COVER SHEET

30939

S.E.C. Registration Number

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION (formerly CONSTRUCTION AND DEVELOPMENT CORPORATION OF THE PHILIPPINES)

(Company's Full Name)

PNCC COMPLEX KM 15 EAST SERVICE ROAD BICUTAN PARANAQUE CITY

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

RENATO M. MONSANTO

Contact Person

846-2906

Company Telephone Number

12 31

Month Day

Fiscal Year

20-IS

FORM TYPE

03 4th Tuesday

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document ID

Cashier

STAMPS

23 August 2017

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of **PHILIPPINE NATIONAL CONSTRUCTION CORPORATION** will be held at PNCC Compound, KM 15 East Service Road, Bicutan, Paranaque City, on **Thursday, September 14, 2017 at 2:00 o'clock in the afternoon.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Reading and Approval of the Minutes of the Previous Stockholders' Meeting held on October 17, 2016
3. Ratification of All Acts and Resolutions of the Board of Directors and Management Adopted During the Preceding Year
4. Report of the President
5. Amendment of the Third Article of the Articles of Incorporation in compliance with SEC Memorandum Circular No. 9, series of 2015
6. Election of the Board of Directors (including the Independent Directors)
7. Other Matters
8. Adjournment

The rationale and explanation of each relevant Agenda item requiring shareholder approval may be found in the succeeding pages of this Notice and may also be found in the Definitive Information Statement sent together with this notice.

Minutes of the last Annual Stockholders' Meeting and resolutions of the Board of Directors from October 17, 2016 will be available for examination during office hours at the office of the Corporate Secretary at the PNCC Complex, Km. 15 East Service Road, Bicutan, Paranaque City.

Only stockholders of record at the close of business hours on 5 July 2017 are entitled to notice, and to vote at this meeting. Registration will start at 1:00 p.m. and will close at exactly 1:45 p.m. Please present any government issued ID as proof of identification such as driver's license, passport, postal ID, or SSS/GSIS ID. Aside from personal identification, representatives of corporate stockholders should present a notarized Secretary's Certificate indicating the representative's authority to represent the corporation. Beneficial owners whose shares are lodged with the Philippine Central Depository (PCD), or registered under the name of a broker, bank, or other fiduciary, must, in addition to the required proof of identification, present a notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares.

Should you be unable to attend the meeting, you may want to execute a proxy in favor of a representative. Proxies must be presented to the Corporate Secretary for inspection, validation, and record, at least three (3) business days prior to the Stockholders' Meeting. We enclose a proxy form for your convenience.

RENATO M. MONSANTO
Assistant Corporate Secretary

EXPLANATION OF AGENDA ITEMS FOR STOCKHOLDERS' APPROVAL

Certification of Notice and Quorum

The Corporate Secretary will certify the date the notice of the meeting was sent to all stockholders and the date of publication of the notice in newspaper of general circulation.

The Corporate Secretary will further certify the existence of a quorum. The stockholders present, in person or by proxy, representing a majority of the outstanding capital stock shall constitute a quorum for the transaction of business.

The following are the rules of conduct and procedures:

1. The polls are open for the stockholders to cast their votes manually.
2. A stockholder may vote manually using the ballot provided to him upon registration and placing the voted ballot in the ballot boxes located at the registration table.
3. Each outstanding share of stock entitles the registered holder to one vote.
4. In general, the stockholders act by the affirmative vote of stockholders representing at least a majority of the outstanding and voting capital stock present at the meeting.
5. For the amendment of the Third and Seventh Article of the Articles of Incorporation, the affirmative vote of stockholders representing at least two-thirds (2/3) of the outstanding capital stock is required.
6. The Election of the directors shall be by plurality of votes. Every stockholder shall be entitled to cumulate his vote.
7. The stockholders may cast their votes anytime during the meeting.
8. All votes received shall be tabulated by the Office of the Corporate Secretary, and the results of the tabulation shall be validated by Commission on Audit (COA) - Audit Team.
9. During the meeting, as the stockholders take up an item on the Agenda, the Corporate Secretary will report the votes already received and tabulated on that item.

Approval of the Minutes of the Annual Stockholders' Meeting held on October 17, 2016

The minutes of this meeting is available for viewing in the Company's website at the following link: http://www.pncc.ph/minutes-of-asm. Copies of the minutes will also be available at the registration area on the date of the Annual Stockholders' Meeting on September 14, 2017.

The stockholders will vote for the adoption of a resolution approving the minutes of the October 17, 2016 annual stockholders' meeting.

Proposed Resolution:

"RESOLVED, that the minutes of the October 17, 2016 annual stockholders' meeting hereby are approved, ratified and confirmed."

Ratification of Corporate Acts of the Board of Directors

The Chairman will present to the stockholders for their approval, ratification and confirmation all the acts of the Board of Directors, the Board Committees, and Management performed from October 17, 2016.

Proposed Resolution:

"RESOLVED, that all acts of the Board of Directors and its standing Committees, and of Management, as recorded in their respective Minutes, as well as acts of the Executive Officers of this Company in the performance of their respective duties, performed since the last annual meeting of the stockholder's up to this date be, and hereby are approved, ratified and confirmed,"

Report of the President and Chief Executive Officer (CEO)
The President & CEO will deliver a report to the stockholders on the performance of the Company in 2016 and 1st & 2nd Quarter of 2017 and the outlook for 2018. Audited Financial Statements (AFS) as of December 31, 2016 (AFS) will be embodied in the Information Statement to be sent to the stockholders at least 15 business days prior to the meeting.

A resolution noting the report and approving the AFS will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least a majority of the outstanding voting stock present at the meeting.

Proposed Resolution:

"RESOLVED, that the President's Annual Report and the Audited Financial Statements as of December 31, 2016 be, as they are hereby accepted and approved, and the Corporate Secretary is instructed to file the same as parts of these minutes."

Amendment of the Third Article of the Articles of Incorporation to Change the Corporation's Principal Office and Place of Business

A resolution approving the amendment will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

Proposed Resolution:

"RESOLVED, that the amendment of the Third Article of the Amended Articles of Incorporation as follows in compliance with SEC Memorandum Circular No. 9 series of 2015:

> THIRD: That the corporation shall have its principal office and place of business in PNCC Complex, KM 15 East Service Road, San Martin de Porres, Bicutan, Paranaque City, Philippines, but may have such branches, agencies and correspondents in the Philippines and in foreign countries as nay be necessary for the proper conduct of its business.

are hereby accepted and approved, and the Corporate Secretary is instructed to file the same to the Securities and Exchange Commission."

Election of the Board of Directors of the Corporation

Any stockholder may submit to the Nomination Committee nominations to the Board not later than July 21, 2017. The Nomination Committee will determine whether the nominees for directors, including the nominees for independent directors, have all the qualifications and none of the disqualifications to serve as members of the Board before submitting the nominees for election by the stockholders. The profiles of the nominees to the Board will be provided in the Information Statement and in the company website for examination by the stockholders.

The directors are elected by plurality of votes using the cumulative voting method. The eleven (11) nominees receiving the highest number of votes will be declared elected as directors of the company.

Other Matters

The Chairman will open the floor for comments and questions by the stockholders. Stockholders may raise other matters or issues that may be properly taken up at the meeting.

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

PROXY

The undersigned stockholder of PHILIPPINE NATIONAL CONSTRUCTION CORPORATION (the "Corporation") hereby constitutes and appoints ___________________________ as proxy to represent the undersigned stockholder, and to vote all the shares registered in the name of the undersigned stockholder in the books of the Corporation at the meeting of the stockholders of the Corporation, and any adjournment thereof to be held on 14 September 2017.

The proxy is authorized to vote on all matters, which may properly be taken in the said meeting of stockholders.

This proxy shall be valid only for the said meeting of the stockholders, unless withdrawn by the undersigned stockholder by written notice filed with the Corporate Secretary of the Corporation. This proxy shall not be valid for meetings where the undersigned stockholder personally registers and attends the aforementioned meeting, and at any adjournment thereof.

Signed this Proxy this ___ day of _____ 2017.

By:

____

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
AUG 04 2017
MARKET REGULATION DEPT.
BY: Aye TIME: 2:10

1. Check the appropriate box:
   [X] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter
   PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

3. Province, country or other jurisdiction of incorporation or organization
   Metro Manila, Philippines

4. SEC Identification Number **0000030930**

5. BIR Tax Identification Code **000-058-330-000**

6. Address of principal office — Postal Code
   PNCC COMPLEX, KM. 15, EAST SERVICE ROAD, BICUTAN, PARAÑAQUE CITY — **1700**

7. Registrant's telephone number, including area code
   (632) 822-57-25 / (632) 846-3045

8. Date, time and place of the meeting of security holders

   Date and Time: **September 14, 2017, 2:00 p.m.**
   Place: **PNCC Complex, Km. 15, East Service Road, Bicutan, Paranaque City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   August 23, 2017

10. Name of Person Filing the Statement: **PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**
    Address: **PNCC Complex, Km. 15, East Service**
    Road, **Bicutan, Paranaque City**
    Telephone No.: **(632) 822-57-25 / (632) 846-3045**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Shares (06/30/2017)	**174,444,759**
Total Liabilities as of December 31, 2016	**₱12,677,199,178.00**

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes __X__ No ______

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

The Registrant's common shares are listed in the Philippine Stock Exchange.

INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. **Date, time and place of meeting of security holders.**

Date: September 14, 2017
Time: 2:00 p.m.
Place: PNCC Complex, Km. 15, East Service Road, Bicutan, Parañaque City

The corporate mailing address of the principal office of the Registrant is PNCC Complex, Km. 15, East Service Road, Bicutan, Parañaque City.

The Information Statement will approximately be sent or given first to stockholders of record on 23 August 2017 or at least fifteen (15) business days before the meeting date.

Item 2. **Dissenters' Right of Appraisal**

There is no item in the agenda that will entitle a shareholder to exercise a right of appraisal as provided under Section 81, Title X, of the Corporation Code of the Philippines ("Corporation Code").

Any stockholder of the Registrant shall have the right to dissent and demand payment of the fair value of his shares only in the following instances, as provided by the Corporation Code:

(1) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;
(2) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets;
(3) In case of merger or consolidation; and
(4) In case of investments in another corporation, business or purpose.

The appraisal right when available, may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares; Provided, That failure to make the demand within such period shall be deemed a waiver of the appraisal right. A stockholder must have voted against the proposed corporate action in order to avail himself of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder upon surrender of his certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment; and Provided, Further, That upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

Item 3. <u>Interest of Certain Persons in or Opposition to Matters to be Acted Upon</u>

None of the officers or directors or any of their associates has any substantial interest, direct or indirect, in any of the matters to be acted upon in the stockholders' meeting.

No director has informed the Registrant in writing that he intends to oppose any action to be taken at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. <u>Voting Securities and Principal Holders Thereof</u>

(a) Number of shares outstanding as of 31 March 2017:

Common:	174,444,759
Preferred "D":	25,500,000
	199,944,759

(b) Record Date: 5 July 2017

Each common and preferred D share of stock of the Registrant is entitled to one (1) vote. Pursuant to Article IV, section 4.05 of the Registrant's Amended By-Laws, every holder of voting stock may vote for each share of stock standing in his name on the books of the Registrant, unless the law provides otherwise. Also Article IV section 4.07 provides that at all meetings of the Stockholders, a stockholder or by his duly authorized attorney-in-fact, only on forms prescribed by the Board of Directors and sealed with the Corporate Seal that, at his request, shall be furnished to him by the Secretary of the Corporation, who shall keep a record of all stockholders to whom proxy forms have been issued. Such proxies should be acknowledged before the Secretary of the Corporation or a notary public, and shall be filed with the Secretary at least three (3) business days before the meeting.

Shares standing in the name of another corporation may be voted by such officer, agent, or proxy as the By-Laws of such provision, as the Board of Directors of such Corporation may, by resolution determine. A Certificate of the Secretary of such corporation attesting to the vote authority of the officer, agent or proxy to vote the stock standing in its name shall be conclusive on the right to vote said shares.

Shares held by an administrator, executor, guardian or judicial trustee may be voted by him, either in person or by proxy, without a transfer of such shares in his name, upon presentation to the Secretary of the certified true copy of the letters of administration, testamentary guardianship or trusteeship duly issued to him. Share standing in the voting trust or trustee may be voted by him, either in person or by proxy, but no such trustee shall be entitled to vote shares held by him without a transfer of such shares in his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if his authority to do is contained in an appropriate order to the court by which such receiver was appointed.

A stockholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred to the name of the pledge; thereafter, the pledge shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the Corporation or held by it in a fiduciary capacity shall not be voted directly or indirectly at any meeting and shall not be counted in determining the total number of outstanding shares entitled to vote at any time.

Stockholders entitled to vote are also entitled to cumulative voting in the election of directors. Section 24 of the Corporation Code provides, in part, that: "...in stock corporations, every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing, at the time fixed in the by-laws, in his own name on the stock books of the corporation, or where the by-laws are silent, at the time of the election; and said stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit..."

