

**COVER SHEET**

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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 E D S A C O R R E L I A N C E  
S T M A N D A L U Y O N G C I T Y

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

ATTY. GLENNA JEAN R. OGAN

Contact Person

631-53-52

Company Telephone Number

Month Day

Fiscal Year

S E C 1 7 Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel Concerned

File Number

LCU

Document ID

Cashier

**STAMPS**

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

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

1. For the quarterly period ended September 30, 2006
2. SEC Identification Number 30939      3. BIR Tax Identification No. 000-058-330-000-V
4. Exact name of registrant as specified in its charter  
PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
5. Metro Manila, Philippines      6. (SEC Use Only)  
Province, Country or other jurisdiction      Industry Classification Code:  
of incorporation or organization
7. PNCC Complex, EDSA corner Reliance Street, Mandaluyong City  
Address of principal office      Postal Code
8. 631-84-31 to 56      FAX No. 631-53-62/631-53-19  
Registrant's telephone number, including area code
9. \_\_\_\_\_  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares</u>
Common	75,000,000
Special Common	10,000,000
Preferred	<u>10,000,000</u>
	95,000,000
	=====

Note:

The Philippine National Construction Corporation (PNCC) has some 141,519,380 shares (99,444,759 common shares and 42,074,621 preferred shares) issued to different Government Financial Institution 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, 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 the Philippine Stock Exchange.

Yes  No

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

PHILIPPINE STOCK EXCHANGE (PSE)

12. Indicate by check mark whether the registrant :

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

Yes  No

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

Yes  No

### **PART I – FINANCIAL INFORMATION**

Item 1. Financial Statements

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

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


### **PART II – OTHER INFORMATION**

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

### **SIGNATURES**

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

Issuer **PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**

Signature and Title .....  ..... Chief Financial Officer

Date November 7, 2006

Principal Financial/Accounting Officer/Controller MIRIAM M. PASETES

Date November 7, 2006

PART 1 - FINANCIAL INFORMATION (Item 1 - Financial Statements)  
(Item 1.1 - Balance Sheet)



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**Comparative Balance Sheet**  
**As of September 30, 2006 and As of December 31, 2005**  
**(In Thousand Pesos)**

<b>A S S E T S</b>	<b>Sept. 30 2006 (Interim)</b>	<b>Dec. 31 2005 (Audited)</b>	<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>Sept. 30 2006 (Interim)</b>	<b>Dec. 31 2005 (Audited)</b>
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash	200,162	31,702	Accounts Payable	510,049	612,008
Marketable Securities	0	0	Accrued Costs and Expenses	188,168	178,978
Receivables and Advances	1,664,184	1,765,521	Short-term Loans	162,997	162,997
Inventories	19,454	44,621	Current Portion of Long-term Debts	5,887,175	5,464,221
Prepayments	123,844	123,115			
Total Current Assets	2,007,644	1,964,959	Total Current Liabilities	6,748,389	6,418,204
<b>LONG-TERM RECEIVABLES</b>	0	0	<b>ACCOUNTS PAYABLE-APT (net)</b>	119,025	119,096
<b>INVESTMENTS</b>	658,189	603,189	<b>LONG-TERM DEBTS</b>	24,070	58,429
<b>EXPRESSWAYS</b>			<b>ADVANCES FROM CLIENTS</b>	298,953	366,521
Cost	2,581,824	2,539,776	<b>TOTAL LIABILITIES</b>	7,190,437	6,962,250
Appraisal Increase	5,790,002	5,790,350			
Appraised Value	8,371,826	8,330,126	<b>STOCKHOLDERS' EQUITY</b>		
Acc. Depreciation - Cost	(2,269,915)	(2,129,591)	Capital Stock - Common	1,636,710	1,636,710
Acc. Depreciation - Appraisal Increase	(1,596,280)	(2,430,005)	- Special Common	3,722	3,722
Sound Value, Expressways	4,505,631	3,770,530	- Preferred A	14,000	14,000
Construction in Progress	0	0	- Preferred B	186,895	186,895
Total Expressways	4,505,631	3,770,530	- Preferred C	64,851	64,851
<b>PROPERTY, PLANT, AND EQUIPMENT</b>			- Preferred D	255,000	255,000
Cost	2,464,561	2,506,348	Subscribed - Common	107,738	107,738
Accumulated Depreciation	(451,377)	(467,026)	- Special Common	14,843	14,843
Net Book Value	2,013,184	2,039,322	Capital in Excess of Par Value	46,329	46,329
Repairs in Progress	762	131	Revaluation Increment in Property	14,463,921	14,463,921
Total Property, Plant, and Equipment	2,013,946	2,039,453	Equity Adjustment from Translation	2,037,688	2,037,688
<b>DEFERRED CHARGES AND OTHER ASSETS</b>	29,200	115,488	Equity Adjustment on Liabilities - Recommended for Write-off	597,640	597,640
<b>ASSETS PROPOSED FOR WRITE-OFF ALLOWANCES FOR LOSSES</b>	9,615,422 (9,615,422) 0	9,615,422 (9,615,422) 0	Equity Adjustment Under Rehab Plan- Loans Transferred to National Gov't	5,425,098	5,425,098
<b>TOTAL ASSETS</b>	<b>9,214,610</b>	<b>8,493,619</b>	Equity Adjustment on Loss of Assets	(9,615,422)	(9,615,422)
			Deficit	(13,143,959)	(13,636,763)
			Treasury Stocks	(14,722)	(14,722)
			Subscription Receivables	(56,159)	(56,159)
			<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>2,024,173</b>	<b>1,531,369</b>
			<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>9,214,610</b>	<b>8,493,619</b>



