



PHILIPPINE NATIONAL CONSTRUCTION CORPORATION Performance Report for the Period 2001 – 2010

The Objective of the Report

The past nine (9) years of PNCC corporate existence has been marked by many significant changes in its financial health and business operations. The Board and Management of PNCC prepared this short report to provide its shareholders a better appreciation of the Company since its inception, the efforts made by the current Board Members and Officers during their watch, the current state of the Company, as well as the proposed directions for PNCC.

From CDCP to PNCC: Period 1966 to 2000

The Company was originally incorporated on November 22, 1966 under the name of Construction Development Corporation of the Philippines (CDCP) with the primary purpose of undertaking general contracting and other services and products related to construction in a manner that will contribute to the economic development of the country.

CDCP now PNCC, rose to be one of the country's foremost construction company with extensive operations in the Philippines, in the Middle East and other ASEAN countries. The Company is credited with major projects such as the San Juanico Bridge, the Metro Manila Skyway, North and South Luzon Expressways, the Manila Light Rail Transit System, the Manila-Cavite Expressway and Bay City.

Some of the major events that shaped the Company are:

- ❖ *March 31, 1977* *PD 1113 was issued granting CDCP the 30 year franchise to construct, operate and maintain toll facilities in North and South Luzon Tollways and Metro Manila Expressway. (PD 1113 was amended by PD 1894 issued on 22 December 1983).*
- ❖ *February 23, 1983* *LOI 1295 was issued directing Government Financial Institutions (GFI's) to convert their guaranteed obligations into equity in CDCP. The compliance by the GFI's albeit partial resulted in a majority share holdings of the National Government in PNCC equivalent to 76.5%.*
- ❖ *April 25, 1983* *CDCP name was changed to PNCC (Philippine National Construction Corporation) and inherited all outstanding debts of CDCP.*
- ❖ *December 22, 1983* *PD 1894 amended PD 1113 by providing for the construction and operation of a Metro Manila Expressway.*
- ❖ *December 1986* *Proclamation 50 was issued creating APT (the disposition entity for PNCC). A year later the initial privatization scheme prepared*

by APT under David Sycip was approved by the Committee on Privatization.

❖ May 18, 1998

Administrative Order 397 was issued for the purpose of PNCC's financial rehabilitation including among others the titling to PNCC's name of 12.9 hectares reclaimed property and the offsetting versus PNCC loans with National Government the value of 24.69 hectares reclaimed land.

Major Challenges Facing the Company in 2001

PNCC's stature as the country's and one of Asia's premier construction companies, however, was tarnished by financial and legal problems that beset it since the 1980's. More notable among these are the following:

1. Continued losses from operations for the Company since 1983 resulting in accumulated losses of P1.4 billion by December 31, 2000 and its inability to meet its financial obligations.
2. Expiry of franchise in April 2007, and, hence, inability to complete toll ways in unserved areas.
3. Indebtedness to the below-listed parties as of end of 2000:
 - a. National Government P5.4 billion
 - b. Privatization & Management Office (PMO) P5.4 billion
 - c. Philippine National Bank (PNB) P2.4 billion
 - d. Bureau of Internal Revenue (BIR) P125 million
4. Adverse claims against PNCC, most notable of which are:
 - a. Radstock Securities Ltd. vs. PNCC (Civil Case No. MC 01-1398; CA G.R. No. 66654; SC G.R. No. 156887). Consideration: P17 billion;
 - b. Asiavest Merchant Berhad vs. CA and PNCC (G.R. No. 110263, Supreme Court). Consideration: RM 5,200,000; and,
 - c. Cuenca vs. Hon. Alberto P. Atas, et al., Supreme Court G.R. No. 146214, CA-G.R. SP No. 60366 (SEC Case No. AC 807; SEC Case No. 05-96-5357)
5. Lackluster performance of PNCC Subsidiaries.

Strategic Guidelines Prescribed by the PNCC Board

To address these daunting challenges, the Board of Directors of PNCC crafted the following strategic guidelines for Management:

1. Total revamp of the business model of PNCC with the following vital elements:
 - a. Inviting interested entities (foreign or domestic) and expertise in toll operations while insulating toll revenues from undue political pressure;
 - b. Rehabilitation and expansion of existing toll roads to world-class levels to meet customer expectations while allowing for more viable toll rates;
 - c. Extension of PNCC's franchise to allow it, as well as its partners' operations, to remain viable in the long run;

- d. Conversion of PNCC from an Operations Company to a Holding Company with the corresponding adjustment in its corporate structure and operating budget;
 - e. Adoption of a top-line revenue share formula with joint venture partners to minimize market risk for PNCC's revenue arising from toll operations;
 - f. Expansion in the toll operations to be covered by PNCC's franchise; and,
 - g. Establishment of a closer management over subsidiaries.
2. Judicious settlements/resolutions of debts and adverse claims against PNCC.
 3. Close monitoring of key operations/issues by the Board Committees and Management.
 4. Enhancement of the operations of subsidiaries and affiliates.