Security Ownership of Certain Beneficial and Management

Security ownership of certain record and beneficial owners of more than 5.0% of the Registrant's voting securities as of 31 March 2017:

Title of Class of Securities	Name/Address of Record Owners and Relationship with Registrant / Citizenship	Amount/Nature of Record Beneficial Ownership	Percent of Class
Common	**PRIVATIZATION MANAGEMENT OFFICE** 104 Gamboa St., Legaspi Village, Makati City Shareholder / Filipino	79,271,024	39.64%
Common	**GOVERNMENT SERVICE INSURANCE SYSTEM** Roxas Blvd., Pasay City Shareholder / Filipino	47,490,383	23.75%
Common	**UNIVERSAL HOLDINGS CORP.** CVCLAW Center, 11th Ave. cor. 39th St. Bonifacio Global City, 1634 Metro Manila Shareholder / Filipino	24,780,746	12.39%
Common	**PCD Nominee Corporation** 37/F Tower I The Enterprise Center, 1226 Ayala Avenue, Makati City Shareholder / Filipino	12,562,537	6.28%
Preferred D	**PRIVATIZATION MANAGEMENT OFFICE** 104 Gamboa St., Legaspi Village, Makati City Shareholder / Filipino	25,500,000	12.75%

By virtue of LOI 1295 (1983) 76.14% of voting equity has been held by various government financial institutions (GFIs), namely: PNB, Phil Guarantee, 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.

Only 23.86% of PNCC's voting equity is strictly under private ownership and 6.28% of which is being held by PCD Nominee Corporation. PCD Nominee Corporation is the registered owner of shares beneficially owned by participants in the Philippine Depository & Trust Corporation, a private company organized to implement an automated book entry system of handling securities transactions on the Philippines (PCD). Under the PCD procedures, when an issuer of a PCD-eligible issue will hold a stockholders' meeting, the PCD shall execute a pro-forma proxy in favor of its participants for the total number of shares in their respective principal securities account as well as for the total number of shares in their client securities account. For the shares in the principal securities account, the participant concerned is appointed as proxy, with the obligation to constitute a sub-proxy in favor of its clients with full voting and other rights for the number of shares beneficially owned by such clients. As of Record Date, the Registrant is not aware of any investor beneficially owning shares lodged with the PCD which comprise more than five percent (5%) of the Registrant's total outstanding common shares of stock.

However, it can be argued that the GSIS shareholdings of 23.75% may also be considered of private ownership because GSIS members and their contributions are private in nature, having come from individual earnings or salaries resulting from individual work rendered.

Security ownership of management as of 31 March 2017:

Title of Class	Name of Beneficial Owner/ Address	fCitizenship	Amount/Nature of Record Beneficial Ownership	% to Total Outstanding
BOARD				
Common	Elpidio C. Jamora, Jr.	Filipino	1 (Direct)	00.00%
Common	Mario K. Espinosa	Filipino	1 (Direct)	00.00%
Common	Jephonie L. Agustin	Filipino	100 (Direct)	00.00%
Common	Rosendo T. Capco	Filipino	10 (Direct)	00.00%
Common	Pedro B. Cabatingan, Jr.	Filipino	2 (Direct)	00.00%
Common	Salvador B. Calanoy IV	Filipino	50 (Direct)	00.00%
Common	Jonathan A. Dela Cruz	Filipino	50 (Direct)	00.00%
Common	Mohamad Taha A. Guinomla	Filipino	101 (Direct)	00.00%
Common	Antonio T. Pido	Filipino	50 (Direct)	00.00%
Common	William T. Yu	Filipino	1 (Direct)	00.00%
MANAGEMENT				
Common	Janice Day E. Alejandrino	Filipino	6 (Direct)	00.00%
Common	Yolanda C. Mortel	Filipino	13 (Direct)	00.00%
Total			385	00.00%

Except as aforementioned, no other officers of the Registrant hold, directly or indirectly, shares in the Registrant.

Voting Trust

The Registrant is not aware of any voting trust agreements or any other similar agreements which may result in a change in control of the Registrant.

Changes in Control

No change in control of the Registrant has occurred since the beginning of its last fiscal year.

Item 5. **Directors and Executive Officers of the Registrant**

Term of Office

Each director holds office until their successors are elected and qualified in accordance with the By-Laws of the corporation except in case of death, resignation, disqualification or removal from office.

Background Information

The following are the names, ages and citizenship of the incumbent directors of the Registrant

Name	Age	Position	Citizenship
Elpidio C. Jamora, Jr.	60	Chairman of the Board	Filipino
Mario K. Espinosa	59	Director, President & CEO	Filipino
Jephonie L. Agustin	41	Director	Filipino
Pedro B. Cabatingan, Jr.	56	Director	Filipino
Salvador B. Calanoy IV	57	Director	Filipino
Jonathan A. Dela Cruz	64	Director	Filipino
Mohamad Taha A. Guinomla	67	Director	Filipino
Lamberto B. Mercado, Jr.	52	Director	Filipino
Wilfredo C. Maldia	68	Director	Filipino
William T. Yu	63	Director	Filipino
Gerard L. Chan	39	Director, Ex-Officio	Filipino

The following are the names, ages and citizenship of the Registrant's executive officers in addition to its executive and independent directors listed above as of 30 June 2017.

Name	Age	Position	Citizenship
Renato M. Monsanto	66	Assistant Corporate Secretary	Filipino
Janice Day E. Alejandrino	63	Senior Vice President for Human Resource and Administration	Filipino
Miriam M. Pasetes	65	Vice President - Corporate Treasurer	Filipino
Yolanda C. Mortel	62	Vice President for Materials Management & Asset Disposal	Filipino
Ilie Lionel B. Gramata	43	Vice President for Corporate Legal	Filipino
Ezra L. Panopio	29	Assistant Vice President - Corporate controller	Filipino
Henry B. Salazar	49	Assisant Vice President & Corporate Legal Officer	Filipino
Felix M. Erece	56	Assistant Vice President - Personnel Services & Records Management	Filipino

The following states the business experience of the incumbent directors and officers of the Registrant for the last five (5) years:

Directors

ELPIDIO C. JAMORA, JR., ***Chairman***, is the President of Epsilon Maritime Services, Inc., Camnorte Ezone Realty, Inc., Impress Land, Inc. and Bandera Realty, Inc. He serves as Director of Himawari International Promotion, Inc., Indo Phil Acrylic Mfg. Corp., Indo Pil Cotton Mills, Inc. Mahaveer Philippine Foundation, Inc. and Exquisite Focus, Inc. He is a Managing Partner and Founding Member of Carag, Jamora, Somera & Villareal Law Offices. He earned his Bachelor of Arts, major in Political Science degree, from the Lyceum of the Philippines in 1977. He earned his Bachelor of Laws degree from the University of the Philippines in 1982 and became a member of the Philippine Bar in 1983.

MARIO K. ESPINOSA, ***President & CEO / Vice Chairman***, has varied experience in both the government and private sectors. He has substantial experience in the operation of government owned and controlled corporations having part of the board of several GOCCs. He served as Director of Granex Oils Mills from 2002 to 2010 and contemporaneously served as Director of Macopramarco, Inc. in 2008. At present, he serves as Director of Masbate Consolidated Arrastre, Inc. and MCI Cable, Inc. He had served the Presidential Assistant for Bicol affairs from 2003 up to 2005 with the rank of Undersecretary. He was also a Director of Toll Regulatory Board representing the private sector from 2002 up to 2010. Prior to his election as Vice Governor of Masbate Province from 1998 to 2001, he had served as Provincial Administrator from 1992 to 1995. Mr. Espinosa earned his A.B. Philosophy degree from the University of the Philippines in 1980 and earned units in the Ateneo De Manila Law School.

JEPHONIE L. AGUSTIN, ***Director***, has 18-year experience in the field of project management of various construction projects. He is a Senior Manager of Moses & Partners Management Company based in Davao City handling various construction projects from 2004 until today. He served as General Manager of Megalith Project Management and Allied Services from 2010 to 2014. Mr. Agustin has earned his Bachelor of Science degree in Mechanical Engineering from the University of Mindanao in 1997.

PEDRO B. CABATINGAN, JR., ***Director***, has been in Military service in various capacities for more than 35 years until he retired in 2016 as Police Director assigned at the Region 11 - Internal Affair Service of the Philippine National Police. He graduated from Philippine Military Academy in 1985 and earned his Master's in Management major in Public Administration from Philippine Christian University in 2003.

SALVADOR B. CALANOY IV, ***Director***, has been in military service for 33 years serving as Colonel of Philippine Army until his retirement in 2015. He graduated from the Philippine Military Academy in 1984. Thereafter, he earned his Bachelor of Laws degree from San Sebastian College in 1996.

JONATHAN A. DELA CRUZ, ***Director***, was an outstanding member of the 14th and 16th Congress. He is presently a co-anchor of the daily morning radio show Karambola over DWIZ and writes a regular column for Business Mirror, Tribune and People's Journal. In 1973, he joined the staff of the Board of Investments and became the youngest Director of the Bureau of Employment Services, the precursor of the Philippine Overseas Employment Administration. He also served as a member of the governing board of the Overseas Employment Development Board (OEDB), the National Seaman Board (NSB) and the Workers Welfare Fund (WWF). In 1983, he served as the Director General of the Labor Center for Middle East and Africa covering 16 countries in the region and concurrently assigned as Deputy Chief of Mission of the Philippine Embassy in the Kingdom of Saudi Arabia. Mr. Dela Cruz finished his 5th year in BS Mechanical Engineer at the Ateneo de Manila University in 1972. He earned his Certificate on Environment and Urban Planning from the University of the Philippines in 1979.

MOHAMAD TAHA A. GUINOMLA, ***Director***, is a Certified Public accountant. He joined the government service in 1977 through the Budget Commission, now the Department of Budget and Management. He then transferred to the Department of Foreign Affairs in 1987 as Budget Director before getting his first assignment in Kuwait in 1988, where he was designated as Administrative Officer. In 1990, he was cross-posted to Jeddah. In 1999, he was again posted to Jeddah as Administrative Officer until he completed his six-year tour of duty. He was returned to his old post as DFA Budget Officer before he was once more assigned to Kuwait in 2008. He was again cross-posted to Riyadh in June 2010 until 2014 after which he was designated as Head of DFA Mindanao until his retirement in 2015. Mr. Guinomla obtained a degree in Bachelor of Science in Commerce Major in Accounting from the University of Mindanao in 1975. He passed the CPA board examination in 1977.

LAMBERTO B. MERCADO, ***Director***, is the Legal Counsel and member of the Board of Directors of the following corporations from 1981 to present: Air Philippines Corp., Philippine International Airways, Inc., Grand Ilocandia Resort and Development, Inc., Waterfront Philippines, Inc., Forum Pacific, Inc., Consumer Products Distribution Services, Inc., Mabuhay Vinyl Corp., Metro Alliance Holdings 7 Equities Corp., Acesite (Phils.) Hotel Corp., and Pacific Wide Realty & Development Corp. He obtained his degree in Bachelor of Science in Commerce major in Accounting from the University of Sto. Tomas in 1985. He passed the CPA Board Examination in June 1985.

Mr. Mercado obtained his Bachelor of Laws from Ateneo de Manila University School of Law in 1990 and passed the Philippine Bar a year after.

WILFREDO C. MALDIA, ***Director*****,** holds various directorship positions in the private sector. He sits as an independent director in the Board of the First Vallet Development Bank and as member of the Board of ROTECO, Yamang Lupa't Dagat Corporation and CEAM Corporation. He also served as Senior Adviser to the Ropali Group of Companies, and as Director of the Farmers Savings & Loan Bank, Inc. and Banco Alabang Inc. He also worked as a consultant to the Asian Development Bank as a financial and organizations specialist for Agricultural Development Bank of Nepal, Agricultural Credit Specialist for Bangladesh Krishi Bank and as a rural credit specialist of the Estanislao Lavin & Associates. Mr. Maldia graduated with a Bachelor of Science degree in Agriculture, major in Agricultural Economics from the University of the Philippines Los Banos, Laguna in 1969. In 1979, he also completed his Bachelor's degree in Commerce, major in Accounting from the Polytechnic University of the Philippines, and immediately obtained his license as a Certified Public Accountant. He earned his Master's degree in Business Administration from the Philippine Christian University in 1984.

WILLIAM T. YU, M.D., ***Director*****,** has served 31 years in the military services as Military Medical Officer with the rank of Colonel. He was the General Duty Officer of PMA Station Hospital. He held various positions at the V. Luna General Hospital such as Ward Officer, Chief Pulmonary DSE Service, Training and Education Officer of Chief of Clinics, Assistant Head of Department of Medicine & Head of Out-Patient Services. He likewise served at Fort Bonifacio General Hospital as Chief, Medical Services and Deputy Commander. He served as Commanding Officer (Director) of the following military hospitals such as Camp Evangelista Station Hospital in Cagayan De Oro, Fort Bonifacio General Hospital, Camp Melchor Dela Cruz Hospital and Fort Magsaysay Army Station Hospital. Dr. Yu graduated with a degree of Bachelor of Science in Chemistry at Far Eastern University in 1973 and Doctor of Medicine at FEUNRMF in 1977. He is an active honorary member of Philippine Military Academy Class of 1978. Dr. Yu obtained his Masters in Management, major in Hospital Management at the Philippine Christian University in June 2017.