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**AGING SCHEDULE OF RECEIVABLES & ADVANCES**  
**AS OF SEPTEMBER 30, 2006 (P000)**

	AMOUNT	CURRENT	PAST DUE				
			01-30	31-60	61-90	91-120	OVER 120
01. UNBILLED CONTRACT RECEIVABLE	234						234
02. BILLED CONTRACT RECEIVABLE	213,326						213,326
03. CONTRACTUAL RETENTION RECEIVABLE	5,471						5,471
04. ACCOUNTS RECEIVABLE-TRADE	45,815	12	1,169	36	1	4	44,593
05. ACCOUNTS REC'BLE/PAYABLE-SUBS. & AFF	182,297	5,545	779	1,706	928	1,467	171,872
06. ACCOUNTS RECEIVABLE-OFF.& EMPL.	12,332	10,087	1,381	527	352	275	(290)
07. CLAIMS RECEIVABLE	110,514						110,514
08. OTHER ACCOUNTS RECEIVABLE	463,414	33,492	34,108	31,583	30,154	30,886	303,191
09. ADVANCES FOR SSS/ECC BENEFITS	410	45	62	57	44		202
10. ADVANCES TO SUB-CON	20,401						20,401
11. ADVANCES TO SUPPLIER	5,172	721	32	432	759	13	3,215
12. ADVANCES TO CONTRACT OWNER	636						636
<b>SUB-TOTAL</b>	<b>1,060,022</b>	<b>49,902</b>	<b>37,531</b>	<b>34,341</b>	<b>32,238</b>	<b>32,645</b>	<b>873,365</b>
13. ADVANCES TO CESLA	2						
14. ADVANCES TO JOINT VENTURE	465,340						
15. ACCRUED INTEREST RECEIVABLE	0						
16. INPUT TAX	432,642						
17. OUTPUT TAX	(303,300)						
18. ACCOUNTS RECEIVABLE-INTERUNITS	156,790						
19. ACCOUNTS PAYABLE-INTERUNITS	(147,312)						
<b>SUB-TOTAL</b>	<b>604,162</b>						
<b>TOTAL</b>	<b>1,664,184</b>						



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**Comparative Income Statement**  
**For the Third Quarter of 2006 and 2005**  
**(In Thousand Pesos)**

