

COVER SHEET

3 0 9 3 9
S.E.C. Registration Number

P H I L I P P I N E N A T I O N A L
C O N S T R U C T I O N C O R P O R A T I O N
(Company's Full Name)

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

JANICE DAY E. ALEJANDRINO
Contact Person

846-2906
Company Telephone Number

1 2 3 1
Month Day
Fiscal Year

SEC FORM 17-Q
FORM TYPE

0 3 4th
Month Tuesday
Annual Meeting Day

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LOU

Document ID

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**



1. For the quarterly period ended June 30, 2017
2. SEC Identification No. 30939
3. BIR Tax Identification No. 330-058-000
4. Exact name of issuer as specified in its charter: Philippine National Construction Corporation
5. Province, country or other jurisdiction of incorporation or organization: Metro Manila, Philippines
6. Industry Classification Code: (SEC Use Only)
7. PNCC Complex, KM. 15, East Service Road, Bicutan, Parañaque City
Address of issuer's principal office 1700
Postal Code
8. (02) 846-3045 / Fax: (02) 846-1395
Issuer's telephone number, including area code
9. Not applicable
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class

Number of Shares

| | |
|-----------------------|--------------------------|
| Common | 75,000,000 |
| Special Common | 10,000,000 |
| Preferred | 10,000,000 |
| | <u>95,000,000</u> |

Note:

Philippine National Construction Corporation (PNCC) has 141,519,380 shares (99,444,759 common shares and 42,074,621 preferred shares) issued to different Government Financial Institutions in 1983. For purposes of registration of said shares, PNCC with Feria Law Offices as consultant filed its Amended Registration Statement on 15 August 2001. On December 19, 2001, the Securities and Exchange Commission (SEC), under Resolution No. 726, Series of 2001, ruled that the equity securities of PNCC are exempt from registration requirements in accordance with Section 9.1 of the Securities Regulation Code.

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

Yes [x] No []

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

The Common shares of the Company are listed on the Philippine Stock Exchange (PSE).

12. Indicate by check mark whether the registrant:

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

Yes [] No [x]

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

Yes [x] No []

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Interim financial statements are attached as Exhibits 1 to 5 hereof and incorporated herein by reference:

- | | |
|-----------|--|
| Exhibit 1 | Statements of Financial Position as at June 30, 2017 and December 31, 2016 |
| Exhibit 2 | Statements of Comprehensive Income for the three months ended and six months ended June 30, 2017 and June 30, 2016 |
| Exhibit 3 | Statements of Changes in Equity for the six months ended June 30, 2017 and June 30, 2016 |
| Exhibit 4 | Statements of Cash Flows for the six months ended June 30, 2017 and June 30, 2016 |
| Exhibit 5 | Notes to Interim Financial Statements |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please refer to Exhibits 6 & 7.

PART II – OTHER INFORMATION

The Company is not in possession of information which has not been previously reported in a report on SEC Form 17-C and with respect to which a report on SEC Form 17-C is required to be filed.

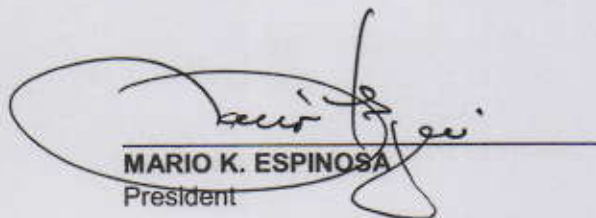
SIGNATURES

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

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

Issuer

By:



MARIO K. ESPINOSA
President



MIRIAM M. PASETES
Vice President, Head - Treasury



EZRA L. PANOPIO
Assistant Vice President, Head - Controllership

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
Statements of Financial Position
(In Philippine Peso)

