share in SLTC and in the dividend from MNTC and TMC.

Construction income decreased by P137.24 million or 69.55% from P197.332 million as of December 31, 2010 to P60.092 million as of December 31, 2011 due to the decline in construction activities attributable to the DPWH's take over of the Daang Hari Project.

Rental income increased by P7.046 million or 35.83% from P19.663 million as of December 31, 2010 to P26.709 million as of December 31, 2011 due to contracts entered into with new tenants in the leased FCA property.

Construction costs and expenses decreased by P92.61 million or 66.41% from P139.433 million as of December 31, 2010 to P46.833 million as of December 31, 2011, which decrease was in direct relationship to the decrease in the construction income discussed above.

General and administrative overhead decreased by P311.593 million or 47.08% from P661.866 million as of December 31, 2010 to P350.273 million as of December 31, 2011 due to the implementation of the Company's Cost Reduction Program and the additional provision of allowance for doubtful accounts.

Other income (charges) decreased by P1 billion or 128.04% from a positive amount of P781.553 million as of December 31, 2010 to a negative amount of P219.115 million as of December 31, 2011 primarily due to the recognition of gain on changes in fair value of investment property of P846.226 million in 2010 vis-à-vis P25.082 million in 2011 and the recognition of miscellaneous income of P159.544 million in 2010 compared with P2.774 million in 2011.

Interest and financing charges decreased by P17.786 million or 76.35% from P23.295 million as of December 31, 2010 to P5.509 million as of December 31, 2011 due to the prepayment of PNB loan on July 05, 2010.

Year End 2010 vs. Year End 2009 (as restated)

Results of Operation:

Revenue. Revenue for the year ended December 31, 2010 amounted to P197.332 million, up by P163.701 million vis-à-vis the P33.631 million for the year ended December 31, 2009. The increase in revenue was due to the on-going advance works in the Daang Hari-SLEX Linkroad Project (DHSLRP). The Company is designated as Main Turnkey Contractor responsible for undertaking the advance works and for the design and the construction of the Road Project, which consists of a toll road facility connecting Daang Hari Road in Cavite to the SLEX near Susana Heights Interchange.

Costs and Expenses. This account increased by 683.09% or P121.638 million from P17.806 million in the year ended December 31, 2009 to P139.433 million in the year ended December 31, 2010. The increase was in direct relationship to the increase in construction income as discussed above.

Gross Margin. Gross margin increased by 265.87% or P42.073 million from P15.825 million in the year ended December 31, 2009 to P57.898 million in the year ended December 31, 2010 due also to the reason discussed above.

General and Administrative Overhead. This account increased by 1325.19% or P274.599 million from P20.722 million for the year ended December 31, 2009 to P295.321 million for the year ended December 31, 2010. The significant increase in the overhead account was due to the provision of impairment loss on investment, provision of allowance for doubtful accounts, and loss on inventory write-down.

Income (Loss) from Operation. For the year ended December 31, 2010, the Company incurred a net loss from operation of P237.423 million posting a 4,749.16% increase from last year's net loss of P4.896 million. This was due to the direct effect of the increases in the costs and expenses and the general and administrative overhead accounts, as discussed above.

Other Income (Charges). This account posted a negative balance of P45.879 million representing 24.07% of last year's negative amount of P190.553 million. The favorable variance was due to the recognition/realization of other toll related income from South Luzon Tollway Corporation (SLTC), joint venture Company of PNCC.

Interest and Financing Charges. Interest accruing from the PNB loan totalled P23.295 million for the year ended December 31, 2010. This resulted to a decrease of P20.542 million when compared to last year's amount of P43.837 million, attributable to the prepayment of PNB loan on July 05, 2010.

Net Loss. The Corporation posted a net loss of P306.597 million compared to last year's net loss P239.286 million. The increase/unfavourable variance in the account was due to the reasons discussed above.

Financial Condition:

Current Assets. The Corporation's current assets as of December 31, 2010 totalled P1.938 billion vis-à-vis December 31, 2009 balance of P2.258 billion, lower by P319.843 million or14.16

%. The reduction in current assets was mainly due to the decrease in cash and cash equivalents brought about by the implementation of the Company's on-going Retrenchment Program and the corresponding payments thereof to the affected officers and employees.

Investments. The decrease of P1.588 billion was mainly due to the provision of impairment loss on investments in inactive and non-operating subsidiaries and affiliates and the de-recognition of investments in joint venture companies, pursuant to the Supreme Court En Banc decision in the Francisco case.

Property, Plant, and Equipment. The increase of P133.844 million representing 16.36% compared to the last year's balance of P818.017 billion was mainly due to the recognition of the appraisal increase in the books, which appraisal was conducted in 2010.

Deferred Charges. The account decreased by P54.606 million or 78.93% of last year's balance of P69.178 million, due mainly to the application of the Minimum Corporate Income Tax (MCIT) as tax credit against the Regular Corporate Income Tax (RCIT).

Current Portion of Long-term Debt. The amount stood at P8.146 billion as of December 31, 2010, increased by P455.741 million compared to P7.691 billion as of December 31, 2009. The increase was mainly due to the accrual of the 2% penalty charges on unpaid concession fees payable to TRB.

Long-term Debt. The account decreased by P289.583 million which was brought about by the prepayment of PNB loan on July 05, 2010.

Stockholders' Equity. Stockholders' equity decreased from P3.605 million in 2009 to P1.611 billion in 2010 due mainly to incurrence of losses and the de-recognition/reversal of tollways and related revenues, pursuant to the Supreme Court decision in the Francisco case.

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

Performance Indicators	As of 12/31/10	As of 12/31/09	Explanation
Current Ratio (Current Assets / Current Liabilities)	0.238	0.294	The Company's ability to meet its current obligations as they fall due decreased from P0.294 to P1.00 as of December 31, 2009 to P0.238 to P1.00 as of the same period of 2010. This was brought about by the 14.16% decrease in the current assets vis-a vis the 5.92% decrease in the current liabilities.
Quick Ratio (Quick Assets / Current Liabilities)	0.235	0.289	The decrease in the quick ratio or acid test ratio was also due to the reasons stated above.
Total Debt to Total Assets	83.6%	69.0%	The Company's debt to assets ratio showed its inability to repay its maturing obligations, with an 83.6% ratio as of December 31, 2010 and a 69% ratio as of the same period last year. The ratio shows what percentage of the business is not owned by the stockholders.
Total Debt to Equity	508.4%	222.6%	The poor total debt to equity ratio of the Company was brought about by its inability to pay maturing obligations. Said ratio shows the proportion of the creditors' capital to the company's total capital.
Asset Turnover (Sales or Revenue / Average Total Assets)	1.8%	0.3%	The very mininal asset turnover of the Company was attributable to the non-maximization of its resources/equipment due to the veering away with the construction business.

(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 Natonal Government brought about by the difficulties in collecting its receivables from various government agencies.

i.b The Company has also some contingent liabilities with respect to claims and lawsuits, including among others the (a) Asiavest Merchant Bankers (m) Berdad vs. PNCC (involves the enforcement of a foreign judgment) and (b) Radstock Securities Limited vs. PNCC (complaint for sum of money and damages). Discussions on these contingent liabilities are contained under Note 31 of the 2010 Audited Financial Statements.

i.c Pending labor cases which consist 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 PNCC before the National Labor Relation Commission (NLRC).

i.d 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).

i.e Pending assessments on deficiency taxes. Discussion is contained under Note 27 of the 2010 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

Having encountered this liquidity concern, PNCC 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 is generated significantly by its Construction operation in 2010.

In addition, the Company has designed a Corporate Strategic Plan which significantly involves a Financial Restructuring Program/Balance Sheet Clean-Up, which is further discussed in Note 30 of the 2010 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 National Government, and the contingent liabilities discussed in Note 31 of the 2010 Audited Financial Statements.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company.

The contingent liabilities discussed in Item i.b and Note 31 of the 2010 AuditednFinancial Statements.

(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 PNCC's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

(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 2010 compared to December 31, 2009 (increase/decrease of 5% or more)**

Cash and cash equivalents decreased by P718.947 million or 65.55% from P1.097 billion as of December 31, 2009 to P377.903 million as of December 31, 2010 primarily due to payment of retrenchment pay of separated employees, prepayment of PNB loans and interests, and payment of income tax.

Advances and other receivables increased by P414.988 million or 47% from P881.854 million as of December 31, 2009 to P1.297 billion as of December 31, 2010 due to the revenues recognized during the year.

Inventories decreased by P15.996 million or 60.61% from P26.393 million as of December 31, 2009 to P10.397 million as of December 31, 2010 primarily due to the provision of allowance for inventory write down for non-moving/obsolete spare parts and supplies and to the disposal of scrap materials/supplies.

Investments decreased by P1.588 billion or 85.63% from P1.854 billion as of December 31 2009 to P266.504 million as of December 31, 2010 mainly attributable to the provision of 100% impairment loss for investments in inactive and non-operating subsidiaries and affiliates and the derecognition of investment in Joint Venture Companies resulting to the turn-over of the pertinent stock certificates to the NG/DOF in compliance with the Deed of Transfer.

Property and equipment increased by P133.844 million or 16.36% from P818.017 million to P951.861 million due to the recognition of the appraisal increase in the books, which appraisal was conducted in 2010.

Deferred charges and other assets decreased by P54.606 million from P69.178 million as of December 31, 2009 to P14.572 million as of December 31, 2010 due to the application of the Minimum Corporate Income Tax (MCIT) as tax credits against the Regular Corporate Income Tax (RCIT).

Accounts payable increased by P75.864 million or 29.65% from P255.896 million as of December 31, 2009 to P331.76 million as of December 31, 2010 due to the recognition of additional liability to CMMTC representing cost of toll plaza refurbishment and transcore equipment.

Accrued costs and other payable decreased by P287.090 million or 47.07% from P609.913 million as of December 31, 2009 to P322.828 million as of December 31, 2010 due to the payment of retrenchment pay to separated employees.

Due to National Government and its Instrumentalities increased by P666.963 million or 11.86% from P5.622 billion as of December 31, 2009 to P6.289 billion as of December 31, 2010 due to the accrual of the 2% penalty charges on unpaid concession fee and the initial recognition of the Government share in the SLEX operation, pending finalization of the implementing rules and guidelines relative to the determination of net income remittable by PNCC to the NG.

Loans payable decreased by P289.583 million or 100% due to the prepayment of the PNB loan on July 05, 2010.

Stockholder's equity decreased by P1.994 billion or 55.31% from P3.605 billion as of December 31, 2009 to P1.611 billion as of December 31, 2010 due to the incurrence of losses and the derecognition/reversal of tollways and related revenues, in pursuant to the Supreme Court Decision in the Francisco case.

Material changes to the Company's Statement of Income for the year ended December 31, 2010 compared to the year ended December31, 2009 (increase/decrease of 5% or more)

Tollways and related revenues decreased by P510.381 million or 40.91% from P1.248 billion as of December 31, 2009 to P737.228 million as of December 31, 2010 due to the non-recognition of toll fee after the hand over of the SLEX operations to the new operator on May 02, 2010.

Construction income increased by P163.701 million or 486.76% from P33.631 million as of December 31, 2009 to P197.332 million as of December 31, 2010 due to the on-going advance works in the Daang Hari SLEX Linkroad Project.

Construction costs and expenses increased by P121.637 million or 683.09% from P17.806 million as of December 31, 2009 to P139.433 million as of December 31, 2010, which increase was in direct relationship to the increase in the construction income discussed above.

General and administrative overhead increased by P274.599 million or 1,325.19% from P20.722 million as of December 31, 2009 to P295.321 million as of December 31, 2010 due significantly to the provisions of (i) impairment loss on investments, (ii) allowance for doubtful accounts, and (iii) allowance for inventory write down.

Other charges-net decreased by P144.703 million or 75.93% from P190.553 million as of December 31, 2009 to P45.88 million as of December 31, 2010 due to the recognition/realization of other toll related income from SLTC, Joint Venture of the Company in 2010.

Interest and financing charges decreased by P20.542 million or 46.86% from P43.873 million as of December 31, 2009 to P23.295 million as of December 31, 2010 due to the prepayment of PNB loan on July 05, 2010.