PARTICULARS	January to September		July to September	
	2006	2005	2006	2005
<b>REVENUES</b>				
Construction Operations	8,682	41,833	0	0
Equipment Management/Plant Operations	19,376	20,199	5,401	5,977
Tollways Operations	658,847	634,670	236,137	204,758
Total Revenue	686,905	696,702	241,538	210,735
<b>COSTS AND EXPENSES</b>				
Construction Operations	17,874	27,268	4,653	(5,854)
Equipment Management/Plant Operations	14,060	15,714	4,611	4,444
Tollways Operations	760,661	699,835	269,295	236,458
Total Costs and Expenses	792,595	742,817	278,559	235,048
<b>CONTRIBUTION MARGIN</b>				
Construction Operations	(9,192)	14,565	(4,653)	5,854
Equipment Management/Plant Operations	5,316	4,485	790	1,533
Tollways Operations	(101,814)	(65,165)	(33,158)	(31,700)
Total Contribution Margin	(105,690)	(46,115)	(37,021)	(24,313)
<b>GENERAL AND ADMINISTRATIVE OVERHEAD</b>	181,794	165,925	69,153	65,361
<b>INCOME (LOSS) FROM OPERATIONS</b>	(287,484)	(212,040)	(106,174)	(89,674)
<b>OTHERS</b>				
Interest and Financing Charges	(415,100)	(399,030)	(140,272)	(136,394)
Office Space Rental Income	16,313	6,740	5,985	2,217
Interest Income	10,529	5,718	10,083	1,236
Other Income (Expenses)	201,269	(1,116,120)	771,031	(279,020)
Guarantee Fees	(3,591)	(3,591)	(1,197)	(1,197)
	(190,580)	(1,506,283)	645,630	(413,158)
<b>INCOME (LOSS) BEFORE TAX</b>	<b>(478,064)</b>	<b>(1,718,323)</b>	<b>539,456</b>	<b>(502,832)</b>
<b>PROVISION FOR INCOME TAX</b>	0	0	0	0
<b>NET INCOME (LOSS)</b>	<b>(478,064)</b>	<b>(1,718,323)</b>	<b>539,456</b>	<b>(502,832)</b>
Earnings (loss) per share presented for:				
(a) income (loss)	(2.71)	(9.75)	3.06	(2.85)
(b) number of outstanding common shares	176,229,023	176,229,023	176,229,023	176,229,023

PART 1 - FINANCIAL INFORMATION (Item 1 - Financial Statements)  
 (Item 1.3 - Statement of Changes in Equity)



**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**Statement of Changes in Equity**  
**For the Third Quarter of 2006 and 2005**  
**(In Thousand Pesos)**

	Jan. to Sept. 2006	Jan. to Sept. 2005
<b>CAPITAL STOCK:</b>		
<b>Issued/Subscribed:</b>		
Balance at the beginning of the year	2,283,759	2,283,759
Issuance during the year	-	-
Exercise of stock option	-	-
Balance at the end of the quarter	2,283,759	2,283,759
<b>Capital in Excess of Par Value;</b>		
Balance at the beginning of the year	46,329	46,329
Premium on exercised stock option	-	-
Balance at the end of the first quarter	46,329	46,329
<b>Subscriptions Receivable:</b>		
Balance at the beginning of the year	(56,159)	(56,159)
Exercise of stock options	-	-
Collections	-	-
Balance at the end of the first quarter	(56,159)	(56,159)
<b>Treasury Stock</b>	(14,722)	(14,722)
	2,259,207	2,259,207
<b>REVALUATION INCREMENT IN PROPERTY:</b>		
Balance at the beginning of the year	14,463,921	14,463,921
Appraisal increase	-	-
Amortization	-	-
Adjustment (over/under take-up)	-	-
Balance at the end of the year	14,463,921	14,463,921
<b>EQUITY ADJUSTMENTS:</b>		
From translation	2,037,688	2,037,688
On liabilities recommended for write-off	597,640	597,640
Under rehabilitation plan-loans transferred to the Nat'l Govt.	5,425,098	5,425,098
On loss of assets	(9,615,422)	(9,615,422)
	(1,554,996)	(1,554,996)
<b>RETAINED EARNINGS (DEFICIT):</b>		
Balance at the beginning of the year	(13,636,763)	(12,053,989)
Net income (loss)	(478,064)	(1,718,323)
Correction of prior years' earnings	970,869	798,096
Balance at the end of the year	(13,143,958)	(12,974,216)
<b>STOCKHOLDERS' EQUITY</b>	2,024,174	2,193,916





**PHILIPPINE NATIONAL CONSTRUCTION CORPORATION**  
**Comparative Statement of Cash Flow**  
**For the Third Quarter of 2006 and 2005**  
**(In Thousand Pesos)**