GERARD L. CHAN, ***Ex-Officio Director*****,** is currently the OIC - Chief Privatization Officer of Privatization and Management Officer. He has served various government agencies over the years, among of which were: the Department of Transportation as Assistant Secretary for Procurement in 2016; the Department of Transportation and Communications as Director for Legal Service of the Franchising Review and Investigation Security & Law Enforcement from 2012 to 2016; and OIC - Assistant Secretary for Legal Affairs from 2013 to 2016. He has been in the academe for years as Professorial Lecturer in the College of Law of the University of the

Philippines from 2012 until today. He was also engaged until today as Lecturer for Mandatory Continuing Legal Education (MCLE): Asian Center for Legal Excellence, Inc. since 2015; Integrated Bar of the Philippines from 2012, University of the Philippines Law Center from 2013. Atty. Chan graduated with a degree of Bachelor of Science in Management major in Legal Management minor in Japanese Studies at Ateneo de Manila University in 2000. He earned his Bachelor of Laws at the University of the Philippines in 2005 and passed the Philippine Bar in May 2006. He attended the University of Bradford in United Kingdom in 2016 for his Master of Laws (International Trade and Commercial Administration.

Officers

RENATO M. MONSANTO, *Asst. Corporate Secretary*, has worked with the PNCC Corporate Secretariat in such capacity for the past 17 years. He holds a B.S. Journalism degree from Lyceum and completed two years legal education in UST.

JANICE DAY E. ALEJANDRINO, *Senior Vice President for Human Resources and Administration*, has served PNCC since 1997 in the area of human resource and administrative services. She is now the Compliance Officer of the company and has earlier served as the Lead Internal Auditor for the company's Quality Management System. She has earned her degrees in B.S. in Hygiene and M.A. in Asian Studies from the University of the Philippines in 1975 and 1984, respectively. She completed the academic requirements of 36 units for a degree in Master of Arts in Economic Research from the University of Asia and the Pacific from 1984-1986. She has been engaged as a resource person in various government institutions in the area of training and systems development.

MIRIAM M. PASETES, *Vice President & Corporate Treasurer*, has served PNCC since 1977 until today in various capacities in the field of finance. She started as a Management Economics and Financial Analyst 1 in 1977 and moved up to the position of Corporate Finance Officer in 1998 with the rank of Senior Vice President. She was promoted to the rank of Vice President and Senior Vice President. In February 2004 and May 2005, respectively. She now serves as Corporate Treasurer. Ms. Pasetes graduated *Cum Laude* with a degree in Bachelor of Science in Commerce from Centro Escolar University in 1972.

YOLANDA C. MORTEL, *Vice President for Materials Management & Asset Disposal*, joined the company in 1975 and rose from the ranks to become the Head of the Materials Management Division from March 2001 up to the present. She has continued to serve as Head of the Asset Disposal Task Force from January 2004 and as Head of the Technical Working Group of the PNCC Bids and Awards Committee from 2005. She also has served as Director of

CDCP Employees Salary and Loan Association from 2001 until today. She obtained her degree in Bachelor of Science in Education in 1975 from J. Rizal College of Taal, Batangas.

ILIE LIONEL B. GRAMATA, ***Vice President for Corporate Legal,*** joined the Philippine National Construction Corporation in January 2017. Prior to his appointment in PNCC, he served in the Department of Finance from November 2013 to June 2016 in various capacities. Mr. Gramata was Managing Partner of Valenton Gramata Loseriaga Law Offices from May 2010 to October 2013. Mr. Gramata graduated with Bachelor of Laws degree at San Beda College in 2001 and passed the Philippine Bar in ____. Mr. Gramata earned his Diploma in Financial Engineering in 2014 and obtained his Bachelor of Science in Applied Economics degree in 1996 at De La Salle University Manila.

HENRY B. SALAZAR, ***Asst. Vice President & Corporate Legal Officer,*** he headed the Litigation Department of PNCC until he was retrenched in June 2011. He rejoined PNCC a month after. At present, he is the Corporate Legal Officer of PNCC, with the rank of Assistant Vice President. He previously served as Trust Attorney in the Asset Privation Trust from July 1997 to December 2000. He obtained his Bachelor of Laws degree from Arellano Law School in 1996. He was admitted to the Philippine Bar after passing the 1996 Bar Examinations. He has a degree in AB Economics from San Beda College where he graduated in 1991.

FELIX M. ERECE, ***Asst. Vice President for Personnel Services and Records Management*** is the Head of Personnel Services and Records Control. In addition, he was tapped to oversee the operation of manpower supply contract with SOMCO (Skyway Maintenance and Operation) and the manpower requirements of Philphos Project in Leyte previously handled by the dissolved DISC Management. He studied in TUPP-Manila Technician Institute taking up a three-year Civil Technology course sponsored by PBSP. He also studied Civil Engineering at Feati University, took-up various computer related courses and attended trainings/seminars to equip him with the knowledge and skills needed in handling bigger responsibilities.

EZRA L. PANOPIO, ***Asst. Vice President for Controllership*** joined PNCC in March 2017 as the Head of Corporate Controllership Department. Mr. Panopio served as Audit Manager of auditing firms such as PwC Philippines from 2015 to 2016 and Reyes Tacandong & Co. from 2011 to 2015. He graduated with Bachelor of Science in Accountancy degree at University of Bicol in 2008 and passed the CPA examination on the same year. Mr. Panopio is pursuing his Master of Science in Accountancy at Ateneo de Naga University.

Board Meeting Attendance

	Directors Name	No. of Meetings Attended in 2016 (Total No. of Meetings: 18)	No. of Meetings Attended Jan-Jun 2017 (Total No. of Meetings: 12)
Chairman	Elpidio C. Jamora, Jr.	18/18	12/12
Member	Mario K. Espinosa[a]	0	12/12
Member	Jephonie L. Agustin[b]	2/2	10/12
Member	Wifredo C. Maldia*	n/a	n/a
Member	Pedro B. Cabatingan[f]	n/a	9/9
Member	Salvador B. Calanoy IV[f]	n/a	9/9
Member	Mohamad Taha A. Guinomla[f]	n/a	9/9
Member	William T. Yu[f]	n/a	9/9
Member	Jonathan A. Dela Cruz[f]	n/a	7/9
Member	Lamberto B. Mercado[h]	n/a	5/6
Member	Rosendo T. Capco[j]	n/a	11/11
Member	Gerard L. Chan[h]	n/a	0
	Replaced:		
Member	Luis F. Sison[c]	17/18	1/1
Member	Anthony B. Sasin[d/**]	n/a	3/8
Member	Elisea G. Gozun[e]	8/18	0/4
Member	Nora O. Vinluan[g]	18/18	4/4
Member	Rosanna E. Velasco[g]	12/18	4/4
Member	Tomas C. Alvarez[g]	18/18	3/4
Member	Cristino L. Panlilio[g]	17/18	4/4
Member	Robert G. Vergara[g]	4/18	0/4
Member	Antonio C. Pido[i]	11/18	5/7
Member	Ma. Lourdes B. Recente[i]	1/1	0/7

Legend:

a Appointed on January 16, 2017
b Appointed on November 16, 2016
c Replaced on January 16, 2017
d Appointed on February 27, 2017
e Replaced on February 27, 2017
f Appointed on March 14, 2017
g Replaced on March 14, 2017
h Appointed on April 17, 2017
i Replaced on April 17, 2017
j Resignation was accepted by Malacanang on May 27, 2017
* Appointed on July 17, 2017
** Replaced on July 17, 2017

All of the incumbent directors are on hold-over status until the appointment of their replacement by the Office of the President of the Philippines.

Ms. Virginia G. Madrona, is stockholder who is not in any way related to the nominees, nominated to the Board the election of Mr. Feliciano M. Coquia, Jr. as independent director.

Meanwhile, Ms. Janice Day E. Alejandrino, a management officer of the Company, is also a stockholder and not in any way related to the nominees, nominated to the Board the election of Mr. Edgardo L. Ylo and Mr. Dominador M. Cruz as independent directors.

The Nomination Committee in its meeting on July 17, 2017 included in the final list of candidates for independent directors includes Mr. Coquia, Mr. Ylo and Mr. Cruz as they met the required qualifications.

The following states the business experience of the last five (5) years of the nominees for independent directors:

EDGARDO L. YLO was appointed Executive Vice President of the Philippine National Construction Corporation from 1997 thru 1999. Before then, he served in various capacities in the company, handling various construction activities. Among others, he served as Division Manager for Concrete Products (1975-1976); as Group Manager for System Construction Group (1977-1980); concurrently as area Manager for South East Asia Operation and as Executive Director for Asiavest-CDCP, both based in Kuala Lumpur (1980-1982), as General Manager of Dasmarinas Steel Corporation (1983-1985) and as Division Manager for Construction Products (1985-1988). He also served as Manager, Construction Management Services of San Miguel Corporation (1988-1997). In 1960, he completed his Bachelor of Science in Chemistry from the Adamson University and his Bachelor of Science in Civil Engineering from the Polytechnic Colleges of the Philippines in 1965. He is a candidate for Master of Business Administration in Ateneo de Manila University.

FELICIANO M. COQUIA, JR. is the President of J-JAC Holdings Corporation and Purity Seafoods International from 1987 until today. He is also a Financial and Management consultant to MSEs from 1990 until today. He also served as Vice President and CFO of Neleh Foods, Inc. based in California, USA. He also served as Senior Manager of PNCC from 1974 to 1986. He graduated with the degree of Bachelor of Science in Commerce, Major in Accounting from University of Sto. Tomas in 1970. He was a candidate for Masters in Business Administration in Ateneo Graduate School of Business in 1978.

DOMINADOR M. CRUZ is the Chairman of Riofil Corporation from 1988 until today and President/Chairman of Stracons, Inc. from 1981 until today. He served as Assistant Vice President of CDCP (now PNCC) in charge also of Operations Center and Industrial Construction Division from 1980 to 1981, in charge of Building Construction Department and Building Allied Construction Division from 1978 to 1979, Area Manager for Port Gentil Redevelopment Project in Libreville, Gabon, Africa from 1977 to 1978. He obtained his Bachelor of Science in Civil Engineering degree from Polytechnic Colleges of the Philippines (now Central Colleges of the Philippines) in 1959 and passed the Civil Engineering board in the same year.

The Corporate Governance Manual for 2017 of the Registrant as approved by the PNCC Board during its meeting held on May 15, 2017 in compliance with the SEC Memorandum Circular No. 19 Series of 2016 conforms to SRC Rule 38 with regard to the nomination of independent directors of the Registrant. Article 5.5, 5.3.c and 5.3.c.7 provides:

"5.5 **REINFORCING BOARD INDEPENDENCE**

The board shall endeavor to exercise an objective and independent judgment on all corporate affairs.

In order to do this, the Board shall implement the following:

5.5.a The Board shall have at least three independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher.

5.5.b The Board shall ensure that its independent directors possess the necessary qualifications and none of the disqualifications for an independent director to hold the position.

5.5.c An Independent Director refers to a person who, ideally

5.5.c.1 Is not, or has not been a senior officer or employee of the covered company unless there has been a change in the controlling ownership of the company;

5.5.c.2 Is not, and has not been in the three years immediately preceding the election, a director of the covered company; a director, officer, employee of the covered company's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the covered company's substantial shareholders and its related companies;

5.5.c.3 Has not been appointed in the covered company, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus," "Ex-Officio" Directors/Officers or Members of any Advisory Board, or otherwise appointees in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding his election;

5.5.c.4 Is not an owner of more than two percent (2%) of the outstanding shares of the covered company, its subsidiaries, associates, affiliates or related companies;

5.5.d.5 Is not a relative of a director, officer, or substantial shareholder of the covered company or any of its related companies or of any of its substantial shareholders. For this purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;

5.5.c.6 Is not acting as a nominee or representative of any director of the covered company or any of its related companies;

5.5.c.7 Is not a securities broker-dealer of listed companies and registered issuers of securities. "Securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm, which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, an associate person or salesman, and an authorized clerk of the broker or dealer;

5.5.c.8 Is not retained, either in his personal capacity or through a firm, as a professional adviser, auditor, consultant, agent or counsel of the covered company, any of its related companies or substantial shareholder, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;

5.5.c.9 Does not engage or has engaged, whether by himself or with other persons or through a firm of which he is a partner, director or substantial shareholders, in any transaction with the covered company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;

5.5.c.10 Is not affiliated with any non-profit organization that receives significant funding from the covered company or any of its related companies or substantial shareholders; and

5.5.c.11 Is not employed as an executive officer or another company where any of the covered company executives serve as directors.

Related companies, as used in this section, refer to (1) the covered entity's holding/parent company; (2) its subsidiaries; and (3) subsidiaries of its holding/parent company.