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

STATEMENT OF MANAGEMENT RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Management of Philippine National Construction Corporation is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and the implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submit the same to the stockholders or members.

The Commission on Audit (COA), the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed opinion on the fairness of presentation upon completion of such examination.

JOSE VICENTE C. BENGZON III	**LUIS F. SISON**	**MIRIAM M. PASETES**
Acting Chairman of the Board	President	Acting Treasurer

SUBSCRIBED AND SWORN to before me this JUN 03 2013 day of April, 2013 affiants exhibiting to me their tax identifications, as follows:

Names	Tax Identification No.
Jose Vicente C. Bengzon III	137-980-909
Luis F. Sison	101-537-966
Miriam M. Pasetes	120-678-424

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Page No. 38
Book No. 12
Series of 2013

ATTY. REYNAN G. RETAZO
NOTARY PUBLIC FOR MUNTINLUPA CITY
APPT. NO. NC 13-021, UNTIL DECEMBER 31, 2014
MERALD II BLD., MONTILLANO ST., ALABANG, MUNTK.
PTR. NO. 1214533/ 01-02-13/ MUNT. CITY
IBP NO. 909324/ 12-14-12/ PPLM
MCLE COMPLIANCE NO. III 0007350
TEL NO. 994-0939/ retazolawoffices@yahoo.com

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 the Philippine National Construction Corporation (PNCC), which comprise the statements of financial position as at December 31, 2012 and 2011, 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 notes.

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 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.

Basis for Adverse Opinion

PNCC is required under Securities and Exchange Commission (SEC) Rule 68 to use the Philippine Financial Reporting Standards (PFRSs) as its financial reporting framework. PFRS 1 *First-time Adoption of Philippine Financial Reporting Standards* sets out the procedures that an entity must follow when it adopts PFRSs for the first time as the basis for preparing its financial statements. In general, the standard requires an entity to comply with each PFRS effective at the reporting date for its first PFRS-based financial statements. PFRS 1 also requires an entity to make disclosures that explain how the transition from previous Generally Accepted Accounting Principles (GAAP) to PFRSs affected the entity's reported financial position, financial performance and cash flows. There is no evidence to show that PNCC, as first-time adopter of PFRSs, performed the procedures set out in PFRS 1 to transition from previous GAAP to PFRSs. Neither has it provided the required disclosures to explain how the transition from previous GAAP to PFRSs affected the financial statements. These matters negate the assertion in Note 3.2 to the financial statements that the financial statements referred to above have been prepared in compliance with PFRSs.

In 1983, Letter of Instruction (LOI) No.1295 was issued directing the conversion into equity of all debts of PNCC to all Government Financial Institutions (GFIs). Due to the Single Borrower's Limit imposed by the Central Bank of the Philippines, the said directive was not fully complied with. The remaining unconverted debts which amounted to P5.552 billion, inclusive of the advances made by the Bureau of the Treasury in servicing these debts, were eventually transferred to the National Government (NG), thru the Asset Privatization Trust, now Privatization Management Office (PMO), pursuant to Proclamation No. 50 issued in 1986. PNCC derecognized from its books the unconverted debts and treated them instead as part of equity under the account "Equity Adjustment- Under Rehabilitation Plan – Loans Transferred to NG" believing that the same should effectively be equity and, therefore, should no longer bear interest and charges. The NG, however, did not consider the PNCC unconverted debts as having been effectively converted to equity. Rather, it treated the unconverted debts as liabilities of PNCC to the NG subject to applicable interests and charges. Because of conflicting positions, the PNCC and the PMO submitted the issue to the Department of Justice on June 21, 2012 for arbitration.

Relative to the above-mentioned conversion, as of December 31, 2012, PNCC has remaining unissued authorized capital stock of P433.916 million which is insufficient to absorb the unconverted debts of P5.552 billion, exclusive of the interests and charges thereon of P48.666 billion. As of even date, PNCC has neither filed an application for the approval of increase of its authorized capital stock with the SEC nor has the PNCC Board of Directors and stockholders approved any proposal for such an increase. Under SEC Financial Reporting Bulletin (FRB) 006, these elements must be met as of reporting date in order for deposits for future subscriptions, or in the case of PNCC, debts subject of the debt to equity conversion, maybe treated as part of equity. SEC FRB 006 was issued in relation to the definition of an equity instrument under Philippine Accounting Standards 32 and the requirements for the increase in authorized capital stock under Section 36 of the Corporation Code of the Philippines.

The recognition of the P5.552 billion unconverted debts as part of equity and the non-recognition of interests and charges thereon of P48.666 billion and P48.474 billion as of December 31, 2012 and 2011, respectively, resulted in the understatement of total liabilities by P54.218 billion and P54.026 billion, understatement of accumulated deficit by P48.666 billion and P48.474 billion and understatement of capital deficiency by P54.218 billion and P54.026 billion as of December 31, 2012 and 2011, respectively.

PNCC reported a capital deficiency of P1.525 billion and P1.440 billion as of December 31, 2012 and 2011, respectively, (exclusive of the understatement of P54.218 billion and P54.026 billion as of December 31, 2012 and 2011, respectively, mentioned in the preceding paragraph), due to accumulated operating losses. With the expiration of its franchise in 2007, PNCC revenues are derived mainly from the 10% of the National Government revenues and dividends from the Joint Venture Companies operating the tollways and from rental of its property at the Financial Center Area in Pasay City. Non-disclosure of these matters which raise issues on the Company's going concern status, together with the concrete plan to address the same, is not in compliance with the requirement of Philippine Accounting Standards 1 *Presentation of Financial Statements.*

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the PNCC as at December 31, 2012 and 2011, 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 27, 28 and 29 to the financial statements which discuss the Bureau of Internal Revenue assessments on PNCC's deficiencies in various taxes, the status concerning the privatization/divestment of the NG shares in PNCC and the uncertainty related 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 paragraphs, it is inappropriate to and we do not express an opinion on the information referred to above.

Report on the Supplementary Information Required Under 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 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such information is the responsibility of management. Because of the significance of the matters described in the Basis for Adverse Opinion paragraphs, it is inappropriate to and we do not express an opinion on the information referred to above.

COMMISSION ON AUDIT

By:

FELISA M. DALOPE
Supervising Auditor

April 29, 2013

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011
(In Philippine Peso)

	Notes	2012	2011 (as restated)
ASSETS			
Current Assets			
Cash and cash equivalents	4	**27,726,135**	112,314,626
Advances and other receivables, net	3.4, 5	**618,259,138**	573,035,951
Receivables from contracts, net	3.4, 6	**229,716,761**	218,005,728
Other current assets	3.5, 3.6, 7	**22,620,410**	31,080,412
		898,322,444	934,436,717
Non-Current Assets			
Investments	3.7, 8	**261,969,252**	261,956,541
Investment property	3.8, 9	**7,848,246,000**	7,848,246,000
Property and equipment, net	3.9, 10	**557,769,599**	565,964,584
Other assets, net	11	**191,346,982**	117,507,694
		8,859,331,833	8,793,674,819
TOTAL ASSETS		**9,757,654,277**	9,728,111,536
LIABILITIES, NET OF CAPITAL DEFICIENCY			
Current Liabilities			
Accounts payable and accrued expenses	12	**15,604,414**	191,513,433
Due to national government and its instrumentalities	13	**7,363,292,916**	7,048,554,416
Due to government-owned or controlled corporations	14	**1,203,000,000**	1,203,000,000
		8,581,897,330	8,443,067,849
Non-Current Liabilities			
Deferred rental income/others	15	**210,643,097**	234,277,877
Deferred tax liabilities	25	**2,490,191,159**	2,490,881,795
		2,700,834,256	2,725,159,672
Capital Deficiency		**(1,525,077,309)**	(1,440,115,985)
TOTAL LIABILITIES, NET OF CAPITAL DEFICIENCY		**9,757,654,277**	9,728,111,536

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2012 and 2011
(In Philippine Peso)

	Notes	2012	2011
REVENUES			
Revenue share from Joint Venture Companies	3.3, 19	**74,468,247**	73,625,613
Rental income	3.3, 20	**41,701,611**	26,708,884
Construction income	3.3, 21	-	60,092,377
		116,169,858	160,426,874
COSTS AND EXPENSES			
Construction costs and expenses	22	-	46,832,537
		-	46,832,537
GROSS MARGIN		**116,169,858**	113,594,337
GENERAL AND ADMINISTRATIVE OVERHEAD	23	**(92,851,314)**	(350,272,857)
PROFIT (LOSS) FROM OPERATION		**23,318,544**	(236,678,520)
PENALTY CHARGES ON UNPAID CONCESSION FEE	13	**(258,002,200)**	(254,587,400)
OTHER INCOME, net	24	**23,438,176**	29,963,376
NET LOSS		**(211,245,480)**	(461,302,544)

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2012 and 2011
(In Philippine Peso)

	Notes	2012	2011 (as restated)
CAPITAL STOCK			
Issued/subscribed	16	**2,283,758,120**	2,283,758,120
Subscription receivable	17	**(56,158,831)**	(56,158,831)
		2,227,599,289	2,227,599,289
Capital in excess of par value		**46,137,443**	46,137,443
Treasury stock		**(16,699,918)**	(16,699,918)
		2,257,036,814	2,257,036,814
REVALUATION INCREMENT IN PROPERTY	3.10		
Balance at beginning of the year		**367,825,931**	381,003,510
Realization of revaluation surplus		**(1,611,485)**	(13,177,579)
Balance at end of the year		**366,214,446**	367,825,931
EQUITY ADJUSTMENTS			
Under rehabilitation plan-loans transferred to National Government	18	**5,551,726,307**	5,551,726,307
DEFICIT			
Balance at beginning of year		**(9,616,705,037)**	(6,777,702,440)
Correction of prior years' earnings	31	**127,895,641**	(2,377,700,053)
Balance at beginning of year, as adjusted		**(9,488,809,396)**	(9,155,402,493)
Net loss		**(211,245,480)**	(461,302,544)
Balance at end of the year		**(9,700,054,876)**	(9,616,705,037)
CAPITAL DEFICIENCY		**(1,525,077,309)**	(1,440,115,985)

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011
(In Philippine Peso)

	Notes	2012	2011 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Revenue share		**67,008,887**	8,013,943
Rental		**58,317,273**	75,547,408
Others		**14,307,675**	100,459,133
		139,633,835	184,020,484
Cash paid to suppliers, employees, and directors		**(177,367,926)**	(361,457,073)
Cash used in operations		**(37,734,091)**	(177,436,589)
Penalties paid		**(113,400)**	-
Net cash used in operating activities		**(37,847,491)**	(177,436,589)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		**(25,137)**	(570,003)
Proceeds from sale of fixed assets/scrap materials		**14,395,416**	11,259,675
Interests received		**1,028,258**	6,709,113
Dividends received		**28,860,463**	289,465
Others		**(91,000,000)**	(100,327,360)
Net cash used in investing activities		**(46,741,000)**	(82,639,110)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of financing charges		-	(5,512,925)
Net cash used in financing activities		-	(5,512,925)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(84,588,491)**	(265,588,624)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**112,314,626**	377,903,250
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**27,726,135**	112,314,626

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 fifty (50) years. Its Articles of Incorporation was 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, in 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 April 30, 2007. PD 1113 was amended by PD 1894 in 1983 to include, among others, the Metro Manila Expressway to serve as an additional artery in the transportation of trade and commerce in Metro Manila Area and gave PNCC another period of 30 years "from the completion of the project."

In 1981, compelled by financial considerations and in order to strengthen the financial structure of the Company, Letter of Instruction (LOI) 1136 was issued mandating the National Development Company (NDC) to invest in the Company for fresh capital infusion by means of subscription to the Company's shares of stock of P250 million.

In 1983, LOI 1295 was promulgated to further strengthen the Company financially and it provided that all debts by the Company to all government financial institutions be converted to equity. The amount of the debt was around P7 billion. Per Office of the Government Corporate Counsel Opinion No. 127 dated July 03, 2007, this whole amount of debt has effectively been converted to equity by virtue of LOI 1295. However, only P1.4 billion of the debts were issued shares of stocks while the remaining P5.6 billion was left due to Central Bank intervention, raising the issue of Single Borrower's Limit. The accomplished conversion gave the Government a majority shareholding in CDCP and pursuant to this substantial change in ownership, the corporate name was changed from CDCP to Philippine National Construction Corporation (PNCC). The increase in its capital stock was approved by the SEC on December 07, 1983.