	<b>Jan. to Sept. 2006</b>	<b>Jan. to Sept. 2005</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss) After Provision for Income Tax	(478,064)	(1,718,323)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	616,637	1,667,705
Correction of prior years' profits	970,869	798,096
	1,109,442	747,478
Changes in operating assets and liabilities:		
Decrease (increase) in advances and receivables	101,337	(352,089)
Decrease (increase) in inventories	25,167	(579)
Decrease (increase) in prepayments	(730)	(4,379)
Decrease (increase) in deferred charges and other assets	86,288	94,067
Increase (decrease) in accounts payable	(102,031)	(165,433)
Increase (decrease) in accrued costs and expenses	9,190	(11,542)
Increase (decrease) in advances from clients	(67,568)	(25,850)
	51,653	(465,805)
Changes in components of stockholders' equity:		
Increase (decrease) in revaluation increment in property	0	0
Increase (decrease) in equity adjustment under rehab plan	0	0
	0	0
Net cash provided by (used in) operating activities	1,161,095	281,673
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Decrease (increase) in marketable securities/investments	(55,000)	162,809
Decrease (increase) in capital expenditures	(1,326,230)	(885,469)
Net cash provided by (used in) investing activities	(1,381,230)	(722,660)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Increase (decrease) in short-term borrowings	422,954	440,104
Increase (decrease) in long-term debt	(34,359)	(34,359)
Net cash provided by (used in) financing activities	388,595	405,745
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>168,460</b>	<b>(35,242)</b>
<b>CASH BALANCE, at beginning of the year</b>	<b>31,702</b>	<b>37,220</b>
<b>CASH BALANCE, at end of the third quarter</b>	<b>200,162</b>	<b>1,978</b>

Item 1.5 Earnings (loss) Per Share

*The Company's earnings (loss) per share is presented on the face of the Income Statement (Item 1.2). Said earnings (loss) per share is computed by dividing the net income (loss) by the number of outstanding common shares.*

Item 1.6 Disclosure that the issuer's interim financial report is in compliance with the generally accepted accounting principles

*The interim financial statement of the Philippine National Construction Corporation is in compliance with the generally accepted accounting principles.*

Item 1.7 Notes to Financial Statements

1.7.a Accounting Policies and Methods

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

*Construction income is recognized on a percentage of completion method or completed contract basis. Other revenue is recorded on accrual basis.*

*Tollway income consists mainly of toll collections in connection with the franchise granted to the Company to construct, maintain, and operate toll facilities in the North and South Luzon Tollway.*

*Inventories consisting principally of construction materials, spare parts, and supplies are stated at cost, generally determined by the average cost method for a significant portion of domestic inventories and by the first in-first out method for other inventories.*

*The Company adopted the equity method of valuation for its investments in wholly-owned and controlled subsidiaries, wherein the company reflects as income/loss its share in the earnings/losses of the investees with a corresponding increase/decrease in the value of the investments from the date of acquisition.*

*The statements are prepared in accordance with the generally accepted accounting principles and under the historical cost method, except for the Expressways account and for certain Property, Plant, and*

*Equipment account which are carried in the books at their appraised/sound values.*

*The cost of the franchise is amortized for 20 years; depreciation on expressways and facilities is provided on a straight-line method over the estimated useful lives of the assets or 30 years lease period, whichever is shorter.*

*Depreciation on property, plant, and equipment is provided on a straight-line method over the estimated useful lives of the corresponding assets. Major repairs and improvements are capitalized; maintenance and repairs are charged to operations in the year expenses are incurred. The cost of assets retired or sold, together with the accumulated depreciation are removed from the accounts and any profit or loss on disposition is credited or charged to other income or expenses.*

*Certain accounts in 2005 were reclassified to conform with the 2006 presentation in the financial statements.*

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

*- Not applicable -*

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

*The significant increase in the Cash account in the amount of P168.460 million or 531.39% was mainly due to the collection of the Company's 6% share in the Manila North Tollways Corporation's (MNTC) gross revenue from the operation and maintenance of the new North Luzon Expressway (NLE) for the covering year 2005 and the reclassification of the Retirement Fund from Deferred Charges and Other Assets account.*

*The increase in the Expressways account in the amount of P735.101 million or 19.50% was brought about by the adjustment to extend the amortization period of the appraisal increase in North Luzon Tollway (NLT) assets over the 30-year life of the STOA, net of the depreciation/amortization of the account for the three (3) quarters ending September 30, 2006.*

*On the other hand, the Company's net loss for the reporting quarter in the amount of P478.064 million was lower by P1.240 billion when*