Major Accomplishments for Period 2001 to 2010

Pursuant to the mandates and policies defined by the PNCC Board and the programs and activities undertaken by Management, the Company was able to substantively address the daunting challenges that confronted it and can report the following accomplishments:

Revamp of Business Model

On February 10, 2005, PNCC turned over the operations and maintenance of the North Luzon Tollways (NLEX) to the Manila North Tollways Corporation (MNTC), the joint venture company of the PNCC and the First Philippine Infrastructure Development Corporation (FPIDC) together with Leighton Contractor Asia Ltd. and Egis Project Systems following the complete rehabilitation of the 30 year-old 84-kilometer toll road. PNCC, under this business model, enjoys revenue shares from the gross revenues of NLEX as well as dividends from equity participation.

A recent expansion of the NLEX operations is the opening of Segment 8.1 NLEX or the NLEX Mindanao Avenue Link on June 5, 2010. This 2.7 km segment is expected to serve about 30,000 vehicles per day on its first year of operation and allow motorists to avoid the heavily congested Balintawak area.

Tollways Development

For the South Luzon tollways, PNCC succeeded in expediting the completion of the elevated toll road or Skyway system from Nichols to Bicutan. The at-grade portion from Nichols to Alabang has likewise been upgraded under this Joint Venture Agreement (JVA). The Citra Metro Manila Tollways Corporation (CMMTC) is the joint venture company which is currently running these segments.

The construction of the Skyway Extension Project (Bicutan-Sucacat-Alabang) is presently on-going. With PNCC's assistance and cooperation, CMMTC was able to raise fresh equity to cover its financial rehabilitation and its requirement for the financing of Stage 2. The Skyway extension to Alabang is expected to be completed in 2011.

PNCC turned over the operation of the South Luzon Expressway (SLEX) to the South Luzon Tollway Corporation (SLTC), the joint venture company of PNCC and MTD Capital on May 2, 2010. The turnover was on the basis of a letter by the Toll Regulatory Board (TRB) to PNCC dated April 8, 2010, wherein TRB informed PNCC that a Certificate of Substantial Completion of the 28 km stretch from Alabang to Calamba (pursuant to the Supplemental Toll Operations Agreement approved in February 2006) has been issued.

The Company recently partnered with the National Development Corporation (NDC) in constructing the 4 km toll road that will directly link the existing Daang Hari in Bacoor, Cavite to SLEX near Susana Heights passing through the New Bilibid Prison (NBP) Complex. The Alabang-Sto. Tomas Development, Inc. (ASDI) was formed in September 2005 for this project. This project is covered by a Memorandum of Agreement signed by DPWH, DOTC, DTI, TRB, NDC and PNCC.

With regard to the franchise of PNCC, the Company has submitted to Congress all requirements needed for its renewal of the same prior to the April 30, 2007 expiry and was able to get approval by the House of Representatives in a plenary vote. Unfortunately, the application did not get the required Senate approval in time for the renewal of the franchise. PNCC, nonetheless, may re-file said application, this time armed with a stronger balance sheet and more viable financial operations.

Considering the transition in the business model of PNCC coupled with the expansion of its strategic partnerships and its streamlined operations, **the Company, for the first time since 1997, realized positive and increasing net income after tax from 2007 to 2009, cumulatively totaling P1.2 billion after income taxes of P50 million.**

Further, enhancement of the profit is expected for the following reasons:

1. Lower interest costs resulting from (a) retirement of NG loans after the prospective sale of SLTC and MATES equity shares, and (b) anticipated DOF/BTr approval of the 25 year PNCC restructuring offer with interest-free feature for Concession Fee payable;
2. Lower overhead costs as PNCC makes the full transition to a holding company; and,
3. Improving fiscal performance of PNCC Subsidiaries as will be discussed later.

Debts and Adverse Claims Against PNCC

Following the Board's mandate for judicious settlements/resolutions of outstanding debts and adverse claims, the Management, with the support of the relevant Board Committees, dedicated significant time and efforts to account all debts and claims against the Company, formulate options that can be taken by PNCC to address these claims, negotiate with the parties concerned and/or take all legal remedies available to the Company.