EXHIBIT 1

| | As at June 30, 2017 (Unaudited) | As at December 31, 2016 (Audited) |
|--|--|--|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | 564,724,127 | 490,718,321 |
| Accounts Receivable | 353,730,474 | 327,180,356 |
| Receivables from Officers and Employees | 43,698,715 | 43,642,903 |
| Prepayments | 19,633,280 | 18,007,204 |
| Total Current Assets | 981,786,596 | 879,548,784 |
| Noncurrent Assets | | |
| Investments | 926,950,952 | 926,950,952 |
| Investment Property | 10,669,948,000 | 10,669,948,000 |
| Property and Equipment, net | 777,548,246 | 780,275,072 |
| Other Assets, net | 276,450,694 | 273,810,053 |
| Total Noncurrent Assets | 12,650,897,892 | 12,650,984,077 |
| | 13,632,684,488 | 13,530,532,861 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable & Accrued Expenses | 62,833,492 | 61,643,060 |
| Due to National Government and its Instrumentalities | 7,956,942,916 | 7,829,001,816 |
| Due to Government-Owned or Controlled Corporations | 1,203,000,000 | 1,203,000,000 |
| Total Current Liabilities | 9,222,776,408 | 9,093,644,876 |
| Noncurrent Liabilities | | |
| Deferred Tax Liabilities | 3,408,692,673 | 3,408,692,673 |
| Other Payables | 174,861,629 | 174,861,629 |
| Total Noncurrent Liabilities | 3,583,554,302 | 3,583,554,302 |
| Total Liabilities | 12,806,330,710 | 12,677,199,178 |
| Stockholders' Equity | | |
| Total Stockholders' Equity | 826,353,778 | 853,333,683 |
| | 13,632,684,488 | 13,530,532,861 |

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
Statements of Comprehensive Income
(In Philippine Peso)

EXHIBIT 2

| | Six Months Ended June 30 | | |
|---|-----------------------------|---------------------|-----------------------------|
| | 2017 (Unaudited) | 2016 (Unaudited) | |
| | 2nd Quarter Three months | Six months | 2nd Quarter Three months |
| | | | Six months |
| REVENUES | | | |
| Revenue and dividend share from Joint Venture Companies | | | 68,463,121 |
| Rental Income | 24,694,166 | 70,718,264 | 23,998,968 |
| Service Income | 30,945,511 | 60,204,453 | 27,152,027 |
| | 8,902,102 | 20,891,104 | 9,482,914 |
| TOTAL REVENUES | 64,541,779 | 151,813,821 | 60,633,909 |
| | | | 143,201,381 |
| COST OF SERVICES | | | |
| GENERAL AND ADMINISTRATIVE OVERHEAD | (10,136,127) | (19,558,422) | (9,477,654) |
| | (13,676,775) | (32,525,434) | (12,052,320) |
| INCOME FROM OPERATIONS | 40,728,877 | 99,729,965 | 39,103,936 |
| | | | 97,037,227 |
| OTHER INCOME, net | 328,116 | 998,241 | 2,042,642 |
| | | | 2,249,115 |
| PENALTY CHARGES ON UNPAID CONCESSION FEE | (64,324,100) | (127,941,100) | (64,323,900) |
| | | | (127,940,900) |
| NET INCOME BEFORE TAX | (23,267,108) | (27,212,894) | (23,177,323) |
| | | | (28,654,558) |
| PROVISION FOR INCOME TAX | - | - | - |
| NET INCOME | (23,267,108) | (27,212,894) | (23,177,323) |
| | | | (28,654,558) |
| OTHER COMPREHENSIVE INCOME | - | - | - |
| COMPREHENSIVE INCOME | (23,267,108) | (27,212,894) | (23,177,323) |
| | | | (28,654,558) |
| EARNINGS/(LOSS) PER SHARE | | | |
| COMPREHENSIVE INCOME | (23,267,108) | (27,212,894) | (23,177,323) |
| NUMBER OF OUTSTANDING SHARES | 99,444,759 | 99,444,759 | 99,444,759 |
| LOSS PER SHARE | (0.23) | (0.27) | (0.23) |
| | | | (0.29) |

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

Statements of Changes in Equity

For the Six Months Ended June 30, 2017 (Unaudited) and June 30, 2016 (Unaudited)

(In Philippine Peso)