*compared to the same period of last year's figure of P1.718 billion. The favorable effect resulted from the aforesaid adjustment and the reduced operating and maintenance costs, specifically brought about by the turn over of the NLT operation to the MNTC.*

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

*- Not applicable -*

- 1.7.e Issuances, repurchases, and repayments of debt and equity securities

*In line with the Company's Board approved settlement of its concession fee obligation with the Toll Regulatory Board (TRB), PNCC, as of September 30, 2006, had paid TRB the total amount of P60 million representing initial payment of P15 million and concession fee amortization of P45 million for the months of January to September 2006. The formulation of payment plan on the cumulative balance has yet to be finalized.*

*The Company had fully paid its P11.2 million loan plus interests in the amount of P0.864 million (inclusive of 10% value added tax) with the National Development Company (NDC) in February 2006.*

*As of reporting quarter, however, the Company was not able to repay any current portion of its long-term debt from the Philippine National Bank (PNB).*

*Interests and penalty charges accruing from both the TRB and PNB loans are continuously recognized in the books.*

- 1.7.f Payment of dividend

*There were no dividends paid during and as of the third quarter of 2006.*

- 1.7.g Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting

PNCC's sources of revenues are as follows:

1. Tollways operation which includes management and maintenance of the South Luzon Tollway;
2. Construction operation which presently is focused on in-house projects (i.e. Tollway related projects); and
3. Equipment management which includes equipment rental (in-house and outside market).

The following tables present the revenue and income information and certain asset and liability information regarding the business segments for the quarters ended September 30, 2006 and September 30, 2005. Segment assets and liabilities exclude income tax assets and liabilities.

<b>For the Period Ended September 30, 2006 (P000):</b>	<b>Tollways</b>	<b>Construction</b>	<b>Eqpt. Mngt.</b>	<b>Others</b>	<b>Total</b>
<i>Revenue:</i>					
Total revenue	658,847	8,682	19,376	-	686,905
Segment results	(101,814)	(9,192)	5,316	-	(105,690)
Net income (loss)	(121,701)	(9,192)	(10,276)	(336,895)	(478,064)
<i>Assets and Liabilities:</i>					
Segment assets	481,834	-	340,389	8,386,389	9,208,612
Segment liabilities	1,786,072	-	28,937	5,375,428	7,190,437
<i>Other segment information:</i>					
Expressway	362,353	-	-	4,143,278	4,505,631
Property, Plant, & Equipment	11,435	-	83,786	1,918,725	2,013,946
Depreciation/Amortization	498,378	-	3,328	114,931	616,637

<b>For the Period Ended September 30, 2005 (P000):</b>	<b>Tollways</b>	<b>Construction</b>	<b>Eqpt. Mngt.</b>	<b>Others</b>	<b>Total</b>
<i>Revenue:</i>					
Total revenue	634,670	41,833	20,199	-	696,702
Segment results	(65,165)	14,565	4,485	-	(46,115)
Net income	(81,448)	6,517	(15,016)	(1,628,376)	(1,718,323)
<i>Assets and Liabilities:</i>					
Segment assets	1,089,100	277,900	362,800	7,256,168	8,985,968
Segment liabilities	1,726,244	136,012	54,043	4,881,752	6,798,051
<i>Other segment information:</i>					
Expressway	972,975	-	-	3,331,663	4,304,638
Property, Plant, & Equipment	23,252	-	90,217	1,935,977	2,049,446
Depreciation/Amortization	473,220	-	5,452	1,189,033	1,667,705

- 1.7.h Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

*There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.*

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

*- Not applicable -*

- 1.7.j Changes in contingent liabilities or contingent assets since the last annual balance sheet date

*- Not applicable -*

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

1.7.k.1 Pending Lawsuits and Litigations:

*The Company is involved in continuing litigations relating to labor and civil cases. The ultimate outcome of these litigations cannot be determined yet and no provision for any liability that may result has been made in the books. The Company's management and its legal counsels believe that the final resolutions of these claims will have material effect on the financial position of the Company as this will involve undeterminable amount of money.*

*The labor cases consist of those filed against the Company involving mostly of illegal dismissal, backwages, and separation pay. Most of these cases have been ruled by Labor Arbiter in favor of the complainant. However, these cases are on appeal by PNCC before the National Labor Relation Commission (NLRC).*

*On the other hand, the civil cases filed against the Company consist of cases involving damages, collection of money, and attorney's fees which are still on litigation before the various Regional Trial Courts (RTC). Those filed by the Company against other individual companies*