5.5.d The Board's independent directors shall serve for a maximum cumulative term of nine years. After which, the independent director shall be perpetually barred from re-election as such in the company, but may continue to qualify for nomination and election as a non-independent director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders approval during the annual shareholders' meeting.

5.3.c The Board shall establish a Corporate Governance Committee that will be tasked to assist the Board in the performance of its corporate governance responsibilities, including the functions that were formerly assigned to a Nomination and Remuneration Committee. It shall be composed of at least three members, all of whom shall be independent directors, including the Chairman.

...

5.3.c.7 Determines the nomination and election process for the company's directors and has the special duty of defining the general profile of board members that the company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board;"

On the other hand, SRC Rule 38, as amended, provides in part as follows:

"8. Nomination and Election of Independent Director/s

The following rules shall be applicable to all covered companies:

A. The Nomination Committee (the "Committee") shall have at least three (3) members, one of whom is an independent director. It shall promulgate the guidelines or criteria to govern the conduct of the nomination. The same shall be properly disclosed in the Registrant's information or proxy statement or such other reports required to be submitted to the Commission.

B. Nomination of independent director/s shall be conducted by the Committee prior to a stockholders' meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the would-be nominees.
C. The Committee shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening and parameters to enable it to effectively review the qualifications of the nominees for independent director/s.
D. After the nomination, the Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required under Part IV (A) and (C) of Annex "C" of SRC Rule 12, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the Information Statement, in accordance with SRC Rule 20, or in such other reports the Registrant is required to submit to the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relationship with the nominee.
E. Only nominees whose names appear on the Final List of Candidates shall be eligible for election as Independent Director/s. No other nominations shall be entertained after the Final List of Candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' /membership' meeting."

The Registrant has not complied with the guidelines on the nomination and election of independent directors set forth in Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code. The election of directors was deferred on the October 17, 2016 Annual Stockholders' Meeting. Hence, no independent directors could have been elected. The Nomination and Remuneration Committee is composed of Director Jephonie L. Agustin as Chairman and Directors Mohamad Taha A. Guinomla, Salvador B. Calanoy IV, Elpidio C. Jamora, Jr. and Mario K. Espinosa as members.

Disagreement of Directors and Executive Officers

The resignation of Director Rosendo T. Capco was accepted by the Office of the President of the Philippines through its letter dated May 27, 2017 which letter was noted by the Board in its June 1, 2017. No Director has declined to stand for re-election to the Board of Directors since the date of the last annual stockholders' meeting due to disagreement with the Registrant on any matter relating to the Registrant's operations, policies or practices.

Significant Employees

The Registrant has no other significant employee other than its Executive Officers.

Family Relationships

Mario K. Espinosa and Ms. Geraldine C. Espinosa, who are both employees of the Company, are related by affinity within second civil degree (Geraldine having been married to Mario's younger brother). Ms. Espinosa's employment has been approved through a resolution passed by the Board of Directors.

Certain Relationships and Related Transactions

The Registrant has not had any transaction during the last three (3) years in which any Director or Executive Officer or any of their immediate family members has a direct or indirect interest.

Involvement in Certain Legal Proceedings

None of the aforementioned Directors or Executive Officers is or has been involved in any criminal or bankruptcy proceeding, or is or has been subject to any judgment of a competent court barring or otherwise limiting his involvement in any type of business, or has been found to have violated any securities laws during the past five (5) years and up to the latest date.

Item 6. Compensation of Directors and Executive Officers

The aggregate compensation paid or incurred during the last two fiscal years, as well as those estimated to be paid in the ensuing fiscal year, to the Company's President and senior management officers is attached hereto as Annex "A."

Standard arrangement

The Board adopts Executive Order (E.O.) No. 24, prescribing rules to govern the compensation of members of the board of directors/trustees in Government-Owned or Controlled Corporations including Government Financial Institutions. Effective June 1, 2013, the Governance Commission for Government-Owned and Controlled Corporations (GCG), in its letter dated May 27, 2013 determined the Company to be under classification "D".

The entitlement of the members of the Board of Directors for actual attendance of meeting are as follows:

Board meetings:	**₱10,000.00** per meeting but not to exceed the maximum annual amount of ₱240,000.00.
Committee meetings:	**₱6,000.00** per meeting but not to exceed the maximum annual amount of ₱144,000.00.

The Directors furthermore receive the following allowances:

Transportation & Gasoline:	**₱1,000.00** per meeting subject to submission of receipts, including
normal	/ordinary vehicle maintenance costs and gasoline expenses but not to
exceed	₱60,000.00 per annum.
Communication:	**₱2,000.00** per month subject to submission of telephone/celphone bills
or	receipts, but not to exceed ₱24,000.00 per annum.
RFID:	**₱5,000.00** per month subject to submission of receipts but not to exceed ₱60,000.00 per annum.

Other arrangements

Other than payment of reasonable per diem for directors for every meeting, there are no standard arrangements pursuant to which directors of the company are compensated, or are to be compensated, directly or indirectly by the Company's subsidiaries, for any services provided as a director for 2015, 2016, and 2017.

Employment contract between the company and executive officers

There are no special employment contracts between the company and the named executive officers.

Warrants and options held by the executive officers and directors

There are no outstanding warrants or options held by the Company's CEO, the named executive officers, and all other officers and directors as a group.

Significant employee

While the Company values the contribution of each of its executive and non-executive employees, the Company believes there is no non-executive employee that the resignation or loss of whom would have a material adverse impact on the business of the Company. Other than standard employment contracts, there are no special arrangements with non-executive employees of the Company.

Material Pending Legal Proceedings

The Corporation is involved in continuing litigations relating to labor and civil cases. The labor cases consist of those filed against the Corporation comprised mostly of claims of illegal dismissal, back wages, withheld benefits and separation pay. The civil cases filed by or against the Company involve breach of contract, damages, collection of money, and attorney's fees.

Notable among the cases filed against the Company is the claim of PMO that amounts to ₱5.55 billion. PNCC's debt remains unconverted as it is the Company's position, as supported by the Office of the Solicitor General (OSG) opinion dated August 23, 2007, that based on LOI 1295, which was a special law promulgated to rehabilitate the Company, the debts have effectively been converted to equity and therefore, should no longer incur interest charges.

On the other hand, the PMO, still considers these unconverted debts as liabilities, claiming the total amount of ₱57.919 billion as of December 31, 2015, inclusive of accumulated interest charges and penalties amounting to ₱52.407 billion.

These ₱ 5.2.407 billion accumulated interest charges and penalties have not been recognized in the books of the Company based on the following reasons:

- The Supreme Court (SC) itself had recognized the validity of LOI 1295 and that it still legally exists today;
- The failure to convert all debts to equity is considered an administrative matter;
- The ₱5.55 billion is not a debt but simply represents unissued shares of stocks awaiting actual conversion to equity pursuant to LOI 1295 and, as such, continued imposition of interest and penalties is not warranted.

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

In view of the differences on the treatment of the ₱5.55 billion unconverted debt to equity, PNCC and the PMO have resolved to submit the matter to the DOJ for arbitration. The DOJ in its February 18, 2014 consolidated decision dismissed PNCC's Petition against PMO. PNCC filed a Motion for Reconsideration dated March 13, 2014, duly received at the DOJ on March 14, 2014. PNCC prayed that the DOJ consider the consolidation of decision as not proper and for the DOJ to decide on the NDC case separately separately from the PMO.

- Render judgment declaring that the interest and penalty charges being imposed by PMO on the actual outstanding debt of PNCC to the NG is without basis and violate LOI 1398;
- Declare that PNCC's outstanding debt to the NG is only in the amount of ₱5.55 billion, representing the amount of the unconverted debt-to-equity obligation to the GFIs; and
- Require or direct the debt-to-equity conversion of the ₱5.55 billion debt of PNCC pursuant to the clear and explicit instructions under LOI 1295.

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

Audit Committee's Approval Policies and Procedures

In relation to the audit of the Registrant's annual financial statements, the Registrant's Revised Corporate Governance Manual provides that the audit committee shall among other activities, (1) review the reports submitted by the internal and external auditors and (2) review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters: any changes in accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumptions, compliance with accounting standards, compliance with tax, legal and regulatory requirements. The Audit Committee of the Registrant is composed of Director Mohamad Taha A. Guinomla, Chairman and Directors William T. Yu, Pedro B. Cabatingan, Jr., Mario K. Espinosa and Elpidio C. Jamora, Jr. as members.

Tax Fees

Except as provided above, the Registrant did not pay any tax fees and other fees to its external auditors.

9. During the meeting, as the stockholders take up an item on the Agenda, the Corporate Secretary will report the votes already received and tabulated on that item.

FINANCIAL AND OTHER INFORMATION

Brief Description of the Nature and Business of the Company

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the South Luzon Tollways, PNCC entered into a partnership with Indonesia's P.T. Citra Lamtoro Gung Persada to build the elevated toll road or Skyway System from Nichols to Alabang and to upgrade the at-grade portion for the same stretch. Citra Metro Manila Tollways Corporation (CMMTC) is the Joint Venture Company and concessionaire, and has been running these segments since 1999. The PNCC Skyway Corporation (PSC) originally managed the operation and maintenance of the Skyway System and its corresponding at-grade section, but due to operational inefficiencies, PSC suffered financial losses. The Skyway Operation and Maintenance Corporation (SOMCO) took over the operations and maintenance of the Skyway Systems in 2008. PNCC has 11% share in CMMTC (also diluted from 20%) and a 20% share in SOMCO, which up to this day remains unissued to PNCC because of legal disputes with CMMTC.

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

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

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

A Subscription Agreement was also executed by and among the Alabang-Sto. Tomas Development Inc. (ASDI), the NDC, and the PNCC on November 14, 2008, wherein PNCC subscribed to 12,500 shares from the unissued portion of the 150,000 shares authorized capital stock (with par value of ₱1,000 per share) of ASDI. ASDI is a joint venture company between PNCC and NDC and incorporated to undertake the Daang Hari-SLEX connector road (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 to implement of the design and construction of the Road Project, which consists of a toll road facility connecting Daang Hari Road in Cavite to the SLEX adjacent to the Susana Heights Interchange. The project was 25% complete when the DPWH, pursuant to its PPP mandate, took over the project for the purpose of bidding it out. The project was bidded out and awarded to Ayala Corporation in the amount of ₱900M and ASDI was reimbursed in the amount of ₱353M representing its cost plus a premium for its efforts.

Meanwhile, pursuant to Executive Order No. 605 which directed all government agencies to install a Government-wide quality management program, and prior to the above turn-over to MATES, PNCC has acquired and maintained an ISO 9001 Certification to cover its expressway operations in the SLEX. The company, with the full support of its Board, adopted and implemented its Quality Management System Manual. On December 15, 2009, Stage 1 (Documentation) Certification Audit was conducted by a Certification Body, the SGS Philippines. Before the end of the first quarter of 2010, SGS Philippines, Inc. granted to PNCC the ISO 9001:2008 Quality Management System Certificate for Tollway Management. The certificate was valid from 18 March 2010 until 17 March 2013.

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

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

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

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

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

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

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

On September 26, 2013, the Supplemental Toll Operation Agreement (STOA) governing the design, construction, operation and maintenance of the MMS Stage 3 was approved by the Office of the President of the Philippines. Under the STOA, the Company is provided with 20% equity in CCEC, 10% is free carry and can never be diluted while the other 10% is to be paid for. In 2015, when the call was made for a capital increase investment in CCEC, the Company waived its subscription rights for the 10%. PNCC's 10% investment in CCEC amounted to ₱620 million as of December 31, 2016. The Company waived its right in the Operation and Maintenance (O&M) company in exchange for the shares in gross revenues. The start of commercial operations of the MMS Stage 3 Project is expected in 2018.

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

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

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

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

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

Financial Statements

The Audited Financial Statements of the Philippine National Construction Corporation as and for the year ended December 31, 2016 are attached hereto as Annex "B."

The additional components of the financial statements required by the SEC under SRC Rule 68, as amended, are attached to this Information Statement as follows:

(a) Reconciliation of Retained Earnings available for Dividend Declaration (Annex "C")
(b) Tabular Schedule of Standards and Interpretations (Annex "D")
(c) Map showing the relationships between and among the companies in the group, its ultimate parent company and subsidiaries (Annex "E")
(d) Schedule of indicators of financial soundness (page ___ of Annex "F")
(e) Amounts receivables from related parties eliminated during consolidation (Annex "G")
(f) Amounts payable to related parties (Annex "H")

Management's Discussion and Analysis or Plan of Operation

Management's Discussion and Analysis or Plan of Operation of PNCC as and for the year ended December 31, 2016 is attached hereto as Annex "F."

Independent Public Accountants

The Corporation has no independent public accountant but is subject to post-audit by the Commission on Audit ("COA"). The aggregate audit fees billed for the assigned COA Audit Team to the Company for the last three calendar years are ₱2,487,475.00 for 2014, ₱2,168,438.00 for 2015 and ₱2,486,720.00 for CY 2016.

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

Representatives of COA are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and they are expected to be available to respond to appropriate questions.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in or disagreements with accountants on accounting and financial disclosure.