Pursuant to the above and by virtue of LOI 1136 and LOI 1295, 55.72% of the Company's equity has been held by the Privatization Management Office (PMO, then APT) which was created on December 08, 1986 by virtue of Proclamation No. 50. The Proclamation also created the Committee on Privatization (COP). The other 21.25% was held by the Government Service Insurance System and the Land Bank of the Philippines with 20.96% and 0.29%, respectively. The remaining 23.03% of the Company's equity is under private ownership.

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 has rather 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 (3) portions, the North Luzon Expressway (NLEX), the Skyway, and the South Luzon Expressway (SLEX). The NLEX JVA was entered into originally with First Philippine Infrastructure Development Corporation (FPIDC) together with Leighton Contractor Asia Ltd. and Egis Project Systems. The operation of the NLEX was officially turned over to the JV Corporation on February 10, 2005. FPIDC has since been acquired by the Pangilinan (MVP) Group and the JV is now known as the Manila North Tollways Corporation (MNTC). PNCC now owns only 2.5% of this Company from an original 20%. The reduction was caused by dilution due to the inability of PNCC to respond to capital calls. The operation and maintenance of the NLEX is conducted by the Tollways Management Corporation (TMC) where PNCC is a 20% shareholder.

For the South Luzon Tollways, PNCC entered into a joint partnership with Indonesia's P.T. Citra Lamtoro Gung Persada to build the elevated toll road or Skyway System from Nichols to Alabang. The at-grade portion from Nichols to Alabang has, likewise, been upgraded under this JV agreement. The Citra Metro Manila Tollways Corporation (CMMTC) is the Joint Venture Company which is the concessionaire, currently running these segments (since 1999). Originally, PNCC Skyway Corporation (PSC) was conducting the operation and maintenance but due to financial losses, PSC turned over the operation to Skyway Operation and Maintenance Corporation (SOMCO).

For the Alabang to Calamba stretch, PNCC currently has a joint venture agreement with the Malaysian Corporation, MTD Manila Expressways, Inc. (MTDME) under the corporate name of South Luzon Tollway Corporation (SLTC), which undertook 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. All projects have been completed. The O&M Company is named Manila Toll Expressway Sytems, Inc. (MATES). PNCC owns 20% of SLTC and 40% of MATES. The operation and ownership of MTDME has since been sold to a Citra/San Miguel holding company based abroad.

Although the original franchise of PNCC expired on April 30, 2007, the Toll Regulatory Board (TRB) issued a Toll Operation Certificate (TOC) dated April 27, 2007 to PNCC for the Operation and Maintenance of the SLEX. The said authority from the TRB, pursuant to its powers under its charter (PD 1112), allowed PNCC 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 01, 2007, but in no case to exceed the date of substantial completion of the SLEX Project Toll Roads under the STOA dated February 01, 2006, or unless sooner revoked by the Board. In 2010, the operation was officially turned over to SLTC and MATES.

In addition to all of the above, a Subscription Agreement was executed by and among the Alabang-Sto. Tomas Development Inc. (ASDI), the National Development Company, and the PNCC on November 14, 2008, wherein PNCC subscribed 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, incorporated to undertake the Daang Hari-SLEX connector road.

On December 15, 2009, a Memorandum of Agreement for the Advance Works on the Daang Hari-SLEX Link Road Project (DHSLRP) was entered by and between the ASDI and PNCC. 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 Daang Hari Road in Cavite to the SLEX near Susana Heights Interchange (the Road Project). The project was 25% complete when the DPWH, pursuant to its PPP mandate took over the project for the purpose of bidding it out. ASDI will be reimbursed of its cost plus a premium.

On April 08, 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 which has since taken over the operation and maintenance of subject toll roads.

Pursuant to the STOA, the operation and maintenance responsibilities for and over the said Project Toll Roads were handed over by PNCC to MATES on May 02, 2010. Although PNCC is entitled to a share in the gross proceeds of the operation of the SLEX and dividends if declared, the Supreme Court, 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 PNCC's percentage share in the toll fees collected by the joint venture companies currently operating the tollways, including NLEX and Skyway.

The impact of the aforesaid Supreme Court decision on the Radstock and Francisco cases issued on October 19, 2010 has been appropriately reflected in the financial statements.

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

The financial statements as of and for the period ended December 31, 2012 was approved and authorized for issue by the Board of Directors on March 05, 2013, subject to the detailed review by COA.

2. GOING CONCERN

The capacity of the Company to continue as a going concern is based on Presidential Decree No. 1894 – Amending the Franchise of the Philippine National Construction Corporation to Construct, Maintain and Operate Toll Facililites in the North Luzon and South Luzon Expressways to Include the Metro Manila Expressway to Serve as an Additional Artery in the Transportation of Trade and Commerce in the Metro Manila Area.

The Company has entered into Joint Venture Partnerships with the following internationally notable engineering companies and other reputable local Companies, under the Build-Operate-Transfer scheme, for the construction, rehabilitation, refurbishment, modernization, and expansion of the existing Expressways.

South Metro Manila Skyway (SMMS) Project

To pursue the Metro Manila Skyway Project, PNCC and P.T. Citra Lamtoro Gung Persada (Citra Group) signed on August 30, 1995 the Business and Joint Venture Agreement. They eventually incorporated the Citra Metro Manila Tollways Corporation (CMMTC), the Joint Venture Corporation, owned to the extent of 80% by the Citra Group and 20% by PNCC.

Citra Group is responsible for the design, construction, and funding of the Project. PNCC, through its wholly-owned subsidiary, the PNCC Skyway Corporation (PSC), is tasked to Operate and Maintain (O & M) the Project upon completion. The Project has a 30-year life which commenced in December 1998 as per the Supplemental Toll Operation Agreement (STOA) of November 27, 1995.

In the Amendment to the Supplemental Toll Operations Agreement (ASTOA) dated July 18, 2007, the parties have agreed among others for the successful and seamless turnover of the O&M responsibilities for the SMMS from PNCC to a new corporation to be known as the Skyway O&M Corporation (NewCo).

In December 2007, a Memorandum of Agreement (MOA) was prepared and entered into by and among CMMTC, PNCC, and PSC for the implementation of the successful and seamless assumption of the O&M responsibilities for the SMMS by the NewCo from PSC. The turn-over took effect at 10:00 PM of December 31, 2007.

North Luzon Expressway (NLEX) Project

The NLEX Project is a collaboration initially between PNCC (20%) and First Philippine Infrastructure Development Corporation (FPIDC) (80%) under the Joint Venture Agreement dated August 29, 1995. The Joint Venture Corporation, Manila North Tollways Corporation (MNTC), was incorporated on February 04, 1997.

Under the STOA signed on April 30, 1998, the NLEX Project has a 30-year life from start of commercial operation on February 10, 2005.

As of November 2008, equity participation in MNTC is: Metro Pacific Tollways Development Corp. (ex FPIDC)-67.1%; PNCC-2.5%; Egis Projects SA of France-13.9%; and Leighton Asia Ltd.-16.5%.

In November 2009, Leighton's 16.5% participation was acquired by Global Fund Holdings, Inc.

South Luzon Expressway (SLEX) Project

The rehabilitation and extension of the South Luzon Tollway has been entered into by the Company through a Joint Venture Agreement (JVA) and subsequently an Amended Joint Venture Agreement (AJVA) with Hopewell Crown Infrastructure, Inc. (HCII). The objective of which is to refurbish the Alabang to Calamba, Laguna segment of the South Luzon

Expressway and extend the same to Lucena City in Quezon Province.

An alternative to the JVA with HCII, if the same does not materialize, PNCC, between 2003 and 2005, held negotiations with the NDC to develop design, construct, finance, operate, and maintain the SLEX Project. The proposed Project involved the rehabilitation of the Alabang Viaduct and the extension of the SLEX from Calamba to Sto. Tomas, Batangas. A JVA was entered into with NDC on October 11, 2004 which should have paved the way for Joint Investment Proposal and STOA.

The option for NDC's financing of the SLEX Project did not materialize as further negotiations with HCII was pursued in the second quarter of 2005.

In consonance with the PNCC-HCII JVA entered into on October 11, 1999, the South Luzon Tollways Corporation (SLTC) was incorporated on July 26, 2000, by PNCC and HCII, as the JV Company that will undertake the rehabilitation, expansion, operation, and maintenance of the SLEX. MTDME has taken over the HCII interest and now holds 80% while PNCC holds 20%.

Relative thereto, PNCC and SLTC executed a Supplemental Toll Operation Agreement (STOA) between and among the RP, through the TRB and the Manila Toll Expressway Systems, Inc. (MATES), the latter being the Operations and Maintenance Company established by PNCC and HCII pursuant to their JVA. Said STOA was approved on February 03, 2006 giving a 30-year life to the project. PNCC holds 40% in MATES.

Considering that the implementation of the Project will affect a wide sector of the Community where the Project will be undertaken, more particularly the local residents, motorists, and informal dwellers, the PNCC and SLTC, as provided for in a Service Agreement entered into by both parties, shall undertake such measures that will effectively minimize the inconvenience caused by the said implementation of the Project, and create in the minds of the public a positive attitude towards the same.

The Project commenced in July 2006 for the rehabilitation and widening of SLEX (Alabang to San Pedro) and in November 2006 for the rehabilitation of the Alabang Viaduct.

PNCC was not involved in the construction and financing activities of the aforesaid projects, but invested as an equity partner in the joint venture and operation and maintenance companies.

As discussed in Note 1, PNCC was issued a TOC dated April 27, 2007 by the TRB for the Operation and Maintenance of the SLEX. On April 27, 2009, however, PNCC received a letter from TRB revoking PNCC's TOC. As such, the Board per Resolution No. BD-004-2009 authorized the President and CEO to cause the preparation of the Memorandum of Appeal with the Office of the President, including any and all legal remedies arising from the revocation of the TOC and was further authorized to sign for and in behalf of the Company, the Verification and Certification of the said Memorandum of Appeal and in any other pleadings requiring said Verification and Certification.

TRB, in its letter of December 03, 2009, informed PNCC that in compliance with the directive issued by the Honorable Executive Secretary, its Board of Directors has caused the issuance of a TOC to MATES for its immediate operation of the existing SLEX, effectively revoking the previous TOC granted to PNCC.

In a letter dated December 11, 2009, TRB reiterated the turning over of the operation and maintenance of the SLEX from PNCC to MATES.

PNCC, through its counsel, Valenton and Danganan Law Offices, filed an instant Memorandum in Support of its Urgent Motion for the issuance of a Temporary Restraining Order before the RTC of Pasig City on December 15, 2009.

As discussed in Note 1, the hand over of the SLEX operation to MATES took effect on May 02, 2010.

Turn-over of equity share in joint venture companies:

In a regular board meeting held on November 14, 2011, PNCC resolved to comply with the mandate of the Supreme Court, as discussed in Note 1, to transfer and turnover the shares of stock in tollway joint venture companies which PNCC is holding in trust for the National Government, 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.

Pursuant to the Supreme Court En Banc Decision, the investments in joint venture companies, as described below, were de-recognized from the books in 2011 as assets and were charged to Stockholders' Equity:

- Subscription to CMMTC's 5,518,862 common shares at P100 or a total amount of P551.886 million. Of the said shareholding of PNCC in CMMTC, 4,328,392 shares or P432.839 million is the subject of a Voting Trust Agreement dated July 16, 1997 with Far East Bank and Trust Company, acting as the then Collateral Agent (now PNB Trust Banking Group), forming part of the collaterals for loans and other credit facilities obtained by CMMTC for the Skyway Project-Stage 1;
- Twenty percent (20%) equity share or P720 million (equivalent to 720 million shares with par value of P1 per share) in the South Luzon Tollway Corporation's (SLTC) P3.6 billion capital stock (from P100 million to P4 billion), in proportion to its existing equity interest.
- Twenty-five percent (25%) subscription on PNCC's 20% equity share in SLTC's initial capitalization of P100 million, equivalent to P5 million.
- Forty percent (40%) equity share or P40 million (divided into 40 million shares with par value of P1 per share) in the Manila Toll Expressway Systems, Inc.'s (MATES) Board-approved increase in authorized capital stock from P50 million to P100 million.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 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.