*consist of suits involving sum of money, damages, and breach of contract which involve undeterminable amount of money.*

#### 1.7.k.2 Contingent Liabilities:

*Asiavest Merchant Bankers (M) Berhad vs. PNCC - A Writ of Execution dated August 08, 2002 was issued by the RTC-Pasig City ordering the implementation/execution of the judgement rendered by the Supreme Court of the Philippines directing the defendant PNCC to pay the amount adjudged by the High Court of Malaysia in Kuala Lumpur dated September 13, 1985 in the estimated amount of P254.162 million (inclusive of interests). This resulted to the RTC's issuance of Notice of Garnishment on September 24, 2002.*

*Radstock Securities Limited vs. PNCC - The RTC-Mandaluyong City, in its Decision dated December 10, 2002, ordered PNCC to direct payment in the total amount of P13.152 billion (inclusive of interests and attorney's fees). The RTC, in its order dated January 23, 2001, also granted the Complainant's prayer for the issuance of a Writ of Preliminary Attachments against PNCC, resulting in the garnishment of PNCC's bank accounts and attachment of substantial portion of its real properties. The said case is now pending with the Supreme Court which issued a Temporary Restraining Order (TRO) on March 14, 2003 (amended on March 19, 2003 by Resolution) directed against any further proceedings in the lower courts. PNCC and Radstock, through their respective counsel, filed a Joint Motion for Judgment Based on Compromise, which agreement will become effective only upon approval by the Supreme Court.*

*The Bureau of Treasury (BTr) has written PNCC with regard to the P2.532 billion advances as of December 31, 2005 (inclusive of P1.299 billion interest) made by the BTr to settle PNCC's foreign obligations with creditors. Said loans are included in the Equity Adjustment under Rehab Plan which are among the accounts transferred by the PNCC to the National Government through the Asset Privatization Trust (now Privatization Management Office) pursuant to PNCC's rehabilitation plan of 1987 and are no longer recorded as liabilities in the books.*

*A recent strategic plan designed by Management and presented to Department of Finance-Privatization Committee aims to address the BTr advances by way of conversion to equity or long-term notes.*

### 1.7.k.3 Tax Matters:

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

- 1.7.k.3.a 1980 Deficiency income tax, deficiency contractor's tax and deficiency documentary stamp tax assessments by the BIR totaling P212.523 million.

*PNCC sought reinvestigation of the case on November 08, 1995, and as a consequence, the BIR issued a final decision on September 09, 2004 ordering PNCC to pay the amount of P101.458 million or a reduction of P111.874 million representing deficiency contractor's tax. The BIR resolved to cancel and withdraw the said assessment, it being bereft of merit and lack of legal basis, thus finding PNCC's contention meritorious.*

*The BIR, however, reiterated the demand to pay the amount of P101.458 million for deficiency income tax (P97.414 million) and deficiency documentary stamp tax (P4.044 million) plus increments that may have accrued until actual payment.*

*PNCC, in its letter of February 15, 2005 to the BIR, informed the latter through its Collection and Enforcement Division, that in the interest of fairness and due process, the Company had filed a Petition with the Department of Justice (DOJ) seeking reversal of the Bureau's resolution holding PNCC still liable for the aforesaid tax deficiencies and had applied for an interim order or measure from the DOJ to suspend or stop the collection of subject amount pending resolution of the Petition.*

- 1.7.k.3.b Deficiency business tax due the Belgian Consortium of which the Company was a partner amounted to P64 million.
- 1.7.k.3.c 1992 Deficiency income tax, deficiency value-added tax and deficiency expanded withholding tax of P1.04 billion which was reduced to P709 million after the Company's written protest.



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

1.7.k.3.d In addition to the above, the Company, in its letter of November 2001, had informed the BIR of its unpaid withholding taxes on compensation, creditable withholding taxes (expanded), withholding value-added tax, and final income taxes on fringe benefits totaling to P125.44 million which cover the period October to November 1998, September to December 2000, and January to December 2001. It was emphasized in the said letter that the difficulty in servicing the remittances stemmed mainly from the uncollected receivables from projects mostly undertaken for government agencies. In view of the collection problem still being encountered by the Company from the different government agencies/contract owners, the management, in its effort to assure the BIR of its willingness to pay its past years tax obligations despite the financial difficulties it continues to experience, presented several settlement options such as but not limited to the following:

1.7.k.3.d.1 Settlement over an extended period of up to five (5) years and in the event of improvement in the Company's cash flow, servicing of the account will be accelerated.