Stockholders

There are 4,815 holders of common equity security of the Company as of June 30, 2017 (based on the number of account registered with the Stock Transfer Agent). The following are the top 20 holders of the common securities of the Company:

	Stockholders Name	No. of Common Shares	% (of Common Shares)[1]
1	Republic of the Phils. through the PMO	79,271,024	45.4419%
2	Government Service Insurance System (GSIS)	47,490,383	27.2237%
3	Universal Holdings Corp.	24,780,746	14.2055%
4	PCD Nominee Corp. - Filipino	12,562,537	7.2014%
5	Cuenca Investment Corp.	2,088,132	1.1970%
6	Cuenca, Rodolfo M.	698,116	0.4002%
7	Land Bank of the Philippines	657,836	0.3771%
8	Unigrowth Development Corp.	630,625	0.3615%
9	Gow, Jimmy N.	274,000	0.1571%
10	Cruz, F. F. & Co., Inc.	252,630	0.1448%
11	Blue Chip Assets, Inc.	244,700	0.1403%
12	Adachi, Sueo	184,025	0.1055%
13	Chung, Felix	173,900	0.0997%
14	Alpapara, Johnson	170,000	0.0975%
15	Go, Manuel	150,000	0.0860%
16	Benpres Corporation	140,000	0.0803%
17	Cruz, Felipe F.	135,993	0.0780%
18	Montelibano, A. Hijos, Inc.	120,750	0.0692%
19	Carnet Machineries & Invest. Corp	119,842	0.0687%
20	Filipinas Bag Corporation	106,936	0.0613%

[1]based on the total common shares issued of 174,444,759

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market Information

Registrant's 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.

Dividends

Dividends may be declared annually or often as the Board of Directors may determine. The Board of Directors may declare dividend only from the surplus profits of the Corporation.

With the approval of the stockholders representing two-thirds ($^2/_3$) of all the outstanding capital stock entitled to vote, given at a general meeting or at a special meeting duly called for the purpose, the Board may declare that dividends ne paid in stock.

Recent Sale of Unregistered Securities

None

Stock Options

None

COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

The Board of Directors adopted the Revised Manual on Corporate Governance on March 23, 2011 as a conscious attempt to significantly enhance PNCC's corporate organization to make it valuable partner of the national government being its majority shareholder and to its public stockholders as well. On September 3, 2014, the Revised Manual on Corporate Governance has been amended in compliance with the Revised Code of Corporate Governance, SEC Memorandum Circular No. 9, Series of 2014, and consistent with commitments made in the 2013 Annual Corporate Governance Report (ACGR) that was filed by the Company with the SEC and PSE. The Corporate Governance Manual for 2017 of the Registrant was approved by the PNCC Board during its meeting held on May 15, 2017 in compliance with the SEC Memorandum Circular No. 19 Series of 2016.

Board meetings are held monthly or as often as necessary. The Board maintained the following committees to assist in good governance:

Audit Committee. The committee oversees the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations.

Finance Committee. The role of the finance committee is primarily to provide financial oversight for the company. Task areas include budgeting and financial planning, financial reporting, and the creation and monitoring of internal controls and accountability policies.

Nomination and Remuneration Committee. Establishes a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the corporation's culture, strategy and the business environment in which it operates.

Legal Committee. Review major issues regarding the status of the Company's compliance with laws and regulations, as well as major legislative and regulatory developments that may have significant impact on the Company.

As of June 30, 2017, the Company were not able to fully satisfy it's Manual of Corporate Governance because of its peculiar circumstances of PNCC as a corporation. The Board is taking the preliminary steps to move towards the adherence to principles and practices of good corporate governance.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Paranaque on July 31, 2017.

By:

....
(Signature)

RENATO M. MONSANTO /ASST. CORPORATE SECRETARY
....
(Printed Name/Title)

ANNEX “A”

Compensation of President and Senior Management Officers

The compensation for the executive officers of the Registrant for the years 2015 and 2016(actual) and 2017 (projected) are shown below:

Names	Position	Year	Salary	Bonus	Others
Luis F. Sison	President & CEO				
Janice Day E. Alejandrino	Senior Vice President for Human Resource and Administration				
Yolanda C. Mortel	Vice President for Materials Management				
Miriam M. Pasetes	Vice President - Acting Treasurer				
Felix M. Erece	Assistant Vice President - Personnel Services & Records Management				
Aggregate executive compensation for above named officers		**Actual 2015**	**₱10.732M**	**₱944K**	**₱1.094M**
		Actual 2016	**₱10.732M**	**₱944K**	**₱1.169M**
		Projected 2017	**₱10.732M**	**₱944K**	**₱1.169M**

ANNEX "B"

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

ANNUAL AUDIT REPORT

on the

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

For the Year Ended December 31, 2016

EXECUTIVE SUMMARY

Introduction

The Philippine National Construction Corporation (PNCC), previously known as the Construction Development Corporation of the Philippines (CDCP), was granted the franchise to construct, operate and maintain the North Luzon Expressway (NLEX), South Luzon Expressway (SLEX) and Metro Manila Expressway by virtue of PD No. 1113 issued on March 31, 1977, as amended by PD No. 1894 issued on December 22, 1983. The debt-to-equity conversion pursuant to and under the directives of LOI 1295 promulgated on February 23, 1983 gave the Government majority ownership of the Company.

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

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

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

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

Scope and Objectives of Audit

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

c) Prepare and send timely and accurate Statement of Account to each lessee;

d) Review the accuracy of the computation of interest due on delayed payments taking into consideration the provisions of the lease agreement. Prepare the necessary adjustments;

e) Ensure that subsidiary ledgers are updated;

f) Designate one personnel to review all lease agreements, continuously monitor compliance by lessees to the provisions of the terms and conditions of the agreement, ensure that billings/SOAs are promptly sent, track the corresponding payments received thereof, and prepare monthly collection reports;

g) In case payments from lessees are not received on time, follow up payment through telephone calls, electronic means or personal visitation and send notices of collection on past due accounts;

h) Reconcile discrepancies noted, if any, between the balances per books and the balances per debtors' records; and

i) Coordinate with the supplier of Quickbooks and arrange for the training of accounting personnel to fully utilize the software that will facilitate and lighten the workload of the Controllership Department.

2. Weaknesses in internal control noted over property and equipment

We recommended that Management:

a) Conduct an annual physical count of PNCC's property and equipment;

b) Account for any missing item and determine persons accountable;

c) Establish the physical condition and determine whether any adjustment is necessary to state the property and equipment at their recoverable amounts;

d) Formulate a written policy prescribing the rules and procedures on transactions involving computer instruments;

e) Investigate the variance between the inventory count sheet and accounting records;

f) Determine the personnel accountable for the missing items of computer instruments;

g) Take the necessary legal action to collect the receivables from the former PNCC Director;

h) Strictly observe the procedures provided in PNCC's Controller's Manual;

i) Encourage close coordination among the PNCC's different units/departments; and

j) Conduct regular reconciliation of the financial data maintained by the Controllership Department with the non-financial data/records maintained by the operating units such as GSD and MIS.

3. PNCC not fully compliant with the provisions of RA 9184

We recommended that Management:

a) Adhere to the provisions of RA 9184;

b) Prepare an updated/revised Procurement Manual which is RA 9184-compliant and submit the same to the PNCC Board of Directors for approval; and

c) Require PNCC personnel undertaking the procurement activities to attend seminars/trainings conducted by GPPB where they can clarify issues/matters to harmonize PNCC's procurement procedures/activities/documentation with the requirements of RA 9184.

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

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

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

Status of Implementation of Prior Year's Audit Recommendations

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

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

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS
Philippine National Construction Corporation
Km. 15, East Service Road
Bicutan, Parañaque City

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

OF INTERNAL VENUE
LARGE TAXPAYERS SERVICE
Date JUL 11 2017 SCES
ELMER B. TANAY

Basis for Adverse Opinion

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

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

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

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

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

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

Adverse Opinion

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

Emphasis of Matter

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. Because of the significance of the matters described in the *Basis for Adverse Opinion* section of our report, it is inappropriate to and we do not express an opinion on the information referred to above.

COMMISSION ON AUDIT

ZdeVilla

ZENAIDA V. DE VILLA
OIC, Supervising Auditor

April 7, 2017

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

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

ELPIDIO C. JAMORA, JR.
Chairman of the Board

MARIO K. ESPINOSA
President

MIRIAM M. PASETES
Vice President, Head - Treasury

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

Names	Tax Identification No.
Elpidio C. Jamora, Jr.	103-211-578
Mario K. Espinosa	124-704-814
Miriam M. Pasetes	120-678-424

ATTY. BENJAMIN F. ALFONSO
NOTARY PUBLIC
Notary Public
UNTIL DECEMBER 31, 2017
PTR. NO. 3806846 – 1/16/2017 QUEZON CITY
IBP NO. 1038379 – 11/24/2016 QUEZON CITY
ROLL NO. 13296
ADM. MATTER NO. NP-046 (2017-2018)
ADD.: NO.34 ASSET'S ST. GSIS VILL., PROJ.8,Q.C.
MCLE NO. II-0020276- OCT. 29,2011

Doc. No. 483
Page No. 97
Book No. LXA
Series of 2017

PHILIPPINE NATIONAL
CONSTRUCTION CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The Management of the Philippine National Construction Corporation is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2016. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached *Board Approved-Audited Financial Statements* as of and for the year ended December 31, 2016 and the accompanying Annual Income Tax Return are in accordance with the books and records of Philippine National Construction Corporation, complete and correct in all material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances; and

(c) the Philippine National Construction Corporation has filed all applicable tax returns, reports, and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

MARIO K. ESPINOSA
President and CEO

MIRIAM M. PASETES
Vice President, Head - Treasury

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

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

JUL 11 2017

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

See accompanying Notes to Financial Statements.

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

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

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

See accompanying Notes to Financial Statements.

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

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

	Capital Stock P10 Par Value (Note 18)	Capital in Excess of Par Value	Subscriptions Receivable (Note 19)	Treasury Stock	Revaluation Increment in Property	Equity Adjustment-Loans Transf. to Nat'l Gov't (Note 20)	Retained Earnings (Deficit) (Note 4.11 & 31)	Total Equity
Balances, December 31, 2014	2,283,758,120	46,137,443	(56,158,831)	(16,699,918)	377,332,208	5,551,726,307	(8,333,090,592)	(146,995,263)
Correction of prior years' errors (Note 31)	0	0	0	0	0	0	27,500,000	27,500,000
As of January 1, 2015	2,283,758,120	46,137,443	(56,158,831)	(16,699,918)	377,332,208	5,551,726,307	(8,305,590,592)	(119,495,263)
Expiration of 2012 Minimum Corporate Income Tax	0	0	0	0	0	0	(2,767,289)	(2,767,289)
Piecemeal realization of revaluation increment	0	0	0	0	(969,251)	0	969,251	0
Reduction in deferred tax liability	0	0	0	0	290,775	0	0	290,775
Others	0	0	0	0	0	0	1,566,104	1,566,104
Net income	0	0	0	0	0	0	74,743,921	74,743,921
Other comprehensive income								
Movement in revaluation increment, net of tax	0	0	0	0	160,434,195	0	0	160,434,195
Balances, December 31, 2015	2,283,758,120	46,137,443	(56,158,831)	(16,699,918)	537,087,927	5,551,726,307	(8,231,078,605)	114,772,443
As of January 1, 2016	2,283,758,120	46,137,443	(56,158,831)	(16,699,918)	537,087,927	5,551,726,307	(8,231,078,605)	114,772,443
Piecemeal realization of revaluation increment	0	0	0	0	(4,135,258)	0	4,135,258	0
Reduction in deferred tax liability	0	0	0	0	1,240,577	0	0	1,240,577
Net income	0	0	0	0	0	0	737,320,663	737,320,663
Balances, December 31, 2016	2,283,758,120	46,137,443	(56,158,831)	(16,699,918)	534,193,246	5,551,726,307	(7,489,622,684)	853,333,683

See accompanying Notes to Financial Statements.

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

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

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

See accompanying Notes to Financial Statements.

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

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

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

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

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

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

In August 1995, the Company entered into a Business and Joint Venture Agreement (BJVA) with Indonesia's P.T. Citra Lamtoro Gung Persada (CITRA) and formed the joint venture company, Citra Metro Manila Tollways Corporation (CMMTC), which was granted the Supplemental Toll Operation Agreement (STOA) to finance, design and construct the South Metro Manila Skyway (SMMS) Project. The project covered the construction of the 9.5-kilometer elevated road from Bicutan, Parañaque City to the Makati Central Business District, as well as the rehabilitation of the 13.5-kilometer section of the SLEX from Alabang to Magallanes. The Company's wholly-owned subsidiary, PNCC Skyway Corporation (PSC), originally managed the operation and maintenance of the SMMS Project. October 1999 marked the start of the full operation of the entire Skyway Stage 1.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Governance Commission for GOCCs (GCG), in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five (5) subsidiaries of the Company, namely: Alabang-Sto. Tomas Development Inc. (ASDI), DISC Contractors, Builders and General Services Inc. (DCBGSI), Traffic Control Products Corporation (TCPC), CDCP Farms Corporation (CDCP FC) and Tierra Factors Corporation (TFC), which was approved by the President through a memorandum from the Executive Secretary dated August 7, 2014. The Company is in the process of abolishing the five (5) subsidiaries.