3.2 Statement of Compliance

The Company's financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

3.3 Revenue Recognition

Pursuant to the Supreme Court 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% of its share from the Joint Venture Companies gross toll revenues, in accordance with the interim guidelines issued by the 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 percentage of completion method basis. Other revenue is recorded on accrual basis.

3.4 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.

3.5 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.

3.6 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.

3.7 Investments

The Company accounted its investments in wholly-owned/controlled subsidiaries and joint ventures at cost. Allowance for impairment losses, however, is provided for investment 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, as discussed in Note 1, 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 ventures is accounted at cost.

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

3.8 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.

3.9 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
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, furnitures 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 their disposal is directly charged or credited in the current operations.

3.10 Revaluation Increment in Property

The increase in the asset'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 surplus is being realized as the asset is used. Realization of the revaluation increment is credited to "Retained Earnings" account.

The surplus realized as of December 31, 2012 and as of December 31, 2011 amounting to P1.611 million and P13.178 million, respectively, were reflected in the financial statements. Piecemeal realization of the revaluation increment is effected on a yearly basis.

3.11 Borrowing Costs

Borrowing costs are expensed as incurred.

3.12 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 statement 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 income 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 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 reporting date.

3.13 Adoption of New and Revised PFRS

The Company adopted new and revised PFRS effective January 1, 2012. These are summarized in the next page.

- 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 derecognised and an entity's continuing involvement in the derecognised 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 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 measured using the revaluation model in PAS 16 should also be measured by determining the recoverability of the non-depreciable assets in a sale transaction.

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

3.14 <u>New and Revised PFRS Not Yet Adopted</u>

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2012 and have not been applied in preparing the financial statements are summarized below:

Effective for annual periods beginning on or after July 1, 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.

Effective for annual periods beginning on or after January 1, 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 1, 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 1, 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.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2012	2011
Cash on hand and in banks	**26,561,403**	111,093,114
Cash equivalents	**740,494**	740,345
Petty cash and revolving fund	**424,238**	481,167
	27,726,135	112,314,626

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

Cash equivalents are short-term investments that are made for varying periods or up to three (3) months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term investment rates.

5. ADVANCES AND OTHER RECEIVABLES

The account consists of the following:

	2012	2011
Accounts receivable-subsidiaries and affiliates	**334,037,312**	244,989,445
Accounts receivable-trade	**57,015,526**	57,015,526
Advances to suppliers	**2,262,163**	2,704,367
Other accounts receivable	**702,554,186**	750,090,843
	1,095,869,187	1,054,800,181
Allowance for doubtful accounts	**(477,610,049)**	(481,764,230)
	618,259,138	573,035,951

Other accounts receivable in 2012 include, among others, the following:

- Remittances to the Bureau of Treasury (BTr) of P150 million (P50 million in 2008 and P100 million in 2010) originally intended for application against the unpaid concession fee, but was confirmed by the BTr to have been applied against outstanding NG advances to PNCC. The account is initially recorded as Advances to BTr pending clarification on the application of payment considering that no liability is recorded in the books (as discussed in Notes 13 and 18).

- Over remittance of corporate income tax in the amount of P129.214 million for the taxable year 2010 consisting of cash payment and MCIT application. This resulted from the reversal of the tollways and related income pursuant to the Supreme Court en Banc Decision as discussed in Note 1.

- Advances to joint ventures in the amount of P74.022 million (net of advances from joint venture of P251.966 million) representing advances made for the costs of engineering designs and rehabilitation works at the South and North Luzon Tollways reimbursable by the respective joint venture partners.

- Operating access fees due from oil companies totaling P68.837 million, P53.232 million of which was referred to Legal for appropriate action.

- Cash advances of P54.327 million granted to former employees and consultants. Of the total amount, grantees of the P51.055 million advances were already sent demand letters.

- Revenue and dividend shares from Joint Venture Companies in the amount of P50.077 million, P46.473 million of which is collected in January and February 2013.

- Balance due from the Public Estate Authority (PEA), now Philippine Reclamation Authority (PRA), a government corporation, in the amount of P49.435 million arising from the sale of land in the Manila Cavite Coastal Road Reclamation Project (MCCRRP) in 1981.

- Claims of P37.421 million against Titan Ikeda Construction and Development Corporation, contracted by the Company to perform lighting and engineering works in the Subic Bay Industrial Park Phase 1 Project. The amount which represents various accommodations and equipment rental is net of the subcontractor's accomplishment billings of P50.017 million.

- Claims of P32.218 million against Leighton Contractor (Asia) Ltd. (LCAL), engaged by the Company to ensure the continuous flow of traffic during the extension, rehabilitation, and widening of the North Luzon Expressway. Of the total amount, P30.663 million represents the Company's recovery of toll revenue losses from March to June 2003 and the cost of flexbeam and streetlights. The covering Memorandum of Agreement on Security and Traffic Services dated May 29, 2001 specifically provides that LCAL shall compensate the Company for the reduction in toll revenue collections for causes attributable to the ineffective or inadequate methods employed by the former.

- Receivable from Ley Construction, a tenant at the Financial Center Area (FCA), amounting to P27.264 million.

6. RECEIVABLES FROM CONTRACTS

The account consists mainly of receivables from the various government agencies for construction projects undertaken by the Company as follows:

	2012	2011
Unbilled contract receivables	**234,456**	234,456
Billed contract receivables	**254,172,473**	242,461,441
Contract retention receivables	**5,134,777**	5,134,777
Claims receivables	**105,410,890**	105,410,889
	364,952,596	353,241,563
Allowance for doubtful accounts	**(135,235,835)**	(135,235,835)
	229,716,761	218,005,728

The material amounts in the Receivable from Contracts account are the following:

- Work accomplishments for the advance works on the DHSLRP in the amount of P109.303 million.

- 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 6% interest per annum from the date of first demand on June 24, 2004.

- 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 PNCC against MIAA, ordering the latter to pay PNCC the principal amount of P56.724 million and interest thereon at the rate of 6% per annum from the date of first demand on January 31, 1989 until the same is fully paid.

- Unsettled claims from the Light Rail Transit Authority (LRTA) arising from work accomplishments in the amount of P39.898 million (net of advances from the owner of P143.093 million).

- Unpaid accomplishments on the R-1 Expressway Project from the Public Estate Authority (PEA) in the amount of P35.318 million.
- Claims of P23.126 million against Hutama-RSEA Joint Operation relative to the Metro Manila Skyway Project-Stage 1.
- Final accomplishment billing of P15.953 million due from Clark Development Corporation in relation to the construction of the Sacobia River Bridge Project.

7. OTHER CURRENT ASSETS

This account includes the following:

	2012	2011
Prepayments	**16,115,105**	21,760,554
Inventories	**6,505,305**	9,319,858
	22,620,410	31,080,412

7.1 Breakdown of the prepayment account:

	2012	2011
Prepaid income tax	**14,380,769**	14,554,226
Prepaid taxes and licenses	**1,089,940**	-
Prepaid insurance	**576,150**	970,897
Prepaid value added tax	**68,246**	6,235,431
	16,115,105	21,760,554

7.2 Composition of the inventory account:

	2012	2011
Spare parts and supplies	**11,522,275**	11,558,873
Fuel, oil, and lubricants	**145,627**	614,092
Construction materials	**40,846**	303,714
Others	**3,760,727**	5,813,371
	15,469,475	18,290,050
Allowance for inventory writedown	**(8,964,170)**	(8,970,192)
	6,505,305	9,319,858

Inventories-Others consist mostly of common supplies and hardware materials, office supplies, and medical and dental supplies.

The non-moving/obsolete spare parts and supplies were declared for disposal since 2006. No buyers/bidders were, however, interested to the items. Hence, a 100% allowance for inventory writedown was provided.

8. INVESTMENTS

This account consists of:

	2012	2011
Investments in stocks		
Subsidiaries and affiliates		
Alabang-Sto Tomas Development, Inc.	**255,000,000**	255,000,000
CDCP Employees Savings & Loan Asso.	**3,594,725**	3,594,725
	258,594,725	258,594,725
Dasmariñas Industrial & Steelworks Corp.	**96,413,530**	96,413,530
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
	177,180,811	177,180,811
Allowances for losses	**(177,180,811)**	(177,180,811)
	-	-
	258,594,725	258,594,725
Investments in available for sale securities		
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 in 2012 and P266,353 in 2011)	**181,158**	173,447
Puerto Azul Beach and Country Club	**100,000**	100,000
Valley Golf Club	**22,000**	22,000
Metropolitan Club, Inc.	**12,500**	12,500
Architectural Centre, Inc.	**3,500**	3,500
	4,326,927	4,319,216
Market adjustment - available for sale securities	**(1,239,000)**	(1,244,000)
	3,087,927	3,075,216
Investment-others	**286,600**	286,600
	261,969,252	261,956,541

Investments in Subsidiaries and Affiliates

A 100% impairment loss is provided for in investments in inactive and non-operating subsidiaries and affiliates, as well as investments in the two (2) remaining active wholly-owned subsidiaries due to incurrence of losses resulting to accumulated deficit.

Investment in ASDI

Investment in Alabang-Sto. Tomas Development, Inc. (ASDI) represents investment in ASDI's 255,000 common shares with a par value of P1,000 per share. Equity ownership by PNCC in ASDI stood at 51%, with the remaining 49% owned by the National Development Company (NDC).

9. INVESTMENT PROPERTY

This account consists of the following:

	Land	Buildings and Improvements	Total
At December 31, 2012			
Cost			
Opening net book value	70,772,301	-	70,772,301
Additions	-	-	-
Net Book Value	**70,772,301**	**-**	**70,772,301**
Fair Value Adjustment			
Balance at beginning of year	7,321,206,699	456,267,000	7,777,473,699
Gain (Loss) on Changes in Fair Value	-	-	-
Balance at end of year	**7,321,206,699**	**456,267,000**	**7,777,473,699**
	7,391,979,000	**456,267,000**	**7,848,246,000**
At December 31, 2012			
Cost	70,772,301	-	70,772,301
Appraisal	7,321,206,699	456,267,000	7,777,473,699
	7,391,979,000	**456,267,000**	**7,848,246,000**

9.1 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 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 No. 3 (P26.1 million).

As discussed in Note 14, Administrative Order (AO) No. 397 dated May 31,1998 mandated that Lot 6 be titled in the name of PNCC.

Although the ownership of the property is still in the name of the RP to date, the Office of the Government Corporate Counsel issued an opinion on April 21, 2001 that there is no question from the legal standpoint that PNCC 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.

In 2009, the independent firms of appraisers engaged by the Company to determine the fair value of the property reported a P6.63 billion appraised value of Lot 6.

In 2010, the fair value of Lot 6 was determined by independent qualified appraisers at P7.462 billion.

In 2011, Land Bank of the Philippines (LBP) was requested to examine and appraise the said property and reported a P7.434 billion market value of Lot 6.

The subject property has been rented out and generating rental revenue since 2005. Rental income earned amounted to P41.504 million and P26.533 million in 2012 and 2011, respectively (see Note 20).