A summary of some of the major debts recognized by the Company together with the measures taken and the status of each item are presented below.

Creditors	Measures Taken	Status
1. National Government (P5.4 billion)	<i>Presented to the Privatization Council (PrC) in 2006 a plan to convert debt to equity. Alternatively, PNCC proposed a restructured payment plan with waiver of penalties.</i>	<i>Legally, NG can only convert to equity and grant condonations by act of Congress; restructuring plan still pending. (Meantime, PNCC paid P295 million cash payment from savings in operations. In April 2010, PNCC proposed to dacion en pago its shareholdings in the SLEX companies (i.e., SLTC and MATES), both worth P3.6 billion.) PNCC remitted to National Treasury an additional P200 million in July 2010.</i>
2. PMO Equity Account (P5.4 billion)	<i>PNCC's position is to comply with LOI 1295, the validity of which was affirmed by the Supreme Court thus, this amount should be converted to equity as it should have been done since 1983.</i>	<i>PNCC submitted its proposal to PMO in 2006 together with the OGCC favorable opinion and draft documents.</i>
3. PNB (P2.2 billion)	<i>PNCC EDSA lot and Silangan lot mortgaged to PNB became subject of a friendly foreclosure, resulting in an arrangement akin to dacion en pago and balance restructured over a five-year period.</i>	<i>Fully paid</i>
4. BIR (P125 million)	<i>Paid in cash gradually between 2007-2008.</i>	<i>Fully paid</i>
5. NDC (P790 million)	<i>Conversion to equity approved by NDC if franchise is extended.</i>	<i>Since the franchise was not extended, PNCC proposed a repayment plan.</i>

Notable among these is the claim of PMO that amounts to P50.8 billion. PNCC adheres to the balance sheet amount of P5.4 billion which the COA coined in 1987 as "Equity Adjustments-Under Rehabilitation-Loans Transferred to the National Government." This same amount is covered by a Memorandum of Agreement (MOA) pre-signed by PNCC, which as submitted to PMO in 2008.

In addition to seeking the approval for the conversion of debt owed to PMO into equity, the Company has highlighted the need to reorganize its balance sheet equity via a quasi-reorganization in order to reduce its deficit and issue new capital stock to the National Government. The new capital issue to the National Government is proposed to

be in the form of conversion of PMO's unresolved equity account in PNCC's balance sheet. This plan was the subject of various presentations to the Department of Finance (DOF), Privatization Council (PrC), PMO and the Bureau of Treasury (BTr) to seek their concurrence.

In the process of seeking the extension of its Franchise in the House of Representatives, PNCC was required to present a viable plan on how to address third party claims and/or litigations which could materially and adversely affect its financial viability. The Company has painstakingly reviewed all adverse claims against PNCC, and applied the same mandate for judicious settlements of these.

The largest court judgment against PNCC that was appealed at the higher Courts was the complex P3 billion collection case filed by Radstock Securities Ltd. (RSL) against PNCC in January 2001. The RTC had ruled in 2002 that PNCC pay Radstock the amount of P13 billion with interest which in 2005 had ballooned to P17 billion and therefore render PNCC insolvent if executed. RSL filed a Preliminary Writ of Attachment that allows it to garnish PNCC's bank accounts and attach unmortgaged properties.

As a result, a Compromise Agreement was reached but PNCC required the approval of the Court for the settlement to be effective and binding. This clause allowed the case to be referred to COA, the Court of Appeals and finally the Supreme Court (SC) where it was ruled that the PNCC recognition of the Marubeni-Radstock claim in 2000 was void ab initio, rendering the Compromise Agreement null and void.

A summary of the more significant claims against the Company are presented below:

Litigant	Measures Taken	Status
<p><i>Radstock Securities Ltd. (P17.1 billion)</i></p>	<p><i>Appealed RTC decision in the Court of Appeals.</i></p> <p><i>Appealed to the Supreme Court the lifting of the garnishment of assets.</i></p> <p><i>Due to filing of franchise extension in Congress requiring resolution of major cases, PNCC entered into a Compromise Settlement but effective and binding only if approved by the Court.</i></p>	<p><i>The COA had formally endorsed its approval to the Supreme Court and the latter ordered the Court of Appeals to decide. The Court of Appeals approved the Compromise Agreement. At the level of the Supreme Court, the latter invalidated the 2000 PNCC Board Resolution recognizing the claim, and as a result rendered the Compromise Settlement void in December 2009.</i></p> <p><i>On February 23, 2010, the Supreme Court denied the Motion for Reconsideration filed by Radstock.</i></p> <p><i>On April 20, 2010, the Supreme Court denied with finality the Motion for Leave to Admit Second Motion for Reconsideration filed by Radstock.</i></p>