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

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

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

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

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

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

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

2. GOING CONCERN

New Projects

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

Metro Manila Skyway (MMS) Stage 3 Project

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

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

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

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

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

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

- 20 per cent equity in CCEC, 10 per cent of which is "Free Carry" i.e. not paid for by the Company and can never be diluted; while the other 10 per cent is to be paid for. In case of the Company's inability to fund the 10 per cent, CITRA needs to get the Company's approval to nominate another shareholder. The 10 per cent initial investment in CCEC amounted to P12.5 million.

- Projected share in gross revenues amounting to about P35.06 billion for the duration of the operation period (30 years);

- Projected share in net profits amounting to about P21.42 billion for the duration of the operation period (30 years);

- One permanent seat with one non-voting director to the Board of CCEC, regardless of its shareholdings;

- Membership in all Board Committees and Chairmanship of the Board's Audit Committee.

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

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

Metro Manila Expressway (MME) or C-6 Project

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

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

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

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

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

<u>Revenue Shares from New Projects</u>

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

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

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

The Company receives the following revenue shares:

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

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

Rental Income

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

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

Equity Participation in CMMTC

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

The Office of the Government Corporate Counsel (OGCC) rendered its opinion that the PD 1894 projects (namely the SMMS – Skyway Stage 1 and 2 and MMS Stage 3 and MME Stage 4) are "clearly covered by a still existing congressional franchise. For the same reason, too, the PD 1894 assets, facilities and shares are still held by PNCC." It is also the opinion of the Department of Justice (DOJ) that the Company still has a subsisting non-exclusive legislative franchise under PD 1894 and that only assets "that are related to its franchise under PD 1113 have accrued to the National Government (NG) and thus, ought to be turned over to the NG."

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

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

<u>Issuance of Final Implementing Rules and Guidelines by the Toll Regulatory Board (TRB)</u>

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

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

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

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

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

Debt of P5.552 Billion Remained Unconverted to Equity

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

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

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

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

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

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

Payment of Company Obligation to the National Government

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

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

3. CHANGES IN ACCOUNTING POLICIES

Adoption of New and Revised PFRS

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

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investment in Associate and Joint Venture - Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

- Amendments to PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* – The amendments require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in PFRS 3, *Business Combinations*) to apply all of the business combinations accounting principles and disclosure in PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

- Amendment to PFRS 12 – The amendment clarifies that the disclosure requirements in the standard apply to an entity's interests that are classified as held for sale, as held for distribution or as discontinued operations in accordance with PFRS 5.

- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

- Amendment to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendment reinstated the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

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

Annual Improvements to PFRSs 2012 - 2014 Cycle

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

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal* – The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts* – PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements* – This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue* – This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'* – The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

New and Revised PFRS Not Yet Adopted

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

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

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle) – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.

- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

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

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

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

- Amendments to PFRS 4, *Insurance Contracts - Applying PFRS 9, Financial Instruments with PFRS 4* – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

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

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

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

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

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

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

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

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

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

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

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

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

Deferred effectivity

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

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

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

4. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of Preparation

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

4.2 Statement of Compliance

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

4.3 Initial Recognition of Financial Instruments

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

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

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

Cash and cash equivalents

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

Loans and receivables

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

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

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

Other financial liabilities

Other financial liabilities pertain to issued financial instruments that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through amortization process.

This accounting policy applies primarily to "Accounts and other payables" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

4.4 Derecognition of Financial Instruments

Financial asset

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

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

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

Financial liability

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

4.5 Impairment of Financial Assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

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

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

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

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

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

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

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

4.6 Offsetting Financial Instruments

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

4.7 Prepayments

Prepayments are expenses paid in advance and recorded as assets before these are utilized. These are comprised of insurance premiums, other prepaid items, and creditable withholding taxes. Prepayments that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other non-current assets.

Prepayments also include inventories consisting principally of construction materials, spare parts, and supplies which are stated at cost, generally determined by the average cost method for a significant portion of domestic inventories and by the first-in, first-out method for other inventories. Allowance for inventory writedown is provided for all non-moving/obsolete items.

4.8 Investments

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

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

In a regular board meeting held on November 14, 2011, the PNCC Board resolved to comply with the mandate of the Supreme Court to transfer and turn over to the National Government (NG) the shares of stock in tollway Joint Venture Companies (JVCs) which PNCC is holding in trust for the NG.

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

4.9 Investment Property

Investment property is comprised of land or building or both held to earn rentals or for capital appreciation or both. Investment property is recognized as an asset when and only when it is probable that future economic benefits associated with the property flows to the entity and the cost of the property can be measured reliably.

Investment property is initially measured at cost. Subsequent to initial recognition, the account is stated at fair value, which has been determined based on the valuations performed by independent firms of appraisers. The changes in fair value from year to year are recognized in profit or loss.

4.10 Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Property and equipment are subsequently carried at revalued amounts.

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

Asset Type	Estimated Useful Lives (in years)
Land improvements	10
Buildings and improvements	10 to 33
Construction equipment	2 to 10
Transportation equipment	3 to 5
Office equipment, furniture and fixtures	5
Others	2 to 7

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged against operations.

When the assets are retired or otherwise disposed of, the cost and related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposal is recognized in profit or loss.

4.11 Revaluation Increment in Property

The increase in the property and equipment's carrying amount as a result of revaluation is credited to equity under the heading of "Revaluation Increment in Property". The revalued asset is being depreciated and, as such, part of the revaluation increment is being realized as the asset is used. Realization of the revaluation increment is credited to "Retained Earnings" account.

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

4.12 Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

4.13 Provisions

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

4.14 Equity

Capital stock and Additional Paid-in Capital

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

Treasury Shares

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

Deficit

Deficit pertains to accumulated losses of the Company.

4.15 Revenue Recognition

Revenue and Dividend Share from Joint Venture Companies (JVCs)

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

Pending issuance of the Implementing Rules and Guidelines for the determination of the amounts due to the Company for its administrative expenses, the Company recognized 10 per cent of its share from the JVCs gross toll revenues, in accordance with the interim rules and guidelines issued by TRB.

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

Rental Income

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

Service Income and cost

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

Other income

Other income is recognized when earned.

4.16 General and Administrative Expenses

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

4.17 Borrowing Costs

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

4.18 Leases

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

4.19 Income Taxes

Current income tax assets or liabilities comprise of those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period that are uncollected or unpaid at reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the statements of comprehensive income.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

4.20 Value-Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepayments" or "Accounts and other payables" accounts in the statements of financial position.

4.21 Creditable Withholding Taxes

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

4.22 Contingencies

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

4.23 Events After the Financial Reporting Date

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTBIMATES

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

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

Estimates

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

Estimating allowance for impairment losses on loans and receivables

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

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

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

6. CASH AND CASH EQUIVALENTS

This account consists of:

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

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

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

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

7. ACCOUNTS RECEIVABLE

This account consists of the following:

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

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

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

- Contract related receivables

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

  - Unpaid escalation billings from the Manila International Airport Authority (MIAA) in the principal amount of P42.235 million (net of P14.181 million collection in August 2004), wherein a covering decision from the Office of the President of the Philippines was rendered in favor of the Company against MIAA, ordering the latter to pay the Company the principal amount of P56.724 million and interest thereon at the rate of six per cent per annum from the date of first demand on January 31, 1989 until the same is fully paid.

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

    On June 14, 2016, the COA Commission Proper under CP Decision No. 2016-105 granted PNCC's claim against MIAA and directed MIAA to pay PNCC the balance of the principal obligation plus six percent interest per annum or in the total amount of P114.24 million less P14.181 million representing the initial payment made by MIAA on August 2, 2004.

    On July 26, 2016, MIAA filed a Motion for Reconsideration (MR) with COA seeking guidance on how it will implement the foregoing decision. In the said MR, MIAA states that in failing to adduce the existence of vital documents, it is in legal limbo to affirmatively act on what is being called upon it to perform.

    The Company is awaiting the resolution of the COA on the MR.

- Accounts receivable - trade consist of the following:

  - Uncollected Revenue shares from Joint Venture Companies (JVCs) in the amount of P9.124 million.

  - Receivables from various tenants at Financial Center Area (FCA) amounting to P16.806 million.

- Accounts receivable - subsidiaries and affiliates totaling P408,841 represent various accommodations to the Company's subsidiaries: Alabang-Sto. Tomas Development, Inc. (ASDI) - P12,977 and Traffic Control Products Corporation (TCPC) - P395,864. The decrease from P9.287 million in 2015 to P408,841 in 2016 was mainly due to the proceeds from the sale of DCBGSI assets which were offset against the receivables from DCBGSI amounting to P8.856 million.

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

The receivables are not used as collaterals to secure obligations.

8. RECEIVABLES FROM OFFICERS AND EMPLOYEES

This account consists of receivables from the following:

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

- The amount of P42.51 million represents cash advances for franchise extension granted to former officers and consultants, of which P2.99 million are receivables from former consultants which are covered by Notices of Disallowance with corresponding Memorandum of Appeal filed with the Commission on Audit. The balance of P39.52 million is a receivable from a former officer which was referred to the OGCC for legal action.

- Receivables from officers and employees totaling P1.111 million mainly consist of cash advances of P1.032 million which formed part of the health care insurance premium of P1.818 million paid by the Company in 2015 and was covered by an Undertaking dated March 4, 2015, stating that the employees and officers will pay the Company in 12 equal monthly installments to commence in June 2016 or after the ruling of the GCG on the petition filed in their office for the inclusion of the said health care benefit, whichever comes first.

9. PREPAYMENTS

This account consists of the following:

	2016	2015
Prepayments	**13,603,421**	9,239,804
Inventories	**4,403,783**	3,658,426
	18,007,204	12,898,230

9.1 Breakdown of the prepayments account:

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

9.2 Composition of the inventory account:

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

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

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

10. INVESTMENTS

This account consists of the following:

	2016	2015 (As restated)
Investments in stocks		
Subsidiaries and affiliates		
Citra Central Expressway Corporation	620,000,000	40,000,000
Citra Intercity Tollways, Inc.	240,816,700	0
Dasmariñas Industrial & Steelworks Corp.	96,413,530	96,413,530
Alabang-Sto Tomas Development, Inc.	61,200,000	127,500,000
Tierra Factors Corporation	51,635,109	51,635,109
CDCP Farms Corporation	15,120,200	15,120,200
Manila Land Corporation	10,000,000	10,000,000
Managerial Resources Corporation	1,525,922	1,525,922
San Ramon Ranch	1,100,000	1,100,000
Traffic Control Products Corporation	700,000	700,000
San Roque Ranch	550,000	550,000
PNCC Skyway Corporation	125,050	125,050
Land Management Corporation	11,000	11,000
	1,099,197,511	344,680,811
Allowance for losses	(177,180,811)	(177,180,811)
	922,016,700	167,500,000

	2016	2015 (As restated)
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)	**181,158**	181,158
Puerto Azul Beach and Country Club	**100,000**	100,000
Architectural Centre, Inc.	**3,500**	3,500
	4,292,427	4,292,427
Market adjustment-available for sale securities	**(1,739,500)**	(1,729,500)
	2,552,927	2,562,927
Investment-others		
CDCP Employees Savings & Loan Association	**2,094,725**	2,094,725
Others	**286,600**	286,600
	2,381,325	2,381,325
-	**926,950,952**	172,444,252

A 100 per cent impairment loss is provided for investments in inactive and non-operating subsidiaries and affiliates, as well as investments in the remaining active wholly-owned subsidiary, due to their incurrence of losses resulting in accumulated deficit.

The Governance Commission for GOCCs (GCG), in its memorandum for the President of the Republic of the Philippines dated June 24, 2013, recommended the abolition of the five subsidiaries of the Company, namely: Alabang-Sto.Tomas Development, Inc. (ASDI); DISC Contractors, Builders and General Services Inc. (DCBGSI); Traffic Control Products Corporation (TCPC); CDCP-Farms Corporation (CDCP-FC); and Tierra Factors Corporation (TFC).

Through a Memorandum from the Executive Secretary dated August 7, 2014, the GCG was informed that its recommendation to abolish the PNCC subsidiaries had been approved by His Excellency, the President, subject to pertinent laws, rules, and regulations.

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

- On September 26, 2013, the abolition/dissolution of TCPC was approved per Board Resolution BD-006-2013. The conveyance of TCPC assets to PNCC has already been completed. Part of these assets has already been disposed through public bidding. The remaining undisposed assets are now being classified according to commodity classification for appraisal and for purposes of higher return upon sale.

- On September 30, 2015, DCBGSI was closed pursuant to DCBGSI Shareholders' Resolution dated August 7, 2015. On October 1, 2015, PNCC absorbed DCBGSI functions. On January 18, 2016, the Board of Directors of DCBGSI approved the shortening of its corporate life to January 31, 2016.