*As a result of the continuous coordination with the concerned BIR officers regarding the Company's admitted tax obligations, PNCC, had in good faith remitted to the BIR the amount of P19.059 million out of the aforesaid tax liabilities of P125.436 million, leaving a balance of P106.377 million as of the reporting quarter.*

1.7.k.3.d.2 Offsetting of various receivables from the government projects versus their budget allocation from the Department of Budget and Management; and/or

*The Company, in its letter of December 20, 2004 to the BIR, formally offered portion or P80 million of its receivables from the*

*Philippine Merchant Marine Academy (PMMA), which is deemed sufficient to pay the tax obligation.*

- 1.7.k.3.d.3 Offsetting versus input taxes which will involve PNCC's filing of its claims and the BIR's validation or relevant records.

*The Company, in its letter of January 22, 2004 to the BIR, requested that its net input tax of P116.5 million as of even date (which stood at P127.372 million as of reporting quarter) be shifted from the previous claim of input tax carry over to the issuance of tax credit certificates, which will subsequently be used to pay the aforesaid tax obligations.*

Also, PNCC, in its letter of July 31, 2006, proposed for a P3 million monthly payment in addition to its previous offer of its receivables from PMMA as discussed in Item 1.7.k.3.d.2 above and requested for the waiver and/or abatement of the attendant surcharges, interests, and penalty charges.

Accordingly, the aforesaid letter was favorably endorsed to the Office of the Technical Working Group-Committee on Abatement for appropriate action.

**PART 1 - FINANCIAL INFORMATION** (Item 2 – Management Discussion and Analysis [MDA] of Financial Condition and Results of Operations)

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

Financial Condition:

*As of September 30, 2006, the Company's resources totaled P9.215 billion, higher by P720.991 million or 8.49% compared to the December 31, 2005 figure of P8.494 billion.*

*The increase in resources was mainly due to the adjustment in the Expressway account, resulting from the extension of the amortization period of the appraisal increase in NLT assets over the 30-year life of the STOA with MNTC, matched against the revenue sharing of the company from MNTC's gross income in the NLEX.*

Presented hereunder is the discussion of the Company's and its majority-owned subsidiaries key performance indicators:

Performance Indicators	P N C C		Explanation
	As of 09/30/06	As of 09/30/05	
Current Ratio (Current Assets / Current Liabilities)	0.297	0.311	The Company's ability to meet its current obligations as they fall due decreased from P0.311 to P1.00 as of the 3rd quarter of 2005 compared with P0.297 to P1.00 as of the same period of 2006. This was brought about by the 2.17% increase in the current assets vis-a-vis the 5.14% increase in current liabilities.
Quick Ratio (Quick Assets / Current Liabilities)	0.276	0.283	The decrease in the quick ratio or acid test ratio was also due to the reasons stated above, specifically on the reduction of the receivables/advances accounts by 5.74%.
Total Debt to Total Assets	78.0%	75.6%	The Company's debt to assets ratio showed its inability to repay its maturing long-term obligations (principal and interests), with a 78.0% ratio as of the 3rd quarter of 2006 compared with 75.6% of the same period last year. Payment of separation benefits to retrenched officers/employees is presently being prioritized.
Total Debt to Equity	355.2%	309.9%	The poor total debt to equity ratio of the Company was brought about by its inability to pay maturing obligations (due to prioritization of payment of separation benefits to retrenched officers/employees) coupled with the incurrence of losses from operations.
Asset Turnover (Sales or Revenue / Average Total Assets)	7.8%	11.9%	The very minimal asset turnover of the Company was attributable to the non-maximization of its resources/equipments due to the temporary veering away with the construction business.