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

Location	Area (in sq.m.)	Cost	Appraisal Increase	Fair Value
Casinglot, Misamis Oriental	60,620	1,077,484	59,542,516	60,620,000
Dasmariñas, Cavite	75,000	625,800	210,274,200	210,900,000
Mabalacat, Pampanga	27,905	32,027	12,524,973	12,557,000
Rizal, Tagaytay	98,207	1,367,339	37,915,661	39,283,000
Antipolo, Rizal	14,770	1,185,531	32,543,469	33,729,000
Porac, Pampanga	116,591	145,737	6,849,263	6,995,000
Sta. Rita, Bulacan	20,000	1,579,950	35,620,050	37,200,000
Bocaue, Bulacan	9,926	162,678	12,443,322	12,606,000
Total	**423,019**	**6,176,546**	**407,713,454**	**413,890,000**

10. PROPERTY AND EQUIPMENT

This account includes the following:

	Land & Land Improvements	Buildings & Improvements	Construction Equipment	Transportation Equipment	Others	Total
At Dec. 31, 2011						
Cost	10,115,936	22,251,039	28,319,948	71,426,108	62,305,017	194,418,048
Accumulated Depreciation	(2,012,619)	(20,081,064)	(26,685,407)	(60,541,957)	(44,598,033)	(153,919,080)
Net Book Value	**8,103,317**	**2,169,975**	**1,634,541**	**10,884,151**	**17,706,984**	**40,498,968**
Appraisal Increase	543,166,469	46,215,129	7,865,127	1,561,045	2,794,818	601,602,588
Accumulated Depreciation	(18,579,723)	(45,340,361)	(7,864,971)	(1,561,045)	(2,790,872)	(76,136,972)
Net Book Value	**524,586,746**	**874,768**	**156**	**-**	**3,946**	**525,465,616**
	532,690,063	**3,044,743**	**1,634,697**	**10,884,151**	**17,710,930**	**565,964,584**

	Land & Land Improvements	Buildings & Improvements	Construction Equipment	Transportation Equipment	Others	Total
Year Ended Dec. 31, 2012						
Cost						
Opening Net Book Value	8,103,317	2,169,975	1,634,541	10,884,151	17,706,984	40,498,968
Additions	-	-	-	1,622,052	89,238	1,711,290
Disposals/Write off	-	-	(575,217)	(313,216)	(242,417)	(1,130,850)
Adjustments	-	15,653,301	-	-	(13,931,804)	1,721,497
Depreciation for the Year	(58,009)	(3,500,401)	(44,226)	(3,147,088)	(1,445,077)	(8,194,801)
Closing Net Book Value	**8,045,308**	**14,322,875**	**1,015,098**	**9,045,899**	**2,176,924**	**34,606,104**
Appraisal Increase						
Opening Net Book Value	524,586,746	874,768	156	-	3,946	525,465,616
Appraisal	-	-	-	-	-	-
Disposals/Write off	-	-	-	-	(8)	(8)
Depreciation for the Year	(2,127,159)	(174,954)	-	-	-	(2,302,113)
Closing Net Book Value	**522,459,587**	**699,814**	**156**	-	**3,938**	**523,163,495**
At Dec. 31, 2012						
Cost	10,115,936	37,904,340	27,020,534	60,387,853	44,967,419	180,396,082
Accumulated Depreciation	(2,070,628)	(23,581,465)	(26,005,436)	(51,341,954)	(42,790,495)	(145,789,978)
Net Book Value	**8,045,308**	**14,322,875**	**1,015,098**	**9,045,899**	**2,176,924**	**34,606,104**
Appraisal increase	543,166,469	46,215,129	7,865,127	903,911	2,692,318	600,842,954
Accumulated Depreciation	(20,706,882)	(45,515,315)	(7,864,971)	(903,911	(2,688,380)	(77,679,459)
Net Book Value	**522,459,587**	**699,814**	**156**	-	**3,938**	**523,163,495**
	530,504,895	**15,022,689**	**1,015,254**	**9,045,899**	**2,180,862**	**557,769,599**

10.1 Appraisal

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	APPRAISAL INCREASE (DECREASE) (in thousand pesos)	APPRAISAL CORPORATION
1997	P 69.71	General Appraisal Co., Inc.
2003	1,620.00	Various
2004	0.05	Various
2006	(235.56)	Various
2010	146.208	Various
2011	(16.523)	Land Bank of the Phils.

10.2 Others

The Company also owns some 525.408 sq.m. of property 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. PNCC is working on the transfer of title to its name.

11. OTHER ASSETS

This account consists of:

	2012	2011
Restricted cash	**100,327,360**	100,327,360
Other assets	**72,742,515**	1,670,516
Deferred charges	**17,662,539**	14,895,250
Guarantee deposits	**614,568**	614,568
	191,346,982	117,507,694
Assets for write off	**9,615,422,219**	9,615,422,219
Allowance for losses	**(9,615,422,219)**	(9,615,422,219)
	-	-
	191,346,982	117,507,694

PNCC 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. 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 (NLRC) on the said case filed by former PNCC employees against PNCC Management.

Other assets include the Company's closed/dormant bank accounts and deposits to various utility companies. The bulk of the account as of December 31, 2012 pertains to the guarantee/collateral for the IAC Bond No. G(16) 0015764 in favor of Investors Assurance Corporation amounting to P71.072 million. This is also in connection with the Ernesto N. Valentin, et.al, vs. PNCC.

Deferred charges as of the calendar year 2012 consist mainly of the deferred tax assets totaling P11.473 million and the garnished amount of P5.833 million in compliance with the Writ of Execution issued by the National Trial Court in Civil Case No. 56368 (Asiavest Merchant Bankers (M) Berhad vs. PNCC). The said garnished amount includes the collection of lease rental from the tenants (DAR-Region IV, Stage Craft International, and AOT Engineers) in the Mandaluyong property amounting to P3.383 million; auction sale of non-moving inventories (RPS) and various scrap materials totaling P1.25 million and P1.2 million, respectively.

Assets for write off 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**
	9,615,422,000

These accounts have been provided a 100% allowance for losses.

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

	2012	2011
Accounts payable	**8,282,606**	157,235,480
Accrued expenses	**7,321,808**	34,277,953
	15,604,414	191,513,433

12.1 Accounts payable

	2012	2011
Vouchers payable	**7,824,727**	14,889,705
Cesla savings and loan dues	**101,397**	-
Accounts payable-retention	-	5,221,357
Other accounts payable	**356,482**	137,124,418
	8,282,606	157,235,480

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

Other accounts payable as of December 31, 2012 consists of tax refund and conversion of unused sick leave.

The bulk of the other accounts payable as of December 31, 2011 pertains to the Company's liability to Citra Metro Manila Tollway Corporation (CMMTC) in the amount of P136.168 million representing cost of toll plaza refurbishment and transcore equipment. As provided for in the Memorandum of Agreement entered into by and among CMMTC, PNCC, and PNCC-Skyway Corporation in December 2007, claims of P390.175 million due to CMMTC, until fully paid, shall be offset against PNCC's share in CMMTC gross toll revenues, as follows: 65% of the 2.5% share reckoned from the date of actual turnover of operations on December 31, 2007 and up to the day before the Final Operation Date for Stage 2 or 85% of 3.5% equivalent of the toll revenues commencing on the Final Operation Date for Stage 2 and up to the end of the Operation Period. The amounts of P254.007 million and P136.168 million have been offset against the revenue share from CMMTC's gross toll revenues, covering the period January 2008 to December 2011 and January to December 2012, respectively.

12.2 Accrued expenses

	2012	2011
Accrued expenses	**7,321,808**	3,337,728
Accrued construction costs	-	16,828,663
Others	-	14,111,562
	7,321,808	34,277,953

The accrued expenses account includes accrual of the mandatory benefits and leave credits of the Company's employees, unpaid professional fees and unpaid accounts to suppliers of goods and services that are normally settled within twelve (12) months from the reporting period.

13. DUE TO NATIONAL GOVERNMENT AND ITS INSTRUMENTALITIES

This account consists of payables to the following:

	2012	2011
Toll Regulatory Board (concession fees)	**4,496,424,300**	4,182,880,900
Toll fees (SLEX operation under TOC)	**1,537,850,967**	1,536,655,867
Joint venture companies' revenue/dividend	**1,329,017,649**	1,329,017,649
	7,363,292,916	7,048,554,416

Concession fees

The concession fees of P4.496 billion (inclusive of penalty charges of P0.258 billion in 2012 and P3.178 billion in 2011 and prior years) pertain to the Company's payable to the Toll Regulatory Board pursuant to the Toll Operation Agreement dated October 1977.

From May 2008 to March 2009, the Company made initial payments to the Bureau of Treasury totaling P220 million, of which the latter confirmed application of the P170 million against outstanding concession fees and the P50 million against outstanding NG advances.

On July 16, 2010, the Company remitted to the Government, through the Department of Finance, the amount of P200 million as payment for the Company's obligation, as follows: P100 million against outstanding concession fees and P100 million against NG advances. This payment brings the Company's total remittances to P495 million from 2006 to date.

Unremitted share in the toll revenue

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 (under the Toll Operation Certificate) from May 2007 to April 2010 in the amount of P1.537 billion, based on the Toll Regulatory Board's computation, which accordingly was arrived at by deducting from gross toll revenue the allowable 40% O&M expenses or actual O&M expenses, whichever is lower.

Joint venture companies revenue and dividend

As likewise discussed in Note 1, the expiration of the Company's franchise resulted to the Government's owning not only of the toll fees and the net income derived from the toll assets and facilities but also the Company's percentage share in the toll fees collected by the joint venture companies currently operating the tollways.

In line with the above and pending finalization of the implementing rules and guidelines relative to the determination of the net income remittable by PNCC to the Government, 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% of the gross revenue share and dividend received from May 2007 to December 31, 2010. This is in accordance with the interim guidelines issued by the TRB in compliance with the decision of the Supreme Court in the Francisco case.

14. DUE TO GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS

This account covers various advances from the National Development Company totaling P214 million between 1990 to1999 for foreign and peso accounts and interest and penalties thereon of P989 million as of December 2009. This issue, however, is currently under arbitration (Case No. 001-2000) before the OGCC Arbitral Tribunal.

Administrative Order (AO) No. 397, which was signed and approved by the then President Fidel V. Ramos on May 31, 1998, resolves all the outstanding issues between the PEA and PNCC, not requiring any cash outflow from any of the parties involved. Relative thereto, a Memorandum of Agreement (MOA) dated July 22, 1999 between PNCC and PEA was approved per PNCC Board Resolution dated August 10, 1999, in partial implementation of the said AO.

As indicated, said AO will result in the cleansing of PNCC's balance sheet which will lead the way to its privatization. Among the salient features of AO 397 are:

- PEA's assumption of PNCC's obligation with PNB amounting to P788.82 million;
- Assignment to the Asset Privatization Trust (APT) of PNCC's receivable from PEA amounting to P43.59 million representing unpaid cash of the MOA dated December 29, 1981, as payment of PNCC's obligation to the NG;
- Titling of Lot 6 (still titled in the name of RP) of the Financial Center Area (129,548 sq.m.) in the name of PNCC;
- Application of the fair market value of the excess 246,931 sq.m. more or less, of the reclaimed land under the First Neighborhood Unit (FNU) ceded by PEA to Marina Properties Corporation without any indemnity, pursuant to LOI 1390, as settlement of PNCC's obligation with the NG (NDC). This matter is currently being researched by PNCC in order to resolve all issues in accordance with all existing laws and other relevant procedures.
- PEA's purchase of PNCC's preferred option in the amount of P100 million under Section 9 of the PEA-CDCP (now PNCC) MOA dated December 31, 1981 for the remaining undisposed portion of the reclaimed land with an area of 158 hectares more or less;
- The resulting obligations of PEA as a consequence of all the foregoing shall be converted into equity by the NG in the said entity; and
- PNCC shall waive any and all future claims against PEA in relation to the PNCC-PEA

MOA and the MCCRRP Contract except the claim of PNCC on the R-1 Project, payable by PEA upon determination of the actual amount to PNCC.

All matters covered by AO 397 have been resolved and complied with except for the 246,931 sq. m. more or less already mentioned. Pursuant to the mandate to divestment/privatize shares of the Republic of the Philippines in PNCC, the APT, now the Privatization and Management Office (PMO), was tasked to pursue the plan. The APT, in 1999, engaged the services of the Development Bank of the Philippines/Philippine National Bank as Financial Advisors to conduct the due diligence examination of the Company's financial statements as of September 30, 1999.

15. DEFERRED RENTAL INCOME/OTHERS

	2012	2011
Other accounts payable	**174,168,481**	174,168,481
Customers deposit	**18,839,258**	42,474,038
Deferred credits	**13,845,729**	13,845,729
Trust liabilities	**2,768,583**	2,768,583
Advances from contract owners	**1,021,046**	1,021,046
	210,643,097	234,277,877

Other accounts payable pertains to the provision for liability of P174.2 million, the details of which was not disclosed as allowed by "PAS 37, Provisions, Contingent Liabilities and Contingent Assets," because it will prejudice the position of the Company.