- On September 30, 2015, Special Stockholders Meetings of TFC and CDCP-FC were held to dissolve these subsidiaries. Management is still awaiting the appointment of Directors for both companies in order to call a Board Meeting to put into effect the closure of the two companies. A letter dated March 10, 2016 has been sent to the GCG regarding this matter.

- On the following dates, Citra Central Expressway Corporation (CCEC) issued 10 per cent "free-carry" equity shares (P100 par value) as the Company's share in the joint venture company as follows: June 30, 2014 - 125,000 shares; September 15, 2014 - 275,000 shares; and December 1, 2016 - 5,800,000 shares.

- On the following dates, Citra Intercity Tollways, Inc. (CITI) issued 10 per cent "free-carry" equity shares (P100 par value) as the Company's share in the joint venture company as follows: March 9, 2016 - 400,000 shares and December 1, 2016 - 2,008,167 shares.

11. INVESTMENT PROPERTY

This account consists of the following:

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

	Land	Buildings and Improvements	Total
At December 31, 2016			
Cost	70,772,301	0	70,772,301
Appraisal	10,327,955,199	271,220,500	10,599,175,699
	10,398,727,500	**271,220,500**	**10,669,948,000**

11.1 Financial Center Area (FCA) in Pasay City

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

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

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

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

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

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

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

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

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

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

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

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

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

12. PROPERTY AND EQUIPMENT.

This account includes the following:

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

12.1 Revaluation

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

YEAR	REVALUATION INCREASE (DECREASE) (in thousand pesos)	APPRAISAL CORPORATION
1997	69.71	General Appraisal Co., Inc.
2003	1,620.00	Various
2004	0.05	Various
2006	(235.56)	Various
2010	146.208	Various

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

12.2 Others

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

13. OTHER ASSETS

This account consists of the following:

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

13.1 Restricted cash

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

13.2 Guarantee deposits

This account pertains specifically to the guarantee/collateral for the Investors Assurance Corporation (IAC) Bond No. G(16) 0015764 in favor of IAC amounting to P71.072 million. This is also in connection with the Ernesto N. Valentin, et.al, vs. PNCC case. On November 14, 2016, the Supreme Court rendered in PNCC's favor, denying with finality the North Luzon Tollways (NLT) Employees' Motion for Reconsideration. With such denial, the dismissal of NLT Employees' complaint for various money claims against PNCC is now final and executory.

13.3 Accounts receivables - trade

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

13.4 Deferred charges

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

13.5 Receivables from officers and employees

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

13.6 Assets for write off

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

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

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

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

13.7 Other assets

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

	2016	2015
Accounts receivable - subsidiaries and affiliates	205,618,418	240,286,465
Other accounts receivable	175,200,317	175,200,317
Billed contract receivables	90,522,501	90,522,501
Advances to joint venture, net	74,021,620	74,021,620
Accounts receivable-trade	60,149,526	60,149,526
Claims receivable	24,406,064	24,406,064
Advances to subcontractors	17,169,107	17,169,107
Deferred charges	6,802,733	6,802,733
Contract retention receivable	2,380,025	2,380,025
Advances to suppliers	2,190,126	2,190,126
Advances to contract owners	636,431	636,431
Other assets - dormant account	636,088	636,088
Unbilled contract receivable	234,456	234,456
Accounts receivable-officers & employees	171,609	171,609
	660,139,021	694,807,068

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

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of the following:

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

14.1 Accounts payable

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

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

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

14.2 Accrued expenses

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

14.3 Customers' deposits

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

15. DUE TO NATIONAL GOVERNMENT AND ITS INSTRUMENTALITIES

This account consists of payables for the following:

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

15.1 Concession fees

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

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

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

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

15.2 Joint venture companies' revenue/dividends

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

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

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

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

15.3 Toll revenue (SLEX operation under TOC)

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

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

16. DUE TO GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS

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

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

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

> Whether respondent is liable to pay petitioner the principal amount of the Promissory Notes plus accrued interest and penalties as provided in the said Notes, and the Documentary Stamp Tax necessary for the execution thereof;

> Whether respondent is liable to pay/reimburse petitioner the amount of respondent's mortgage loan (including interest thereon) that petitioner paid in order to release the titles of the properties that petitioner bought from the respondent; and

> Whether petitioner must pay the value of the lot consisting of 7.5 hectares which petitioner developed with its Joint Venture partner despite the fact that said lot was specifically excluded in the Contract of Sale.

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

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

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

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

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

> Order the dismissal of the instant Petition for lack of merit;

> Order the Petitioner to pay PNCC the amount of P3.85 million representing the unpaid balance on the Dasmariñas property, plus legal interest thereon from the time of demand up to the time of payment; and

> Order the Petitioner to pay the Company the value of the 7.5 hectares of Dasmariñas property which was excluded in the Contract of Sale but developed and sold by Petitioner to locators of the First Cavite Industrial Estate, plus legal interest thereon from the time of demand up to the actual date of payment.

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

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

17. OTHER PAYABLES

This account consists of the following:

	2016	2015
Trust liabilities	**2,768,583**	2,768,583
Advances from contract owners	**1,021,046**	1,021,046
Other accounts payable	**171,072,000**	171,072,000
	174,861,629	174,861,629

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

18. CAPITAL STOCK

This account consists of various classes of shares of stock with authorized par value of P10.00 per share, details of which are presented below:

Preferred "A" (8-16 per cent cumulative, non-participating, non-voting) Authorized- 1,400,000 shares			
1,400,000	Shares	Treasury Stocks	**14,000,000**
Preferred "B" (8-17 per cent cumulative, non-participating, non-voting) Authorized- 42,114,879 shares **Issued and outstanding**			
15,000,000	Shares	Republic of the Philippines Through the APT (now PMO) – previously under PNB	150,000,000
3,689,500	Shares	Marubeni	36,895,000
18,689,500			**186,895,000**
Preferred "C"			

(14 per cent cumulative, non-participating, non-voting)		
Authorized- 6,485,121 shares		
Issued and outstanding		
6,485,121 Shares	Republic of the Philippines Through the APT (now PMO) – previously under NDC	**64,851,210**
Preferred "D" (8 per cent cumulative, participating, voting)		
Authorized- 27,800,000 shares		
Issued and outstanding		
25,500,000 Shares	PMO (previously under PNB)	**255,000,000**
Special common (non-voting, no pre-emptive right, participating)		
Authorized-10,000,000 shares		
Issued and outstanding		
3,815 Shares	Carlito C. Paulino	38,150
457 Shares	Editha U. Cruz	4,570
376 Shares	Adolfo S. Suzara	3,760
129 Shares	Vicente Longkino	1,290
Treasury Stocks		
295,227 Shares	Formerly held by PNCC Employees Savings & Loan Association	2,952,270
72,168 Shares	Formerly held by Alfredo V. Asuncion	721,680
372,172		**3,721,720**

Subscribed-			
1,484,260	Shares	FEBTC Trustee-PNCC Stock Trust Fund	**14,842,600**

Common

Authorized-shares	182,200,000		
Issued and outstanding-			
		Republic of the Philippines Through the APT (Now PMO) – previously under:	
		Phil. Export Foreign Loan Guarantee	375,845,770
		Development Bank of the Phils.	269,874,470
79,271,024	Shares	NDC	146,990,000
47,490,383	Shares	Government 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**
		Subscriptions receivable (Note 19)	**(56,158,831)**
			2,227,599,289

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

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

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

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

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

19. SUBSCRIPTIONS RECEIVABLE

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

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

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

20. EQUITY ADJUSTMENTS

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

This account represents substantial portion of the Company's liabilities to Government Financial Institutions (GFIs) which should have been converted into equity pursuant to Presidential Letter of Instruction (LOI) No. 1295 dated February 23, 1983, and liabilities to the government agencies transferred to the Government pursuant to Proclamation No. 50 issued by the President of the Philippines on December 8, 1986.

	(In thousand pesos)
Philippine National Bank	2,865,445
National Development Company	1,356,693
Philguarantee	1,204,311
Central Bank of the Philippines	75,654
Bureau of the Treasury	39,990
Development Bank of the Philippines	9,633
	5,551,726

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

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

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

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

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

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

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

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

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

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

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

  - Whether or not PNCC is indebted to the National Government in the amount of P5.4 billion which, inclusive of interests as of October 31, 2011, amounted to P51.060 billion;

  - Whether or not the unconverted debt to equity, which is a leftover of LOI 1295, should be considered as simple loan;

  - Whether or not the unconverted portion of CDCP's debts are liable for interest and penalty charges; and

  - Whether LOI 1295 repealed the general provisions of RA 337 General Banking Act, as amended, the charters of DBP (RA 85, as amended), PNB (PD 694), and LBP (RA 3844), which all restricted the GFI's exposure to non-allied industries."

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

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

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

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

- Declare that PNCC's outstanding debt to the National Government is only in the amount of P5.4 billion, representing the value of the unconverted debt-to-equity obligation to the Government Financial Institutions (GFIs); and

- Require or direct the debt-to-equity conversion of the P5.4 billion debt of PNCC pursuant to the clear and explicit instructions under LOI 1295.

On January 22, 2015, DOJ denied PNCC's Motion for Reconsideration (MR). PNCC filed a supplement to the MR on May 28, 2015 which was also denied by the DOJ in its order dated July 13, 2015.

On June 26, 2015, PNCC filed a Motion for Appeal at the Office of the President (OP) of the Philippines and filed the corresponding appeal memorandum on July 27, 2015.

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

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

This account consists of the following:

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

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

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

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

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

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

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

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

Thus, petitioner is praying for the Honorable Court that:

- The respondents TRB and COA come up with and release the final implementing rules and guidelines embodying the final formula relative to the determination of the net income remittable by respondent PNCC to the NG;

- That the respondent corporations be enjoined from remitting any and all amounts directly to the NG until respondents TRB and COA have issued the final implementing rules and guidelines; and

- The respondents be ordered to consign with the Honorable Court any and all amounts they are ready to remit to the NG until the final implementing rules and guidelines has been issued by TRB and COA.

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

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

The Petition is still pending resolution before the SC.

22. RENTAL INCOME

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

	2016	2015
Pasay City	**107,305,020**	95,894,390
Porac, Pampanga	**435,600**	417,010
Bicutan, Parañaque	**0**	527,625
	107,740,620	96,839,025

23. SERVICE INCOME

This account consists of the following:

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

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

24. COST OF SERVICES

This account consists of the following:

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

25. GENERAL AND ADMINISTRATIVE OVERHEAD

This account consists of the following:

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

26. OTHER INCOME (CHARGES)

This account consists of the following:

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

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

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

27. INCOME TAXES

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

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

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

As of December 31, 2016 and 2015, the following are the temporary differences for which no deferred tax asset was set up because Management believes that it is more likely that no future taxable income is available against which the benefit from deferred tax assets can be offset:

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

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

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

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

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

Deferred tax liabilities pertain to the deemed tax on the increase in value of investment property and property and equipment as required by PAS 12, *Income Taxes.*

28. TAX MATTERS

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

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

  The Company sought a reinvestigation of the case on November8, 1995, and as a consequence, the BIR issued a final decision promulgated on September 9, 2004 ordering PNCC to pay the amount of P101.46 million, the reduction of P111.87 million represent deficiency contractor's tax which the BIR resolved to cancel and withdraw from the assessment it being bereft of merit for lack of legal basis, thus finding the Company's contention meritorious.

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

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

- Deficiency internal revenue taxes for taxable year 1992 (income tax, value-added tax, and expanded withholding tax) of P1.04 billion which was reduced to P709 million after the Company's written protest.

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

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

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

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

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

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

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

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

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

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

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

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

29. CONTINGENT LIABILITIES/PENDING LAWSUITS/LITIGATIONS

Contingent Liabilities

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

- *Asiavest Merchant Bankers (M) Berhad vs. PNCC*

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

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

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

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

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

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

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

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

Pending Lawsuits/Litigations

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

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

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

30. RELATED PARTY TRANSACTIONS

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

31. RESTATEMENT OF ACCOUNTS

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

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

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Fair Value Information

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

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

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

Financial Risk Management Objectives and Policies

Financial risk

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

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

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

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

Liquidity Risk

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

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

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

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

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

Credit Risk

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

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

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

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

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

2016

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

2015

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

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the statements of financial position as of December 31, 2016 and 2015.