EXHIBIT 3

| Particulars | Capital Stock P10 Par Value | Capital in Excess of Par Value | Subscriptions Receivable | Treasury Stock | Revaluation Increment in Property | Equity Adjustment - Loans Transf. to Nat'l Gov't. | Retained Earnings (Deficit) | TOTAL EQUITY |
|---|--------------------------------|-----------------------------------|-----------------------------|----------------|---|---|--------------------------------|--------------|
| Balances, December 31, 2016 | 2,283,758,120 | 46,137,443 | (56,158,831) | (16,699,918) | 534,193,247 | 5,551,726,307 | (7,489,622,684) | 853,333,684 |
| Correction of Prior Years' Error | - | - | - | - | - | - | 232,988 | 232,988 |
| Net loss | 2,283,758,120 | 46,137,443 | (56,158,831) | (16,699,918) | 534,193,247 | 5,551,726,307 | (7,489,389,696) | 853,566,672 |
| As at June 30, 2017 | 2,283,758,120 | 46,137,443 | (56,158,831) | (16,699,918) | 534,193,247 | 5,551,726,307 | (7,516,602,590) | 826,353,778 |
| Balances, December 31, 2015 (as restated) | 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 |
| Net loss | - | - | - | - | - | - | (28,654,558) | (28,654,558) |
| As at June 30, 2016 | 2,283,758,120 | 46,137,443 | (56,158,831) | (16,699,918) | 537,087,927 | 5,551,726,307 | (8,259,733,163) | 86,117,885 |

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
Statements of Cash Flows
(In Philippine Peso)

EXHIBIT 4

| | Six Months Ended June 30 | |
|--|---------------------------------|--------------------|
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Revenue share | 30,453,827 | 68,362,916 |
| Rental | 69,036,214 | 66,598,858 |
| Service Income | 16,013,057 | 18,286,984 |
| Others | 437,596 | 3,050,558 |
| | 115,940,693 | 156,299,316 |
| Payments to: | | |
| Suppliers | (30,383,695) | (27,446,198) |
| Employees | (32,883,897) | (32,552,033) |
| Directors | (2,043,502) | (1,554,138) |
| Consultants/Retainers | (201,462) | (204,000) |
| Cash Provided by Operations | 50,428,136 | 94,542,947 |
| Penalties | - | (130,910) |
| Taxes and Licenses | (2,201,808) | (2,181,195) |
| Net Cash Provided by Operating Activities | 48,226,328 | 92,230,842 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Property, Plant & Equipment | (444,309) | (326,083) |
| Proceeds from Sale of Fixed Assets/Scrap materials | 768,611 | 12,126,891 |
| Interests | 3,380,377 | 4,780,561 |
| Dividends | 22,074,800 | 21,522,930 |
| Others - DISC Wind-up transfer of HYSA account | - | 26,371,235 |
| Net Cash Provided by Investing Activities | 25,779,478 | 64,475,534 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 74,005,806 | 156,706,376 |
| CASH AND CASH EQUIVALENTS, BEGINNING | 490,718,321 | 693,740,491 |
| CASH AND CASH EQUIVALENTS, ENDING | 564,724,127 | 850,446,867 |

EXHIBIT 5

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

1.5. Notes to Interim Financial Statements

1.5.1. Earnings (loss) Per Share

The Company's earnings (loss) per share is presented on the face of the Statement of Comprehensive Income (Exhibit 2). Said earnings (loss) per share is computed by dividing the net income (loss) by the number of outstanding common shares.

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

The interim financial statements of the Company 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.

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).

1.5.3. Notes to Financial Statements

1.5.3.a. Accounting Policies and Methods

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

1.5.3.a.2. Revenue Recognition

Revenue and Dividend Share from Joint Venture Companies (JVCs)

Pursuant to the Supreme Court En Banc Decision, as discussed in Note 1 to the 2016 Audited Financial Statements, 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 percent 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.

1.5.3.a.3 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 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.

1.5.3.a.4 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.

1.5.3.a.5 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.

1.5.3.a.6 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.

1.5.3.a.7 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.

1.5.3.a.8 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.

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

1.5.3.a.9 Borrowing Costs

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

1.5.3.a.10 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.