Litigant	Measures Taken	Status
<p><i>Asiavest Case (P220 million & P47 million)</i></p>	<p><i>PNCC succeeded in staying enforcement of the Writ of Execution, in view of the information from register of companies in Malaysia that Asiavest Merchant Bankers no longer exist after it had gone into voluntary liquidation and winding up.</i></p>	<p><i>Asiavest filed a Petition before the Supreme Court assailing the Order of the Regional Trial Court which was affirmed by the Court of Appeals staying the enforcement of the Writ of Execution. The Supreme Court denied Asiavest Petition.</i></p>
<p><i>Rodolfo M. Cuenca Call for Cancellation of all Equity Issued to the GFIs and the Election of Officers during a Stockholders' Meeting every year.</i></p>	<p><i>Case referred to external Counsel Castillo Laman Tan Pantaleon and San Jose Law Offices for proper action at the SEC and the SC.</i></p>	<p><i>The SEC hearing panel rendered a decision dated July 10, 2000 in favor of PNCC, which decision was upheld by the SEC en banc in its judgment rendered on by Mr. Cuenca to the Court of Appeals by way of a petition for review. The Court of Appeals dismissed said petition in its Decision promulgated on November 29, 2000, ruling therein that the submission of a Deed of Confirmation by the respondent GFIs dissipated all doubts on whether there was full and complete implementation of LOI 1295.</i></p> <p><i>Mr. Cuenca filed a Petition for Review on Certiorari before the Supreme Court.</i></p> <p><i>On October 5, 2007, the Supreme Court rendered a decision dismissing Mr. Cuenca's petition and affirmed in toto the November 29, 2000 Decision of the Court of Appeals.</i></p> <p><i>On February 11, 2008, the Supreme Court denied Mr. Cuenca's motion for reconsideration dated Nov. 1, 2007.</i></p>

Close Monitoring of Key Operational Issues by Board Committees and Management

A hallmark of the past nine years of this company is the close partnership that has been established between the Board and Management and staff and labor. This rapport has allowed the Company to make the transformation from a mammoth organization that was a cash drain to the present lean and viable organization.

From the onset, key result areas together with their performance indicators have been defined, monitored and redefined, if needed, by both parties. Among the key areas identified were:

1. Review and revamp, if needed, of PNCC's and its subsidiaries business model;
2. Management of debts and adverse claims against PNCC;
3. Streamlining of operations and organizational structure; and,
4. Establishment of accountability at all levels of the organization.

To realize the foregoing, the Board Committees were organized, empowered and made to report regularly to the Board. Management was, likewise, mandated to report regularly on performance indicators that were defined and redefined by both parties. The lists of officers and committees for PNCC are attached (Annex A).

A highlight of some of the key Financial Indicators for the past few years are as follows:

Financial Indicators	2000	2005	2009
<i>EBITDA</i>	<i>(P136 M)</i>	<i>(P1,563 M)</i>	<i>P267 M</i>
<i>Long Term Debts</i>			
<i>Current</i>	<i>P1,086 M</i>	<i>P5,046 M</i>	<i>P3,718 M</i>
<i>Non-Current</i>	<i>P1,049M</i>	<i>P58 M</i>	<i>P289 M</i>
<i>Outstanding Claims Against PNCC</i>	<i>-</i>	<i>P13,406 M</i>	<i>P 254 M</i>
<i>Annual Operating Cost</i>	<i>P1,507 M</i>	<i>P2,854 M</i>	<i>P635 M</i>
<i>Liquidity Ratios</i>			
<i>Current Ratio</i>	<i>0.65 : 1</i>	<i>0.3 : 1</i>	<i>0.48 : 1</i>
<i>D/E Ratio</i>	<i>2.34 : 1</i>	<i>4.5 : 1</i>	<i>2.1 : 1</i>

Also attached is the PNCC Comparative Income Statements for the period 2001 – 2009 (Annex B).

Corporate Social Responsibility

PNCC launched in 2007, its corporate social responsibility program through the creation of PNCC Foundation, Inc., with a vision of “Building Dreams, Building Lives.” The foundation’s activities are focused on promoting education, arts and health. Modest humanitarian donations for needy cases and disasters have been made particularly in the recent calamities of the devastating typhoons Ondoy and Pepeng.

Workshops for kids on English enhancement, mathematics, music and acting are regularly done especially during summer. Thus far summer learning programs have been conducted in 2008, 2009 and 2010.