16. 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% cumulative, non-participating, non-voting) Authorized- 1,400,000 shares			
1,400,000	Shares	Treasury Stocks	**14,000,000**
Preferred "B" (8-17% cumulative, non-participating, non-voting) Authorized- 42,114,879 shares **Issued and outstanding**		Republic of the Philippines Through the Asset Privatization Trust [now Privatization Management Office (PMO)] –	
15,000,000	Shares	previously under PNB	150,000,000
3,689,500	Shares	Marubeni	36,895,000
18,689,500			**186,895,000**

Preferred "C" (14% cumulative, non-participating, non-voting) Authorized- 6,485,121 shares **Issued and outstanding** **6,485,121** Shares	Republic of the Philippines Through the Asset Privatization Trust (now PMO) – previously under NDC	**64,851,210**
Preferred "D" (8% cumulative, participating, voting) Authorized-27,800,000 shares **Issued and outstanding** **25,500,000** Shares	Privatization Management Office (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**
Subscribed- **1,484,260** Shares	FEBTC Trustee-PNCC Stock Trust Fund	**14,842,600**
Common Authorized-182,200,000 shares **Issued and outstanding-**	Republic of the Philippines Through the Asset Privatization Trust (now PMO) - previously under:	
79,271,024 Shares	Phil. Export Foreign Loan Guarantee	375,845,770
	Development Bank of the Phils.	269,874,470
	National Development Co.	146,990,000
47,490,383 Shares	Gov't Service Insurance System	474,903,830
15,360,831 Shares	Universal Holding Corporation	153,608,310
6,811,543 Shares	Various Brokers	68,115,430
4,562,384 Shares	Various Corporations	45,623,840
1,178,856 Shares	Cuenca Investment Corporation	11,788,560
964,800 Shares	Pioneer Insurance and Surety Corporation	9,648,000
657,836 Shares	Land Bank of the Philippines	6,578,360
335,391 Shares	PNCC Employees	3,353,910
7,037,935 Shares	Individual (Non-employees)	70,379,350
163,670,983		**1,636,709,830**

Subscribed-			
9,419,915	Shares	Universal Holding Corporation	94,199,150
909,276	Shares	Cuenca Investment Corporation	9,092,760
149,328	Shares	Various Corporations	1,493,280
33,391	Shares	PNCC Employees	333,910
27,693	Shares	Various Brokers	276,930
234,173	Shares	Individual (Non-employees)	2,341,730
10,773,776			**107,737,760**
228,375,812	Shares		**2,283,758,120**
		Subscription receivables (Note 17)	**(56,158,831)**
			2,227,599,289

The cumulative preference 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 in view of the Company's deficit of P9.700 billion as of December 31, 2012 and P9.617 billion as of December 31, 2011. 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 2012) are shown below:

Name of Stockholders (a)	Class of Stock (b)	Shareholdings (c)	Undeclared Dividend (b x c x 6 yrs)
Republic of the Phil. Through the Privatization Management Office (previously under PNB)	Preferred "B" (8%-17%, cumulative, non-participating, non-voting)	150,000,000	72,000,000
Marubeni	Preferred "B" (8%-17%, cumulative, non-participating, non-voting)	36,895,000	17,709,600
Republic of the Phil. Through the Privatization Management Office (previously under NDC)	Preferred "C" (14%, cumulative, non-participating, non-voting)	64,851,210	54,475,016
Republic of the Phil. Through the Privatization Management Office (previously under PNB)	Preferred "D" (8%, cumulative, non-participating, non-voting)	255,000.000	122,400,000
Total		**506,746,210**	**266,584,616**

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

17. SUBSCRIPTIONS RECEIVABLE

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

Universal Holding Corporation	**48,302,274**
Cuenca Investment Corporation	**5,145,287**
Other Corporations	**966,630**
Individuals	**1,744,640**
	56,158,831

As of the end of 2012, there was no call made by the Board of Directors for the unpaid subscriptions.

18. EQUITY ADJUSTMENTS

Under Rehabilitation Plan-Loans Transferred to National Government

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, as follows:

	(in thousand pesos)
Philippine National Bank	**2,865,445**
National Development Corporation	**1,356,693**
Philguarantee	**1,204,311**
Central Bank of the Philippines	**75,654**
Bureau of Treasury	**39,991**
Development Bank of the Philippines	**9,633**
	5,551,727

The above-mentioned Company's indebtedness was not converted due to the then Central Bank of the Philippines' rule on Single Borrowers Limit (SBL), i.e. allowing only a certain percentage of debts that can be converted into equity.

It is the management's position, as supported by the Office of the Solicitor General Opinion dated August 23, 2007, that based on LOI 1295, which was a special law promulgated to rehabilitate the Company, that the debts should effectively be equity and therefore, should no longer incur interest charges.

The Privatization Management Office (PMO) however, still considered these unconverted debts as liabilities, claiming the total amount of P51.958 billion as of December 31, 2012 inclusive of accumulated interest charges and penalties amounting to P46.406 billion. These amounts have not been recognized in the books of PNCC. The Company did not recognize the disputed interest charges and penalties based on the following:

- The Supreme Court itself had recognized the validity of LOI 1295 and that it still legally exists today;
- The failure to convert the debts to equity was not the fault of the Company; and
- The P5.552 billion is no longer a debt but simply represents unissued shares of stocks awaiting conversion into 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, the Office of the Government Corporate Counsel, and the opinion of a private law firm engaged by the PMO, per Consultancy Agreement dated April 18, 2002.

In like manner, the Bureau of Treasury (BTr) confirmed as of December 31, 2012 the amount of P2.26 billion (inclusive of P1.209 billion interest) representing advances made by the BTr to settle the Company's foreign obligations with creditors. Said loans are included in the Equity Adjustments under Rehabilitation Plan which are among the accounts transferred by the Company to the Government through 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 13, the application of the P50 million payment against outstanding NG advances was already effected in the aforesaid confirmed amount of P2.26 billion. On July 16, 2010, the Company paid P200 million to the NG, through the DOF, representing payments of concession fee (P100 million) and BTr advances (P100 million), which amount was likewise confirmed and deducted from the said confirmed balance.

In view of the differences in the position between the Company and the PMO, the issue was submitted to the Department of Justice (DOJ) on June 21, 2012 for arbitration. Accordingly, the Company respectfully prays for DOJ to:

1. Take jurisdiction over the Petition and call the parties for mediation or compulsory arbitration;
2. Render judgment after proper proceedings, declaring that the interest and penalty charges that PMO imposes on the Company's actual outstanding debt to the National Government is baseless and violates LOI 1295;
3. Declare that the Company's actual outstanding debt to the National Government is only P5.552 billion, representing unconverted balance of the Company's obligation to the GFIs; and
4. Require the debt-to-equity conversion of the Company's P5.552 billion debt.

19. REVENUE AND DIVIDEND SHARE

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 TRB:

	2012	2011
Revenue Share		
MNTC	**35,987,618**	37,524,464
CMMTC	**22,773,403**	17,786,755
SLTC	**6,910,826**	6,514,415
	65,671,847	61,825,634
Dividend Share		
MNTC	**4,262,400**	3,774,000
TMC	**4,534,000**	8,025,979
	8,796,400	11,799,979
	74,468,247	73,625,613

20. RENTAL INCOME

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

	2012	2011
Pasay City	**41,503,611**	26,532,884
Porac, Pampanga	**198,000**	176,000
	41,701,611	26,708,884

Rental 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.

Rental income for the calendar year 2013 is expected at P52.042 million.

21. CONSTRUCTION INCOME

As discussed in Note 1, this account represents the income generated from the advance works on the DHSLRP for the year ended December 31, 2011.

22. COSTS AND EXPENSES

This account consists of the following:

	2012	2011
Salaries, wages, and allowances	-	2,014,638
Bonuses and gratuities	-	269,184
Employees' terminal pay - vacation/sick leave	-	121,895
SSS/ECC contribution	-	217,430
Philhealth contribution	-	37,313
Pag-IBIG contribution	-	27,700
Employee costs	-	2,688,160
Subcontractor	-	28,712,582
Repairs and maintenance-materials/labor	-	9,528,929
Service equipment rental	-	5,701,092
Petroleum,oil, and lubricant (POL)	-	174,863
Miscellaneous expenses	-	26,911
Other costs and expenses	-	44,144,377
	-	46,832,537

The amount of P46.832 million pertains to the costs incurred on the DHSLRP for the period ended December 31, 2011.

23. GENERAL AND ADMINISTRATIVE OVERHEAD

This account consists of the following:

	2012	2011
Salaries, wages, and allowances	**31,386,989**	47,580,605
Bonuses and gratuities	**5,288,750**	9,970,426
Directors' fees and allowances	**3,939,176**	5,076,868
Fringe benefit expense	**3,339,573**	6,677,099
Fringe benefit tax expense	**1,571,564**	3,142,164
Employees' welfare	**1,032,529**	2,315,448
Employees' terminal pay - vacation/sick leave	**637,258**	3,220,346
SSS/ECC contribution	**548,521**	1,111,415
Philhealth contribution	**176,700**	275,663
Sports and recreation	**65,999**	494,335
Medical and dental expenses	**61,875**	218,022
Pag-IBIG contribution	**51,600**	132,150
Employees' terminal pay – retrenchment	-	7,859,396
Employee costs	**48,100,534**	88,073,937

	2012	2011
Transportation and traveling	**6,578,176**	6,689,670
Professional fees	**3,995,534**	6,879,767
Other outside services	**3,904,151**	1,152,902
Security services-agency fee/salaries of guards	**3,673,622**	10,238,416
Light and water	**3,400,332**	4,724,866
Janitorial and messengerial services	**2,910,053**	4,675,081
Taxes and licenses	**2,754,719**	3,599,344
Entertainment, amusement, and representation	**1,428,604**	1,290,892
Postage and other communications	**1,309,316**	1,518,106
Repairs and maintenance-materials/labor	**1,259,324**	1,102,758
Contracted manpower cost	**829,650**	8,059,121
Insurance premium	**625,164**	2,159,244
Office supplies and stationery	**520,271**	1,054,787
Conferences and conventions	**399,488**	459,313
Legal and documentation	**335,488**	3,513,729
Bank charges	**34,826**	43,870
Advertising and promotions	**32,640**	44,827
Contributions and donations	**30,896**	76,526
Subscriptions	**17,370**	27,143
Manpower recruitment, training, and development	**10,714**	196,930
Membership fees	**2,232**	41,000
Office rent	-	969,843
Petroleum, oil, and lubricant (POL)	-	274,319
Service equipment rental	-	43,337
Depreciation	**10,496,914**	10,963,807
Bad debts/doubtful accounts	-	191,557,065
Miscellaneous expense	**201,296**	842,257
	44,750,780	262,198,920
	92,851,314	350,272,857

24. OTHER INCOME (CHARGES)

This account comprises of the following:

	2012	2011
Dividend income	**10,042,591**	-
Gain on sale of property and equipment	**4,472,121**	1,480,645
Interest income	**1,247,949**	6,740,504
Realized gain – available for sale securities	**5,000**	131,250
Miscellaneous income	**7,674,873**	2,773,881
Loss on foreign exchange fluctuation	**(4,358)**	-
Gain on changes in fair value of investment property	-	25,082,004
Interest and financing charges	-	(5,509,102)
Loss on sale of property and equipment	-	(418,234)
Loss on sale of inventory	-	(317,572)
	23,438,176	29,963,376

25. INCOME TAX

The Company's income tax due for the year 2012 is P2.767 million, computed under the Minimum Corporate Income Tax (MCIT).

Of the carry forward benefit of MCIT of P28.202 million recorded under "Deferred Charges-MCIT" account as of December 31, 2011, P19.496 million was closed to Retained Earnings due the three (3)-year prescription period, as follows:

Date Incurred	Amount	Application	Expired	Balance	Expiry Date
2012	2,767,289	-	-	2,767,289	2015
2011	2,363,702			2,363,702	2014
2010	6,342,493			6,342,493	2013
2009	19,496,303		19,496,303	-	2012
	30,969,787	-	19,496,303	11,473,484	

As of December 31, 2012 and 2011, 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:

	2012	2011
Allowance for losses on assets for write off	**9,615,422,219**	9,615,422,219
Allowance for doubtful accounts	**612,845,884**	617,000,065
Allowance for inventory write-down	**8,964,170**	8,970,192
Allowances for losses on investments	**177,180,811**	177,180,811
NOLCO	**975,732,913**	767,899,799
	11,390,145,997	11,186,473,086

Net Operating Loss Carry Over (NOLCO) amounting to P975.733 million can be carried forward and claimed as deduction from regular taxable income, as follows:

Date Incurred	Amount	Applicatio n	Expired	Balance	Expiry Date
2012	207,833,134	-	-	207,833,134	2015
2011	461,302,544	-	-	461,302,544	2014
2010	306,597,235	-	-	306,597,235	2013
	975,732,913	-	-	975,732,913	

Said benefits, however, cannot be enjoyed for as long as the Company is subject to MCIT.