1.5.3.b Comments about the seasonality or cyclicity of interim operations

- Not applicable -

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

- Not applicable -

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

- Not applicable -

1.5.3.e Issuances, repurchases, and repayments of debt and equity securities

PNCC was not able to make any settlement of its concession fee obligation to the Toll Regulatory Board (TRB) during the six months ended and as of June 30, 2017. The last payment was made on December 2016. Penalty charges of 2% accruing from the TRB loan are continuously recognized in the books.

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.

1.5.3.f Payment of dividend

There were no dividends paid during the six months ended June 30, 2017.

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

- None -

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

- None -

1.5.3.i Changes in contingent liabilities or contingent assets since the last annual balance sheet date

- None -

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

1.5.3.j.1 Pending Lawsuits and Litigations:

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

The labor cases consist of those filed against the Company comprised mostly of claims for illegal dismissal, backwages, 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.

1.5.3.j.2 Tax Matters

As stated in Note 28 of the 2016 Audited Financial Statements, 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.
- 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.
- Deficiency internal revenue taxes for the taxable year 2002 totaling P72.92 million.
- Deficiency taxes for taxable year 2006 amounting to P116.141 million (inclusive of interest of P48.76 million).
- 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 P9.763 million).

EXHIBIT 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Financial Position:

As of June 30, 2017, the Company's resources totaled P13.632 billion, higher by P102.152 million or 0.75% compared to the December 31, 2016 figure of P13.531 billion.

The increase in resources was mainly attributable to the increase in cash and cash equivalents provided by the Company's operating and investing activities and increase in receivables due to increase in rental rates in the FCA Property.

Please refer to Item 2.2.e for further analysis of material changes in the financial statements.

Results of Operations:

The Company's net loss of P27.213 million for the six months ended June 30, 2017 decreased by P1.442 million or 5.03% compared to the reported net loss of P28.655 million for the same period of 2016. This is mainly due to the 2.77% increase in income from operations, practically brought about by the 6% increase in revenue and dividend share from Joint Venture Companies and rental income from its leased FCA property in Pasay City and the inclusion of service income from DISC operations.

Key Performance Indicators:

Please refer to Exhibit 7 for the analysis of the Company's key performance indicators.

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

- 2.2.a Any known trends, demands, commitments, events, uncertainties that will have a material impact on the issuer's liquidity
- 2.2.a.1 The Company's inability to settle its outstanding obligations with the TRB and the National Government brought about by the difficulties in collecting receivables from various government agencies.
- 2.2.a.2 Pending labor cases which consist of those filed against the Company involving dismissal, back wages, and separation

pay; most of which had been ruled by the Labor Arbiter in favor of the complainants, pending appeal by PNCC before the National Labor Relation Commission (NLRC).

2.2.a.3 Pending civil cases which consist of those filed against the Company involving damages, collection of money, and attorney's fees which are still on litigation before the various Regional Trial Courts (RTC).

2.2.a.4 Pending assessments on deficiency taxes. Discussion is contained under Item 1.5.3.j.2 including courses of actions already undertaken by the Company to address the issue.

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

The Company does not have material off-balance sheet transactions and arrangements during the reporting period.

As of reporting quarter, there is nothing that trigger direct or contingent financial obligation that is material to the Company, except for the default in payment of its TRB loan and the recognition of debts to the National Government.

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

- None -

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

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

- The veering away from the construction business since 2002;
- The turnover of the North Luzon Tollway operations to the MNTC on February 10, 2005;
- The turnover of its South Luzon Tollway operations to SLTC/MATES on May 2, 2010; and
- DPWH's takeover of the Daang Hari Project (pursuant to its PPP mandate).