The foundation started its successful free clinic program for the underprivileged by treating Diabetic Gangrene patients by boosting their immune systems. The foundation further plans to hold free clinics for hard-to-treat diseases like dementia, stroke, alzheimer’s disease, autism, leukemia, cancer, asthma and many others.

The foundation, with the full support of the PNCC Board of Directors, was able to achieve these significant milestones which contributed to the improvement of PNCC's corporate image at the same time boost the morale and productivity of its employees.

ISO 9001:2008

In March 2010, SGS Philippines, Inc. granted to PNCC the ISO 9001: 2008 Quality Management System for tollway management. The Company, committed to provide full client satisfaction through quality, safe, and timely completion of infrastructure projects, delivery of products and services, and to operate its tollway system by providing safe and convenient travel for its users, underwent ISO trainings and audits starting August 2007.

PNCC Subsidiaries and Affiliates

1. DISC Contractors, Builders and General Services, Inc. (DISC)

DISC is a wholly owned construction services subsidiary of PNCC. DISC's gross revenue experienced a marked increase of 6.7%, 18.9% and 53% respectively for years 2007, 2008 and 2009; largely due to increase in the number of projects and average gross value. Year 2009 was a particularly profitable year, chalking up 53% increase in gross revenue amounting to P173 million, mainly attributed to favorable unit pricing obtained by DISC for its awarded projects, yielding higher contribution margins for its projects.

Among the major projects undertaken and expanded during these previous four (4) years were: (1) ongoing maintenance and rehabilitation works for the Philphos plant in Isabel, Leyte, (2) supply of manpower for PNCC, (3) construction works for the Daang Hari tollway project as subcontractor to PNCC, and (4) various equipment rental projects in Luzon.

During these years, cost to revenue ratios also experienced slight improvements, from 98% in 2006 declining to 84% in 2009, as a result of improvements in labor productivity and instituting standards for the monitoring of raw material prices relative to total budgeted amounts. Also, the hiring of local labor was encouraged and implemented in order to reduce the overall cost of employee benefits, compared to hiring from Iligan or Luzon which would have cost DISC more in employee costs.

As a result, net profit margins improved in the last four years: P2 million in 2006, P3 million in 2007, P4 million in 2008 and P27 million in 2009. Thereby, a marked improvement was recorded in net profit ratio, from 2% in 2006 to 16% in 2009.

DISC has maintained its liquidity to acceptable and viable levels, maintaining a current ratio averaging 3:1 yearly from 2006 to 2009. Solvency ratios have also been generally kept at financeable levels from 1.8x to 2.5x during the period. DISC has been able to sustain its operations largely from internal cash and more favorable supplier credit terms.

2. Traffic Control Products Corp. (TCPC)

TCPC is a wholly owned subsidiary of PNCC since 1981 primarily engaged in the manufacture of thermoplastic paints and application of same as lane/pavement markings, fabrication of traffic signs and trading of traffic safety products such as road barriers, traffic cones, road studs and traffic vests. TCPC likewise handles janitorial and greening services.

From 2005 to 2009 TCPC has augmented its revenue base from P21million to P62 million expanding from servicing mainly PNCC into several private clients on sub-contract basis, for its thermoplastic pavement or lane markings, signages, guardrail installations. TCPC has been identified as a reliable partner to a number of road contract owners in the far north and down south in Luzon and has generated projects in the Visayas and Mindanao areas.

3. Alabang-Sto. Tomas Development, Inc. (ASDI)

ASDI is a special project company incorporated by the NDC in September 2005 with an initial capitalization of P150 million. ASDI's primary purpose is to develop, package, structure, invest in and/or manage investments in infrastructure projects and commercial ventures related to the development of infrastructure projects such as the proposed roadway. As such, it is used as the corporate vehicle to implement the tollway concession for the Daang Hari – SLEX Link Road Project.

On November 14, 2008, PNCC bought into ASDI as a minority partner of NDC. However, in 2009 as the company takes on the construction of the Daang Hari – SLEX Link Road Project, PNCC infused additional equity of P242.5 million thereby increasing its ownership share to 51% . The authorized capital now stands at P500 million.

In September 2006, Presidential Proclamation No. 1159 was issued allocating 240,000 sq. mtrs. right of way (ROW) or land use for the Daang Hari-SLEX Link tollroad project. Furthermore, a Memorandum of Agreement (MOA) between DPWH, DOTC, DTI, TRB, NDC and PNCC has been signed in February 2010 that gave ASDI the full mandate to implement the toll road project.