As of December 31, 2012 and 2011, deferred tax liabilities pertain to the following:

	2012	2011
Fair value adjustment of investment property	**2,333,242,110**	2,333,242,110
Revaluation increment in property	**156,949,049**	157,639,685
	2,490,191,159	2,490,881,795

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 Tax."

26. TAXES AND LICENSES

In compliance with the requirements set forth by Revenue Regulation (RR) No. 15-2010, hereunder are the information on taxes, duties, and licenses paid or accrued during the taxable year 2012:

26.1 The Company is a VAT-registered company with VAT output tax declaration of P22.627 million for the year based on the amount reflected in the Sales Account of P188.561 million.

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

Beginning of the year	9,906,500
Current year's purchases:	
Goods for resale/manufacture or further processing	-
Goods other than for resale or manufacture	815,981
Capital goods subject to amortization	-
Capital goods not subject to amortization	7,361
Services lodged under cost of goods sold	-
Services lodged under other accounts	2,261,603
Claims for tax credit/refund and other adjustments	-
Balance at the end of the year	12,991,445

26.3 Other taxes and licenses:

Local:	
Real Estate Tax	1,620,470
Mayor's Permit	519,408
Community tax	10,500
Total	2,150,378
National:	
BIR Annual Registration	500
VAT/Percentage Taxes	847,130
Fringe Benefit Tax	1,624,631
Others (CGT/DST)	-
Total	2,472,261

26.4 The amount of withholding taxes paid/accrued for the year amounted to P9.361 million, broken down as follows:

Tax on compensation and benefits	7,758,417
Creditable withholding tax/es	1,602,090
Final withholding taxes	-
Total	9,360,507

27. OTHER 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 08, 1995, and as a consequence, the BIR issued a final decision promulgated on September 09, 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 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 thereon 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 has filed a Petition with the Department of Justice seeking the reversal of the Bureau'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 P64.00 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 Bureau has not responded to 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 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 on October 29, 2010.

- Deficiency internal revenue taxes for the taxable year 2009 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.

28. PRIVATIZATION/DIVESTMENT OF RP SHARES IN PNCC

On the basis of the Financial Advisors report, the bidding of the NG's interests in the Company was conducted by the APT on October 30, 2000 with an Indicative Price of P7 billion. The result, however, was declared failed as the highest bid obtained amounted only to P1.28 billion, which is far below the indicative price set by the APT. The highest bidder refused to recognize the declaration of the APT that the bid was failed and decided to pursue the validity of its bid via the filing of a law suit to compel the APT (PMO) to award the bid to Stradec/Dong A Consortium. They have since won in the Regional Trial Court (RTC) and the Court of Appeals and the matter is now with the Supreme Court. The result of the "Consortium" winning the case is that all the shares of the NG in PNCC will belong to them for P1.28 billion.

In the Amended Decision dated January 27, 2012, the Court of Appeals SET ASIDE the assailed Decision dated July 01, 2010 of the RTC-Makati and DISMISSED for lack of merit the Complaint for Declaration of Right to a Notice of Award and/or Damages filed by Stradec. The Court had stressed that to award a bid contract for the sale of P7 billion worth of National Government's interest in the Company for a measly amount of P1.28 billion, is manifestly and grossly disadvantageous to the Filipino people.

The management of the Company is tasked by the Board to look into and to resolve all legal and financial issues of the Company in order to make sure that PNCC becomes compliant with SEC rules, PSE rules, and GCG rules. The Board is aware of its fiduciary obligations to protect the interests of the minority shareholders and will do whatever is necessary to fulfill its mandate.

29. PENDING LAWSUITS/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 the 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 in litigation before various Regional Trial Courts (RTC). 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.

30. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, has transactions with related parties. The more significant of these transactions include:

Agreements:

- Pursuant to the agreement between MTD Manila Expressways (MTDME) and PNCC on the construction, operation, and maintenance of the South Luzon Tollway, MTDME holds eighty percent (80%) and the Company holds twenty percent (20%) of the issued and outstanding capital stock of the Joint Venture Company (named South Luzon Tollway Corporation(SLTC)).

  The agreement further provides that the 50% of the subscribed amount shall be paid by MTDME on behalf and for the account of the Company. MTDME paid the equivalent amount of P360 million on March 29, 2007.

  On August 01, 2007, the Company paid the balance of fifty percent (50%) or P360 million, rendering the Company's full payment of its subscription as of reporting date.

- In consideration of the assignment by the PNCC of its usufructuary rights, interests, and privileges under its franchise, the Company is entitled to receive payment from the Manila North Tollways Corporation (MNTC) equivalent to six percent (6%) and two percent (2%) of the total revenue from the North Luzon Tollway and Segment 7, respectively. Any unpaid balance carried forward will accrue interest at the rate of the latest Philippine 91-day Treasury Bill rate plus 1% per annum.

- The Supplemental Toll Operations Agreement executed by and among MATES, SLTC, PNCC, and the Republic of the Philippines, through the TRB, on February 03, 2006 designates MATES as the entity that will operate and maintain the toll roads, toll roads facilities, interchanges, and related facilities including the management of the toll collection system and traffic control system of the SLEX Projects.

- Pursuant to the Subscription Agreement executed by and among ASDI, NDC, and PNCC on November 14, 2008, the Company subscribed 12,500 shares from the unissued portion of the 150,000 shares (with a par value of P1,000.00 per share) authorized capital stock of ASDI, incorporated to undertake components of the SLEX Projects.

- The Company entered into contracts with DISC Contractors, Builders, and General Services, Inc. (DISC), a wholly owned subsidiary, as follows:

  - Contract for janitorial services dated May 08, 2012, wherein DISC shall supply twenty (20) janitors/janitress, more or less, as maybe necessary depending on the actual need. For and in consideration of the services rendered, DISC will be paid P14,777.99 per janitor/janitress or P3.547 million from January 01, 2012 to December 31, 2012. The amount billed by DISC for the period ended December 31, 2012 totaled P3.334 million. Outstanding payable as of reporting date amounted to P0.342 million.

  - Contract for driver and driver/mechanic dated May 08, 2012 wherein DISC shall provide PNCC with six (6) service drivers and one (1) driver/mechanic. The contract shall be in force for one (1) year from December 01, 2011 to November 30, 2012. In consideration for the services rendered, PNCC shall pay DISC the following amounts: P14,777.79/driver/month and P19,946.27/driver-mechanic/month. Total billings from January 2012 to December 2012 amounted to P1.896 million, of which P0.271 million remained unpaid as of reporting date.

Other Transactions

- Compensation/other benefits of key management personnel amounted to P15.71 million for the period ended December 31, 2012.

31. PRIOR YEARS' ADJUSTMENTS

Correction of prior years' earnings as of January 1, 2012 and 2011 comprises of the following:

	2012	2011
Closing of nominal accounts	**440,112,225**	(308,586,917)
Provision of allowance for doubtful accounts	**187,910,904**	53,147,920
Revenue adjustment (DHSLRProject)	**(13,090,396)**	-
Royalty fees from oil companies (2009 to 2011)	**(25,445,532)**	-
Adjustment in principal amount and recognition of additional penalty charges on unpaid concession fee covering 2011 and prior years resulting from the reconciliation of account between the Company and the TRB	**(56,836,300)**	-
Adjustments in revenue/dividend shares in joint venture companies	**(99,512,265)**	(40,596,853)
Portion of PNCC payable to CMMTC applied against the 90% NG share in the JVC's gross toll revenue	**(306,550,831)**	-
Recognition of debt to the Government (revenue share and dividends collected from joint venture companies)	-	585,114,285
Provision for impairment loss – investments in subsidiaries and affiliates	-	164,978,034
Reversal of amortization of appraisal increase due to adoption of PAS 40	-	57,630,408
Provision for inventory writedown	-	8,970,192
Under accrual of terminal pay, VL/SL, and other benefits	-	(42,256,996)
Provision for liabilities	-	(174,168,481)
Reversal of revaluation increment due to adoption of PAS 40 (reclassification of property and equipment-land to investment property)	-	(354,370,449)
Recognition of deferred tax liabilities (deemed tax) on increase in fair value of investment property	-	(2,333,242,110)
Others	**1,307,836**	5,680,914
	127,895,641	(2,377,700,053)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise of cash and cash equivalent, 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 BOD and management review and approve the policies for managing each of these risks as summarized below.

Credit Risk

Credit risk arising from the inability of counterparty to meet the terms of the Company's financial instrument is generally limited to the amount, if any, by which the counterparty's obligations exceed the obligation of the Company. With respect to credit risk arising from the other financial assets of the Company, which comprise cash, trade receivables and advances to subsidiaries, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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.

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 financial statements as at December 31, 2012 and 2011.

	Carrying Amount		Fair Value	
	2012	2011	**2012**	2011
Financial assets:				
Cash	**27,726,135**	112,314,626	**27,726,135**	112,314,626
Advances and other receivables	**618,259,138**	573,035,951	**618,259,138**	573,035,951
Receivables from contracts	**229,716,761**	218,005,728	**229,716,761**	218,005,728
	875,702,034	903,356,305	**875,702,034**	903,356,305

	Carrying Amount		Fair Value	
	2012	2011	**2012**	2011
Financial liabilities:				
Accounts payable and accrued expenses	**15,604,414**	191,513,433	**15,604,414**	191,513,433
Due to National Government and its Instrumentatlies	**7,363,292,916**	7,048,554,416	**7,363,292,916**	7,048,554,416
Due to Government Owned or Controlled Corporation	**1,203,000,000**	1,203,000,000	**1,203,000,000**	1,203,000,000
	8,581,897,330	8,443,067,849	**8,581,897,330**	8,443,067,849

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULES A to K
As of December 31, 2012

Schedule A - Marketable Securities (Current Marketable Equity Securities and Other Short-term Investments)

The company's Short-Term Investment as of December 31,2012 amounting to P0.74 million represents 0.01% only of the total assets of P9.758 billion. This is way below the ceiling requirement of 10% or more of the total assets, hence, this schedule need not be filed.

Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Affiliates)

Corresponding schedule is herewith attached/submitted. Included in the list are the company's employees, director, and consultants with outstanding aggregate indebtedness of more than P100,000.00 or one (1) percent of the total assets, whichever is less, as of December 31, 2012.

Schedule C - Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments

The Investment account which stood at P261.969 million as of December 31, 2012 constitutes 2.68% of the total assets in the related balance sheet. Considering that the account is below the 5% ceiling requirement, the schedule is omitted.

Schedule D - Indebtedness of Unconsolidated Subsidiaries and Affiliates

This schedule is omitted. Total receivables from subsidiaries and affiliates as of December 31, 2012 in the amount of P334.037 million is only 3.42% (below the 5% requirement) of the P9.758 billion assets.

Schedule E - Property, Plant, and Equipment

The company's property, plant, and equipment account amounting to P781.239 million is 8.01% of the P9.758 billion assets (or down by 16.99% vis-à-vis the 25% ceiling requirement), hence, the schedule need not be submitted.

Schedule F - Accumulated Depreciation

The related schedule of the accumulated depreciation account amounting to P223.469 million is likewise not submitted due to the reason stated in Shedule E above.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULES A to K
As of December 31, 2012

Schedule G - Intangible Assets and Other Assets

The other assets account balance of P191.347 million as of December 31, 2012 comprises 1.96% only (below the 5% requirement) of the P9.758 billion assets, hence, omitted.

Schedule H - Long-Term Debt

Applicable account schedule as of December 31, 2012 is herewith attached/submitted.

Schedule I - Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)

This schedule is omitted. There is no outstanding payable to subsidiaries and affiliates as of December 31, 2012.

Schedule J - Guarantees of Securities of Other Issuers

Not applicable.