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

- Not applicable -

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

| Balance Sheet | AS AT | | INCREASE/(DECREASE) | | Remarks |
|---------------------------|------------------|----------------------|---------------------|--------|--|
| | June 30, 2017 | December 31, 2016 | Amount | % | |
| Cash and Cash Equivalents | 564,724,127 | 490,718,321 | 74,005,806 | 15.08% | Attributable to cash flow provided by operating and investing activities. |
| Accounts Receivable | 353,730,474 | 327,180,356 | 26,550,118 | 8.11% | Attributable to the increase in receivables due to increase in rental rates from the FCA Property. |

| Income Statement | FOR THE SIX MONTHS ENDED | | INCREASE/(DECREASE) | | Remarks |
|-------------------------------------|--------------------------|------------------|---------------------|---------|---|
| | June 30, 2017 | June 30, 2016 | Amount | % | |
| Rental Income | 60,204,453 | 54,825,711 | 5,378,743 | 9.81% | Attributable to the increase in rent revenues from FCA Property. |
| General and Administrative Overhead | (32,525,434) | (27,685,939) | (4,839,495) | 17.48% | Attributable to the payment of separation pay to the former President & CEO and the former executive assistant, increase in legal support, increase in security guard salary, and decrease in controllership. |
| Other Income, net | 998,241 | 2,249,115 | (1,250,874) | -55.62% | Attributable to decrease in interest and miscellaneous income, gain on sale of property & equipment. |

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

- Not applicable -

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION

Schedule of Key Performance Indicators

EXHIBIT 7

| Performance Indicators | AS OF | | Explanation |
|---|------------------|----------------------|---|
| | June 30, 2017 | December 31, 2016 | |
| Current/Liquidity Ratios | | | |
| Current Ratio (Current Assets divided by Current Liabilities) | 0.11 | 0.10 | <p>This ratio evaluates the ability of the company to pay its current debt promptly.</p> <p>Current ratio increased from 0.10 as of December 31, 2016 to 0.11 as of March 31, 2017. This was mainly due to the higher increase in current assets that compensated for the increase in current liabilities.</p> |
| Solvency Ratios | | | |
| Debt to Assets (Total Liabilities divided by Total Assets) | 93.94% | 93.69% | <p>Shows what percentage of the business is not owned by the stockholders. Determines how much of the company is financed by debts.</p> <p>The ratio has increased from 93.69% as of December 31, 2016 to 93.94% as of June 30, 2017 due to additional operating revenues that were offset by the 2% penalty charges on unpaid concession fees.</p> |
| Debt to Equity (Total Liabilities divided by Total Equity) | 1549.74% | 1485.61% | <p>Shows the proportion of the creditors' capital to the business' total capital. Measures the degree to which the assets of the business are financed by the debts and stockholders of the business.</p> <p>The ratio has increased from 1485.61% as of December 31, 2016 to 1549.74% as of June 30, 2017 due to the net loss incurred for the period.</p> |

| Performance Indicators | AS OF June 30, 2017 | December 31, 2016 | Explanation |
|---|---------------------------|----------------------|---|
| Asset to Equity Ratio (Total Assets divided by Total Equity) | 1649.74% | 1585.61% | Measures the total debt the company takes to acquire assets. Measures the company's capability to pay debts. The ratio has improved from 1585.61% as of December 31, 2016 to 1649.74% as of June 30, 2017 due to the increase in cash and cash equivalents provided by the Company's operating and investing activities. |

| Performance Indicators | SIX MONTHS ENDED June 30, 2017 | June 30, 2016 | Explanation |
|--|--------------------------------------|------------------|---|
| Interest Rate Coverage Ratio (Income before Interest/Penalty divided by Interest/Penalty) | 78.73% | 77.60% | Determines how easily a company can pay interest on outstanding debt. The ratio increased from 77.60% for the six months ended June 30, 2016 to 78.73% for the six months ended June 30, 2017 due to the net increase in the Company's income from operations from P97.0 million to P99.7 million. |
| Profitability Ratios Return on Assets [Net Income (Loss) divided by Total Assets] | -0.20% | -0.22% | Measures the company's earnings in relation to all the resources it had at its disposal. The ratio increased from -0.22% for the six months ended June 30, 2016 to -0.20% for the six months ended June 30, 2017 due to the 5.03% decrease in the Company's net loss. |
| Return on Equity [Net Income (Loss) divided by Total Equity] | -3.29% | -48.94% | Measures the rate of return on the ownership interest of the company's stockholders. Determines the productivity of the owner's capital. The ratio increased from -48.94% for the six months ended June 30, 2016 to -3.29% for the six months ended June 30, 2017 due to the 5.03% decrease in the Company's net loss. |