The project will be constructed into 2 phases:

Phase 1

- Initial two lanes of main carriageway
- Tunnel connection to SLEX northbound and at-grade links from and to SLEX southbound
- Rotunda connection with Daang Hari Road
- Toll plaza and toll collection system
- Relocation/construction of local/service roads

Phase 2

- Additional two lanes to expand to 4-lane toll road
- Flyover connection from SLEX northbound
- Other works (additional toll booths, etc.)

To date, advance works on the area is being done by PNCC, presently at 87% completion. Relocation of formal and informal settlers was spearheaded by the National Housing Authority (NHA). Expropriation of private properties affected by the project is being handled by the Office of the Government Corporate Counsel (OGCC).

Further, ASDI already submitted to the TRB the Investment Proposal that provides the technical and financial details of the project. The IP will also be used by TRB in determining the appropriate toll rate for the project.

4. South Luzon Tollways Corporation and Manila Toll Expressway Systems, Inc.

PNCC presently owns 20% of total shares issued in the South Luzon Tollway Corporation (SLTC), the concession company undertaking SLEX rehabilitation and expansion, and 40% of the Manila Toll Expressway Systems, Inc. (MATES), the operations and maintenance company of SLTC. The completion of the project will give PNCC and its shareholders substantial value added, from its initial cash investment of P360 million. The Land Bank's recent minimum valuation of the said shareholdings is in the range of P2.3 billion, while the Privatization Council indicated a minimum bid price of P3.6 billion for the same.

A forthcoming disposal of these shareholdings will enable PNCC to be given credit for its debt to BTr, thereby resulting in substantial reduction of PNCC debt to National Government. This significant reduction in debt would strengthen PNCC's balance sheet.

5. Citra Metro Manila Tollways Corporation and Skyway Operation and Maintenance Corporation

Citra Metro Manila Tollways Corporation (CMMTC) is the Joint Venture Company or the Investor Company incorporated on 27 November 1995 to pursue the South Metro Manila Skyway Project (SMMS), i.e. the present At-grade Level and Skyway stretching from Nichols to Alabang, southbound and to Buendia, northbound. CITRA has a 30-year concession period which commenced in December 1998. Originally, PNCC owned 20% of CMMTC with P551M infused as equity; as of 2008 following the exercise of pre-emptive rights to which PNCC issued a waiver, PNCC equity participation has been reduced to 11%. PNCC continues to hold a board seat in CMMTC.

In 2008, PNCC was able to secure a share of the gross revenues of the Skyway from CMMTC similar to the arrangement with the MNTC of NLEX and SLTC of SLEX. This concession was secured in return for PNCC's willingness to be diluted in its shareholdings in CMMTC, as the latter underwent rehabilitation and raised financing for the Skyway II extension project.

Skyway O&M Corporation (SOMCO) is the operations and maintenance corporation for the Skyway section where PNCC can hold up to 20% participation. SOMCO was incorporated on December 12, 2007 and took over the O&M role from the PNCC

Skyway Corporation effective 31 December 2007 by virtue of the Amended STOA dated 18 July 2007 and the Memorandum of Agreement dated December 2007.

Following the change in operations and maintenance company in the Skyway, PNCC has since benefited from its revenue share from the Skyway Project placed at 3.5% or P9 to P10 million per month.

6. Manila North Tollway Corporation and Tollways Management Corporation

Manila North Tollway Corporation (MNTC) is the Joint Venture Company/Investor incorporated on February 4, 1997, with the sole purpose of upgrading the North Luzon Expressway (NLEX) and the financing thereof. MNTC was incorporated under the terms of the Joint Venture Agreement of August 1995, originally between First Philippine Infrastructure Development Corp. (FPIDC) and PNCC at 80% and 20% equity sharing, respectively.

Due to liquidity constraints PNCC was limited to its original equity contribution up to the financial close for the NLEX funding, and thus its participation has been diluted to 2.5% after new investors came in. Such extent of ownership however entailed one board seat for PNCC with the representative director holding the post of the First Vice-Chairman and is granted the right to designate an assistant treasurer. From the start of commercial operations in 2005 to date PNCC has earned dividends totaling P147 million.

Tollway Management Corporation (TMC) incorporated on August 2, 2000, is the operations and maintenance corporation of the NLEX. PNCC holds 20% participation in TMC and is entitled to three board seats. From 2005 to-date, PNCC has earned P234.6 million in dividends from TMC.

Looking Forward: PNCC Strategic Plans

As the new Administration takes over in July 2010, the present Board and Management respectfully informs its shareholders and stakeholders that with the changes that have been effected and those that are planned to be undertaken, a new and financially strengthened PNCC will emerge with more value added to our shareholders.