Schedule K - Capital Stock

Applicable account schedule as of December 31, 2012 is herewith attached/submitted.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
AGING SCHEDULE OF RECEIVABLES & ADVANCES
As of December 31, 2012
(In Thousand Pesos)

	Amount	Allowance for Doubtful Account	Net Amount	Current	1-30	31-60	61-90	91-120	Over 120
01 Unbilled Contract Receivable	234	234	-						-
02 Billed Contract Receivable	254,172	92,262	161,910		109,303				52,607
03 Contract Retention Receivable	5,135	2,380	2,755						2,755
04 Accounts Receivable - Trade	57,016	57,016	-						-
05 Accounts Receivable - Subs. and Aff. (net)	334,037	241,343	92,694	1,937	(61,007)	426	284	15,414	135,640
06 Accounts Receivable - Officers and Employees	51,887	174	51,713	80	10	14	10	49	51,550
07 Claims Receivable	105,411	40,359	65,052						65,052
08 Other Accounts Receivable	453,047	175,545	277,502	23,790	9,737	7,417	5,109	6,078	225,371
09 Advances to Supplier	2,262	2,190	72	39	33				-
10 Advance to Subcontractor	6,685	542	6,143						6,143
11 Advances to Contract Owners	636	636	-						-
Sub-total	**1,270,522**	**612,681**	**657,841**	**25,846**	**58,076**	**7,857**	**5,403**	**21,541**	**539,118**
12 Advances to Bureau of Treasury			150,000						
13 Advances to Joint Venture			74,022						
14 Advances to CESLA			28						
15 Input Tax			2,350						
16 Output Tax			(6,036)						
17 Deferred Input Tax			74						
18 Deferred Output Tax			(30,303)						
Sub-total			**190,135**						
Total			**847,976**						

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE B: AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES
RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES).
As of December 31, 2012-(In Thousand Pesos)

Name and Designation of Debtor		Balance at Beginning of Period	Additions	DEDUCTIONS		Current	Not Current	Balance at End of Period
				Amounts Collected	Amounts Written-off			
Alentajan, Bonifacio	Consultant	400					400	400
Armonio, Manuel	Consultant	106					106	106
Asuncion, Ma. Theresa	President & CEO	1,200					1,200	1,200
Caballo, Marlon	Technical Assistant (Legal Corp.)	5,554					5,554	5,554
Canosa, Rodolfo	Senior Manager	3,766		3,766				-
Garin, Edgardo	Employee	192					192	192
Gaston, Segundo	Group Head - (Senior Vice Pres.)	41,013					41,013	41,013
Jardin, Penny	Employee	2,860					2,860	2,860
Purugganan, Abraham	Executive Vice President	475					475	475
Sison, Luis	President & CEO	151		151				-
		55,717	-	**3,917**	-	-	**51,800**	**51,800**

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE H : LONG TERM DEBT
As of December 31, 2012 and December 31, 2012
(In Thousand Pesos)

		As of December 31, 2012					As of December 31, 2011				
			Long-term Debt					Long-term Debt			
Creditors	Amount Authorized by Indenture	Current Portion of Long-term Debt	Amount	Interest Rate	No. of Periodic Install.	Mat. Date	Current Portion of Long-term Debt	Amount	Interest Rate	No. of Periodic Install.	Mat. Date
Domestic:											
Toll Regulatory Board	912M	4,496,424 *		2%/mo.on outs.bal.	30 years	04/30/2007	4,182,881 *		2%/mo.on outs.bal.	30 years	04/30/2007
Debt to NG		2,866,869					2,865,674				
Debt to GOCC		1,203,000					1,203,000				
Total		8,566,293	0				8,251,555	0			

*inclusive of pena;ty charges

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

SCHEDULE K: CAPITAL STOCK

As of December 31, 2012

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown Under Related Balance Sheet Caption	Number of Shares Reserved for Options, Warrants Conversion and Other Rights, Redemptions	Number of Shares Held by Affiliates	Directors, Officers, and Employees	Others
Preferred A (Treasury Stock)	1,400,000	1,400,000	1,400,000			
Preferred B	42,114,879	18,689,500				18,689,500
Preferred C	6,485,121	6,485,121				6,485,121
Preferred D	27,800,000	25,500,000				25,500,000
Special Common	10,000,000	1,567,273			2,952	1,564,321
(Treasury Stock)		289,159	289,159			-
Common	182,200,000	174,444,759			4,105	174,440,654
Total	270,000,000	228,375,812	1,689,159	-	7,057	226,679,596

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
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		√	
PFRS 11*	Joint Arrangements			
PFRS 12*	Disclosure of Interests in Other Entities			
PFRS 13*	Fair Value Measurement			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendment to PAS 1: Capital Disclosures			√
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		√	
PAS 2	Inventories	√		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
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	Employee Benefits		√	
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures		√	
PAS 19 (Amended)*	Employee Benefits		√	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			√
PAS 21	The Effects of Changes in Foreign Exchange Rates			√
	Amendment: Net Investment in a Foreign Operation			√
PAS 23 (Revised)	Borrowing Costs	√		
PAS 24 (Revised)	Related Party Disclosures	√		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			√
PAS 27	**Consolidated and Separate Financial Statements**		√	
PAS 27 (Amended)*	Separate Financial Statements		√	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 28	**Investments in Associates**	√		
PAS 28 (Amended)*	Investments in Associates and Joint Ventures	√		
PAS 29	Financial Reporting in Hyperinflationary Economies			√
PAS 31	Interests in Joint Ventures	√		
PAS 32	Financial Instruments: Disclosure and Presentation	√		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			√
	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	√		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	√		
PAS 38	Intangible Assets		√	
PAS 39	Financial Instruments: Recognition and Measurement	√		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	√		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			√
	Amendments to PAS 39: The Fair Value Option	√		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			√
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	√		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives		√	

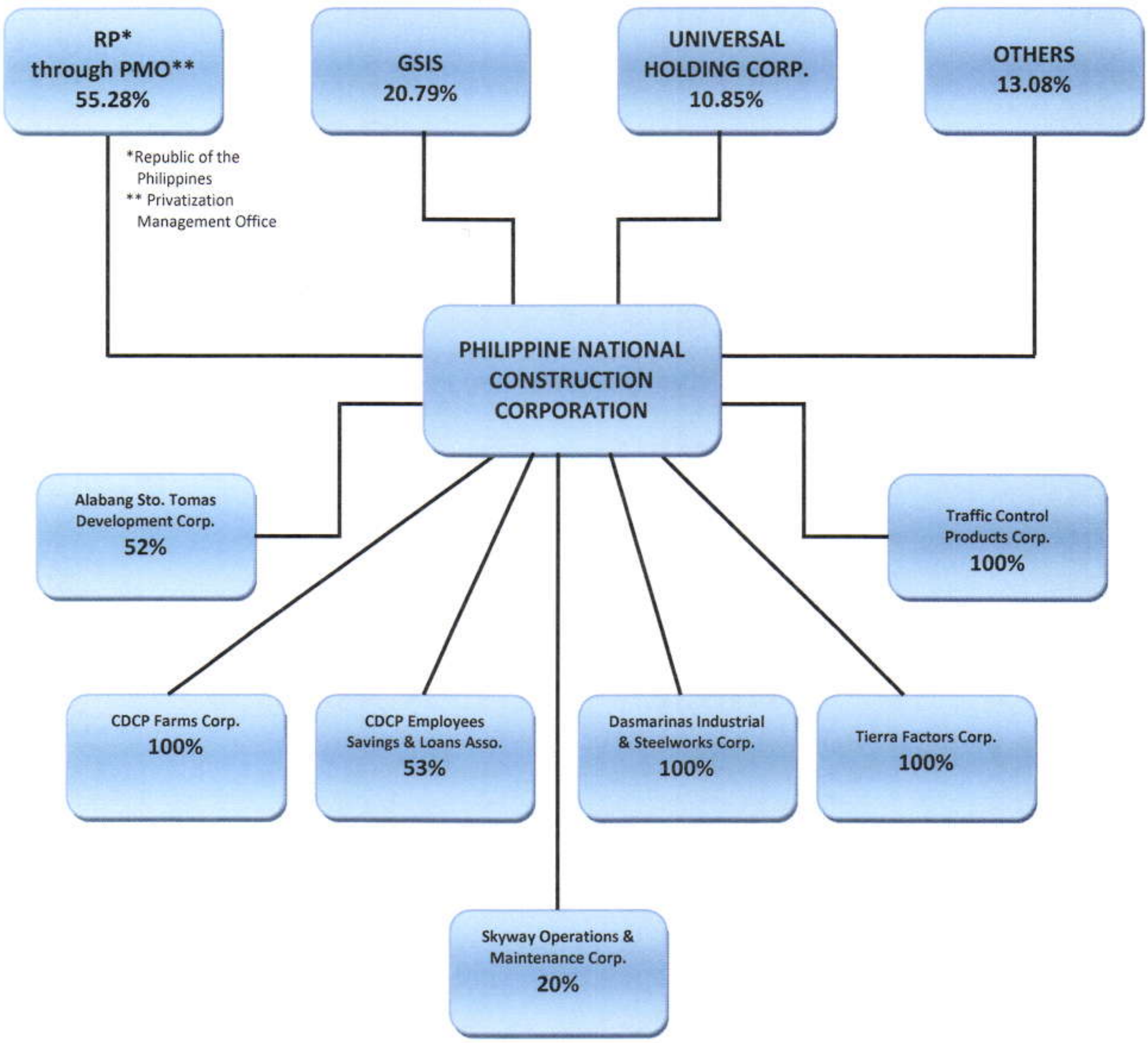
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
	Amendment to PAS 39: Eligible Hedged Items			√
PAS 40	Investment Property	√		
PAS 41	Agriculture			√
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			√
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			√
IFRIC 4	Determining Whether an Arrangement Contains a Lease			√
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			√
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			√
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			√
IFRIC 8	*Scope of PFRS 2*			√
IFRIC 9	Reassessment of Embedded Derivatives			√
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			√
IFRIC 10	*Interim Financial Reporting and Impairment*	√		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			√
IFRIC 12	Service Concession Arrangements			√
IFRIC 13	Customer Loyalty Programmes			√
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			√
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			√
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			√
IFRIC 17	Distributions of Non-cash Assets to Owners			√
IFRIC 18	Transfers of Assets from Customers			√

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			√
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			√
SIC-7	Introduction of the Euro			√
SIC-10	Government Assistance - No Specific Relation to Operating Activities			√
SIC-12	Consolidation - Special Purpose Entities			√
	Amendment to SIC - 12: Scope of SIC 12			√
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			√
SIC-15	Operating Leases - Incentives			√
~~SIC-21~~	~~Income Taxes – Recovery of Revalued Non-Depreciable Assets~~			
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			√
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			√
SIC-29	Service Concession Arrangements: Disclosures.			√
SIC-31	Revenue - Barter Transactions Involving Advertising Services			√
SIC-32	Intangible Assets - Web Site Costs			√

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
FINANCIAL SOUNDNESS INDICATORS

		2012	2011
1	Current/Liquidity Ratios:		
	Current Ratio	0.105:1	0.111:1
	Quick Asset Ratio	0.102:1	0.107:1
2	Solvency Ratios:		
	Debt to Assets	115.63%	114.80%
	Debt to Equity Ratio	-739.81%	-775.51%
3	Asset to Equity Ratio	-639.8%	-675.5%
4	Interest Rate Coverage Ratio	0.09	-0.93
5	Profitability Ratios:		
	Return on Assets	-2.16%	-4.74%
	Return on Equity	-13.85%	-32.03%

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



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 __________________.

By:

MIRIAM M. PASETES
Principal Financial Officer

SUBSCRIBED AND SWORN to before me this AUG 13 2013 in MUNTINLUPA CITY affiants exhibiting to me her Government issued I.D. SSS no. 03-284-665-1.

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Series of 2013

ATTY. REYNAN G. RETAZO
NOTARY PUBLIC FOR MUNTINLUPA CITY
APPT. NO. NC 13-021, UNTIL DECEMBER 31, 2014
EMERALD II BLDG. MONTILLANO ST., ALABANG MUNT. CITY
PTR NO. 1214588 / 01-02-13 / MUNT. CITY
IBP NO. 909324 / 12-14-12 / PPLM
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