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

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

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

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

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

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

33.3 Other taxes and licenses:

Local:	
Real Estate Tax	1,543,562
Mayor's Permit	1,482,711
Community tax	21,000
Total	3,047,273

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

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

Tax on compensation and benefits	5,562,629
Creditable withholding taxes	717,893
Total	6,280,522

ANNEX "C"

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SCHEDULE OF RETAINED EARNINGS (DEFICIT)
DECEMBER 31, 2016

Deficit, balance at beginning of year	(8,231,078,605)
Piecemeal realization of revaluation surplus	4,135,258
Deficit, balance at beginning of year, as adjusted	(8,226,943,347)
Net income	737,320,663
Deficit, balance at end of year	(7,489,622,684)

ANNEX “D”

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS
EFFECTIVE AS OF DECEMBER 31, 2016

Title	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 (PFRSs)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of effective PFRSs			
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓

PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Investment Entities			✓
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and payables	✓		

Philippine Accounting Standards (PASs)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 – Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (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	Title	Adopted	Not Adopted	Not Applicable
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓

Philippine Interpretations

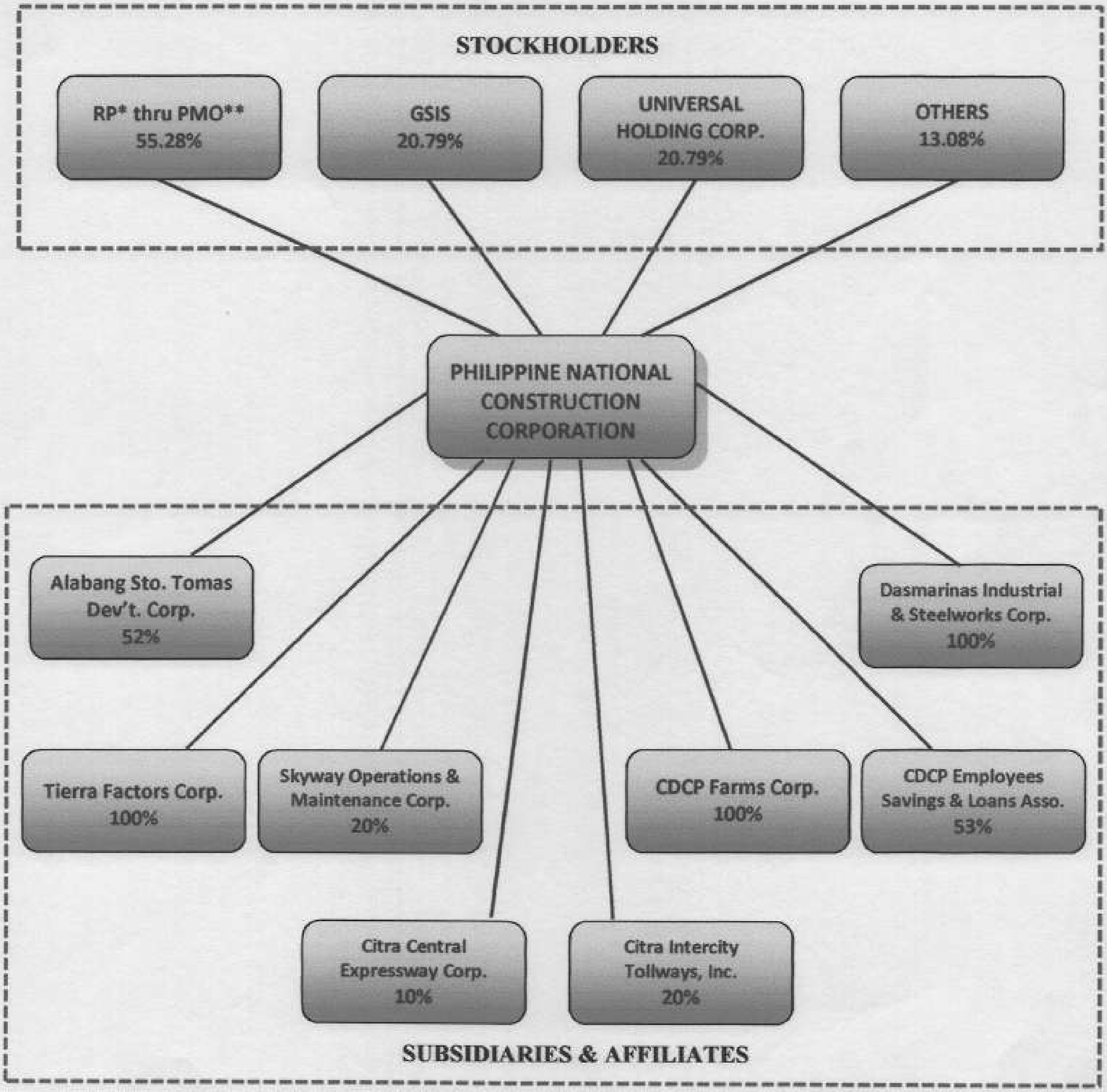
Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance – No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-21	Income Taxes – Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue – Barter Transactions Involving Advertising Services			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-32	Intangible Assets – Web Site Costs	✓		

ANNEX "E"

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



ANNEX “F”

FINANCIAL SOUNDNESS INDICATORS

		2016	2015 (As Restated)
1	Current/Liquidity Ratios:		
	Current Ratio	0.10	0.12
	Quick Asset Ratio	0.10	0.12
2	Solvency Ratios:		
	Debt to Assets	93.69%	99.12%
	Debt to Equity Ratio	1485.61%	11305.46%
3	Asset to Equity Ratio	1585.61%	11405.46%
4	Interest Rate Coverage Ratio	4.13	1.55
5	Profitability Ratios:		
	Return on Assets	5.54%	1.86%
	Return on Equity	152.32%	204.91%

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

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

Results of Operations

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

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

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

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

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

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

Financial Position

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

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

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

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

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

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

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

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

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

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

i.d Pending assessments on deficiency taxes. Discussion is contained under Note 28 of the 2016 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

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

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

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

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

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

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

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

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

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

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

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

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

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

(viii) **Material changes to the Company's Statement of Financial Position as of December 31, 2016 compared to December 31, 2015 (increased/decrease of 5% or more)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

Financial Position

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

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

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

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

Performance Indicators	As of 12/31/2015	12/31/2014 (As Restated)	Explanation
Current/Liquidity Ratios			
Current Ratio (Current Assets Divided by Current Liabilities)	0.12	0.095	This ratio evaluates the ability of the company to pay its current debt promptly. Current ratio of 0.12 as of December 31, 2015 is an improvement from 2014 of 0.095 mainly due to additional operating revenues and the liquidation of 50% investment in a subsidiary.
Solvency Ratios			
Debt to Assets (Total Liabilities Divided by Total Assets)	99.33%	101.18%	Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts. The ratio has improved from 101.18% as of December 31, 2014 to 99.33% as of December 31, 2015. This improvement was caused by additional operating revenues that offset the yearly 2% penalty charges on unpaid concession fees.
Debt to Equity (Total Liabilities Divided by Total Equity)	14867.87%	-8554.95%	Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business. The ratio of 14867.87% as of December 31, 2015 vis-à-vis the negative ratio of -8554.95% as of December 31, 2014 resulted mainly from the reversal of the capital deficiency balance of ₱146.995 million as of December 31, 2014 to a positive stockholders' equity of ₱87.272 million as of December 31, 2015.
Asset to Equity Ratio (Total Assets Divided by Total Equity)	14967.87%	-8454.95%	Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts. The significant improvement of the ratio from -8454.95% as of December 31, 2014 to a positive ratio of 14967.87% as of December 31, 2015 is due to the aforesaid reversal of the capital deficiency balance to a positive stockholder's equity.
Interest Rate Coverage Ratio (Income Before Interest/Penalty)	1.55	0.15	Determines how easily a company can pay interest on outstanding debt. The ratio increased from 0.15 as of December 31, 2014 to 1.55 as of December 31, 2015 due to recognition of income resulting from the gain in change in fair value of investment property for the year ended 2015.
Profitability Ratios			
*Return on Assets (*Net Income (Loss) Divided by Total Assets)	1.80%	-1.76%	Measures the Company's earnings in relation to all the resources it had at its disposal. The ratio of 1.80% as of December 31, 2015 vis-à-vis the negative ratio of -1.76% resulted from the recognition of comprehensive income for the period ended December 31, 2015 in the amount of ₱235.178 million (mainly due to the gain in change in fair value of investment property and movement in revaluation increment) against the net loss of ₱218.863 as of December 31, 2014.
Return on Equity (Net Income (Loss) Divided by Total Equity)	269.48%	-148.89%	Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital The increase in the ratio from -148.89% to 269.48% is attributable to the reversal of the capital deficiency for the year ended December 31, 2014 to a positive stockholder's equity in December 31, 2015.

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

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

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

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

i.d Pending assessments on deficiency taxes. Discussion is contained under Note 26 of the 2015 Audited Financial Statements, including courses of actions already undertaken by the Company to address the issue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

Financial Position

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

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

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

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

Performance Indicators	As of 12/31/2014	As of 12/31/2013 (As Restated)	Explanation
Current/Liquidity Ratios *Current Ratio* (Current Assets Divided by Current Liabilities)	0.095	0.095	This ratio evaluates the ability of the company to pay its current debt promptly. Current ratio of P0.095 as of December 31, 2013 is maintained as of December 31, 2014.
Solvency Ratios *Debt to Assets* (Total Liabilities Divided by Total Assets)	101.18%	99.08%	Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts. The ratio increased from 99.08% as of December 31, 2013 to 101.18% as of December 31, 2014 brought about mainly by the accrual of the 2% penalty charges on unpaid concession fee.
Debt to Equity (Total Liabilities Divided by Total Equity)	-8554.95%	10731.37%	Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business. The ratio of 10731.37% as of December 31, 2013 vis-à-vis the negative ratio of 8554.95% as of December 31, 2014 resulted mainly from the reversal of the equity balance of ₱114.864 million as of December 31, 2013 to a capital deficiency of ₱146.995 million as of December 31, 2014.
Asset to Equity Ratio (Total Assets Divided by Total Equity)	-8454.95%	10831.37%	Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts. The significant decrease of the ratio from 10831.37% as of December 31, 2013 to a negative ratio of 8454.95% as of December 31, 2014 is due to the aforesaid reversal of the equity balance to a capital deficiency balance.
Interest Rate Coverage Ratio (Income Before Interest/Penalty)	0.15	10.423	Determines how easily a company can pay interest on outstanding debt. The ratio decreased from 10.423 as of December 31, 2013 to 0.15 as of December 31, 2014 due to recognition of income resulting from the gain in change in fair value of investment property for the year ended 2013.
Profitability Ratios *Return on Assets* (Net Income (Loss) Divided by Total Assets)	-1.76%	13.29%	Measures the Company's earnings in relation to all the resources it had at its disposal. The ratio of 13.29% as of December 31, 2013 vis-à-vis the negative ratio of 1.76% resulted from the incurrence of loss of ₱218.863 million for the reporting period compared with the recognized income of ₱1.653 billion for the year ended 2013 improved due to the recognition of comprehensive income for the period ended December 31, 2013 in the amount of ₱1.642 billion (mainly due to the gain in change in fair value of investment property).
Return on Equity (Net Income (Loss) Divided by Total Equity)	-148.89%	1439.05%	Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owners' capital The decrease in the ratio from 1439.05% to a negative 148.89% is attributable to the incurrence of loss and capital deficiency for the year ended December 31, 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xxiv) **Material changes to the Company's Statement of Financial Position as of December 2014 compared to December 31, 2013 (increased/decrease of 5% or more)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ANNEX "G"

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SUPPLEMENTARY SCHEDULES AS REQUIRED BY PARAGRAPH 6, PART II OF SRC RULE 68 AS AMENDED

SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2016

(In thousand pesos)

Name and Designation of Debtor		Balance at Beginning of Period	Additions/ Reclassications	DEDUCTIONS		Current	Not Current	Balance at End of Period
				Amounts Collected	Amounts Written-off			
Alentajan, Bonifacio	Former Consultant	400					400	400
Armonio, Manuel	Former Consultant	138					138	138
Asuncion, Ma. Theresa	Former President & CEO	1,709					1,709	1,709
Bucio, Hermilo	Former Employee	105					105	105
Caballo, Marlon	Former Technical Assistant (Legal Corp.)	5,555					5,555	5,555
Encanto, Melvin	Former Consultant	300					300	300
Garin, Edgardo	Former Employee	192					192	192
Gaston, Segundo	Former Group Head - (Senior Vice Pres.)	41,043					41,043	41,043
Jardin, Penny	Former Employee	2,860					2,860	2,860
Pascual, Ruben	Former Consultant	2,190					2,190	2,190
Paulino, Ibarra	Former Employee	632					632	632
Purugganan, Abraham	Former Executive Vice President	476					476	476
Rivera, Reynaldo	Former Consultant	400					400	400
		56,000	-	-	-	-	56,000	56,000

ANNEX “H”

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
SUPPLEMENTARY SCHEDULES AS REQUIRED BY PARAGRAPH 6, PART II OF SRC RULE 68 AS AMENDED

SCHEDULE E– LONG TERM DEBT
DECEMBER 31, 2016

Creditors	Amount Authorized by Indenture	As of December 31, 2016						As of December 31, 2015				
		Current Portion of Long-term Debt	Long-term Debt					Current Portion of Long-term Debt	Long-term Debt			
			Amount	Interest Rate	No. of Periodic Install.	Mat. Date			Amount	Interest Rate	No. of Periodic Install.	Mat. Date
Domestic:												
Toll Regulatory Board	912M	5,528,433 *		2%/mo.on outs.bal.	30 years	04/30/2007		5,270,431 *		2%/mo.on outs.bal.	30 years	04/30/2007
Debt to NG		2,300,569						2,866,869				
Debt to GOCC		1,203,000						1,203,000				
Total		9,032,002	0					9,340,300	0			

*Inclusive of penalty charges