As PNCC regains its financial viability as a corporate entity, a new business model is in place departing from reliance on construction/tollways operations to that of a holding company with revenue streams from NLEX, SLEX and Skyway, the Philippines major tollway infrastructure. The new business model will also package, promote and be a participant/shareholder in joint ventures for new tollway projects.

PNCC's share in gross revenues from the three tollways – NLEX, SLEX, and Skyway, as stipulated in the legal agreements, shall continue for the duration of each tollway's concession period, regardless of whether PNCC has divested its shareholdings in the

concession companies and OMCOs. Hence, this assures our shareholders and stakeholders of PNCC's continued financial viability in the long term.

In view of PNCC's stronger balance sheet and stable cashflows, coupled with its past experience in tollway construction and operations, PNCC will have a very attractive corporate platform to promote strategic tollways projects with prospective joint venture partners. As a business developer for joint venture partnerships in new tollways, PNCC would be a shareholder in both the Concession company and Operations and Maintenance company in various future projects.

Hopefully, PNCC's proposal for a quasi reorganization will be approved and thereby enabling PNCC to eliminate its outstanding retained earnings deficit. Thereafter, the new Administration will have the option to dispose PMO's shareholdings in PNCC on the basis of a significantly improved financial position and in turn fetch higher proceeds from competitive bidding among several serious investors.

In-house estimates of enterprise value would range from P4 to P5 billion net of adverse claims.

In closing, we wish to thank those of you who have continued to remain as our loyal shareholders, and who continued to believe in PNCC and its capacity and determination to overcome its difficulties. We also wish to thank the PNCC Board of Directors and Management, staff and labor force for their committed efforts in making these financial, legal, human resource, and organizational changes work positively for PNCC.

With a stronger financial house emerging from these changes, you are assured of enhanced shareholder value that this Board and Management have laid out in the form of a new business model, which shall be the blueprint for a viable and sustainable future for PNCC.

Thank you.

Truly yours,


ARTHUR N. AGUILAR
Chairman


MARIA THERESA T. DEFENSOR
President and CEO

ANNEX A

PNCC BOARD OF DIRECTORS AND MANAGEMENT

Board of Directors

<i>Ms. Josefa I. Aquino</i>	-	<i>Chairman Emeritus</i>
<i>Mr. Arthur N. Aguilar</i>	-	<i>Chairman</i>
<i>Ms. Maria Theresa T. Defensor</i>	-	<i>Vice Chairman</i>
<i>Mr. Marvin V. Paule</i>	-	<i>Director</i>
<i>Atty. Antonio T. Vilar</i>	-	<i>Director</i>
<i>Atty. Jeremy Z. Parulan</i>	-	<i>Director</i>
<i>Mr. Garth Noel P.E. Tolentino</i>	-	<i>Director</i>
<i>Mr. Roy Eduardo T. Lucero</i>	-	<i>Director</i>
<i>Mr. Enrique C. Cuejilo, Jr.</i>	-	<i>Director</i>
<i>Mr. Fermin S. Lusung, Sr.</i>	-	<i>Director</i>
<i>Mr. Ottomama Marohom Benito</i>	-	<i>Director</i>
<i>Mr. Elberto E. Emphasis</i>	-	<i>Director</i>
<i>Mr. Guillermo N. Hernandez</i>	-	<i>Director (Ex-Officio)</i>
<i>Mr. Winston F. Garcia</i>	-	<i>Director (Ex-Officio)</i>

Board Executive Committee

<i>Mr. Arthur N. Aguilar</i>	-	<i>Chairman</i>
<i>Ms. Maria Theresa T. Defensor</i>	-	<i>Member</i>
<i>Mr. Marvin V. Paule</i>	-	<i>Member</i>
<i>Atty. Antonio T. Vilar</i>	-	<i>Member</i>
<i>Mr. Ottomama Marohom Benito</i>	-	<i>Member</i>
<i>Mr. Elberto E. Emphasis</i>	-	<i>Member</i>

Board Finance Committee

<i>Mr. Marvin V. Paule</i>	-	<i>Chairman</i>
<i>Mr. Fermin S. Lusung, Sr.</i>	-	<i>Member</i>
<i>Atty. Jeremy Z. Parulan</i>	-	<i>Member</i>
<i>Mr. Roy Eduardo T. Lucero</i>	-	<i>Member</i>
<i>Mr. Guillermo N. Hernandez</i>	-	<i>Member</i>
<i>Atty. Antonio T. Vilar</i>	-	<i>Member</i>

Board Legal Committee

<i>Jeremy Z. Parulan</i>	-	<i>Chairman</i>
<i>Atty. Antonio T. Vilar</i>	-	<i>Member</i>
<i>Mr. Roy Eduardo T. Lucero</i>	-	<i>Member</i>
<i>Mr. Garth Noel P.E. Tolentino</i>	-	<i>Member</i>

Board Audit Committee

<i>Mr. Garth Noel P.E. Tolentino</i>	-	<i>Chairman</i>
<i>Atty. Antonio T. Vilar</i>	-	<i>Member</i>
<i>Atty. Jeremy Z. Parulan</i>	-	<i>Member</i>
<i>Mr. Roy Eduardo T. Lucero</i>	-	<i>Member</i>
<i>Mr. Enrique C. Cuejilo, Jr.</i>	-	<i>Member</i>

SLEX Oversight Committee

<i>Mr. Roy Eduardo T. Lucero</i>	-	<i>Chairman</i>
<i>Mr. Fermin S. Lusung, Sr.</i>	-	<i>Member</i>
<i>Mr. Enrique C. Cuejilo, Jr.</i>	-	<i>Member</i>

Management

<i>Ms. Maria Theresa T. Defensor</i>	-	<i>President and CEO</i>
<i>Mr. Segundo M. Gaston</i>	-	<i>Senior Vice President, Support Services Group</i>
<i>Ms. Miriam M. Pasetes</i>	-	<i>Senior Vice President, Corporate Finance Group</i>
<i>Atty. Glenna Jean R. Ogan</i>	-	<i>Vice President, Corporate Legal Division</i>
<i>Ms. Janice Day E. Alejandrino</i>	-	<i>Vice President, Human Resource and Administration Division</i>
<i>Mr. Abraham P. Sales</i>	-	<i>Vice President, Construction Management Division</i>
<i>Ms. Yolanda C. Mortel</i>	-	<i>Vice President, Materials Management Division</i>
<i>Ms. Susan R. Vales</i>	-	<i>Senior Asst. Vice President, Controllership Division</i>
<i>Mr. Carlos G. Paulino</i>	-	<i>Asst. Vice President, Tollways Management Division</i>
<i>Mr. Felix M. Erece</i>	-	<i>Asst. Vice President, Human Resource and Administration Division</i>
<i>Atty. Henry M. Salazar</i>	-	<i>Asst. Vice President, Corporate Legal Division</i>
<i>Atty. Raisa P. Disomangcop</i>	-	<i>Asst. Vice President, Corporate Legal Division</i>
<i>Atty. Melvyn M. Gonzales</i>	-	<i>Asst. Vice President, Corporate Legal Division</i>

ANNEX B

PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
Comparative Statements of Income
For the Years Ended December 31, 2001 to December 2009
(In Thousand Pesos)

	Audited								Unaudited
	2001	2002	2003	2004	2005	2006	2007	2008	2009
REVENUES	1,172,815	933,435	916,483	1,453,766	1,327,161	943,442	1,022,519	876,354	897,725
COSTS AND EXPENSES	(1,025,297)	(821,204)	(1,408,917)	(2,681,889)	(2,627,011)	(1,027,973)	(579,428)	(354,906)	(355,073)
GROSS MARGIN	147,518	112,231	(492,434)	(1,228,123)	(1,299,850)	(84,531)	443,091	521,448	542,652
GEN. & ADM. OVERHEAD	(303,080)	(276,955)	(243,167)	(277,831)	(263,553)	(268,372)	(265,512)	(461,052)	(281,201)
OTHER INCOME (CHARGES) - net	5,617	11,142	32,290	58,751	19,624	(57,042)	36,217	538,679	212,082
INTEREST & FINANCING CHARGES	(509,875)	(481,347)	(518,280)	(529,835)	(548,510)	(538,545)	(56,116)	(52,097)	(43,837)
INCOME (LOSS) BEFORE INCOME TAX	(659,820)	(634,929)	(1,221,591)	(1,977,038)	(2,092,289)	(948,490)	157,680	546,978	429,696
PROVISION FOR INCOME TAX	-	-	-	-	-	-	-	(26,361)	(23,791)
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	(659,820)	(634,929)	(1,221,591)	(1,977,038)	(2,092,289)	(948,490)	157,680	520,617	405,905
EXTRAORDINARY ITEM	-	-	-	-	-	-	-	-	-
NET INCOME	(659,820)	(634,929)	(1,221,591)	(1,977,038)	(2,092,289)	(948,490)	157,680	520,617	405,905