Performance Indicators	Subsidiaries		Explanation
	As of 09/30/06	As of 09/30/05	
Current Ratio (Current Assets / Current Liabilities)	0.999	0.894	The subsidiaries' ability to meet its maturing current obligations as of the 3rd quarter of 2006 was P0.999 higher than the P0.894 ratio as of the same period of 2005. This was brought about by the 31.69% increase in current assets vis-à-vis the 27.35% increase in current liabilities.
Quick Ratio (Quick Assets / Current Liabilities)	0.930	0.798	The increase in the quick asset ratio was due to the reasons stated above, specifically in the increase in the receivable account.
Total Debt to Total Assets	97.5%	110.1%	The subsidiaries' inability to meet its maturing obligations was evidenced by its debt to assets ratio, i.e. 97.5% as of the 3rd quarter of 2006 vis-à-vis 110.1% as of the 3rd quarter last year.
Total Debt to Equity	3908.6%	-1091.4%	The improvement in the total debt to equity ratio from negative 1091.4% to positive 3908.6% was brought about by the Board approved conversion of DISC's (wholly-owned subsidiary) debt to PNCC into equity.

## Results of Operation:

*For the quarter ended September 30, 2006, the Company's net loss amounted to P478.064 million, lower by P1.240 billion compared to the reported net loss of P1.718 billion for the same period of 2005.*

*During the reporting quarter, the Company's operation is focused mainly on the South Luzon Tollway operation [as the operation and maintenance of the North Luzon Tollway had been turned-over to the Manila North Tollway Corporation (MNTC) on February 10, 2005], resulting in the very minimal revenue on construction and equipment rental operations.*

*The losses during the first nine (9) months of operation were caused by the following: (1) the loss from operation totaling P105.690 million which accounted for 22.11% of the total; (2) the interests and financing charges accruing from the Company's unpaid obligations with the PNB and TRB amounting to P415.100 million, representing 86.83% of the total; and (3) the related amortization of the appraisal increase in North Luzon Tollway assets in the amount of P105.705 million which comprised for the 22.11% of the total.*

*For Item 3 above, Management intend to write-off the sound value of the said assets due to the turn over of the North Luzon Tollway operations to the MNTC. Actual write-off in the books, however, will be effected upon the Commission on Audit's (COA) concurrence on the proposed write-off.*

*As an alternative to the above, management had presented/recommended and the Board had initially approved the extension of the amortization period of the appraisal increase in NLT assets over the 30-year life of the STOA, the resulting effect of which was already recorded in the books. Management, however, intends to engage the services of a Financial Advisor to evaluate the propriety of the change made in the amortization of the appraisal increase in assets, among others.*

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 PNB and the TRB was brought about by the difficulties in collecting receivables from various government agencies.*

*Faced with the above difficulty, the Company had still managed to pay TRB the amount of P60 million as of the reporting quarter, which matter is discussed under Item 1.7.e. Likewise, PNCC had remitted P19.059 million to the BIR as of September 30, 2006, in partial payment of its admitted tax obligations, further discussed under Item 1.7.k.3.d (Tax Matters).*

2.2.a.2 *The Company has also some contingent liabilities with respect to the claims and lawsuits, including among others the Asiavest Merchant Bankers (M) Berdad and Radstock Securities Limited, as earlier discussed under Item 1.7.k.*

2.2.a.3 *Pending labor cases which consist of those filed against the Company involving dismissal, backwages, and separation pay. Most of these cases have been ruled by the Labor Arbiter in favor of the complainants, pending appeal by PNCC before the National Labor Relation Commission (NLRC).*

2.2.a.4 *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.5 *Pending assessments on deficiency taxes. Discussion is contained under Item 1.7.k, including courses of actions already undertaken by the Company to address the issue.*

*Having encountered this liquidity concern, PNCC implemented a program of manpower rightsizing in 2001 and has been pursued gradually during the 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 significantly by its Tollway operations.*

*In addition, the Company has designed a Corporate Strategic Plan, which significantly involves a Financial Restructuring Program/Balance Sheet Clean-Up. The said program will specifically address the following:*

- *Servicing of all government accounts with the TRB, the BTr, and the NDC via conversion of the obligations into long-term debt or equity;*

- *Payment of PNB loans via dacion en pago of mortgaged properties;*
- *Payment to the BIR via offset against receivables from government agencies; and*
- *Payment of retrenchment to employees, to be sourced from the collection from the MNTC and the South Luzon Tollway Corporation (SLTC).*

*The Company does not have material off-balance sheet transaction and arrangement during the reporting period, except for contingent obligations/liabilities which were earlier discussed under Item 1.7.k of the Notes to Interim Financial Statements.*

*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 PNB and TRB loans, discussed in the 1st paragraph of this Item and the contingent liabilities mentioned in the preceding paragraph.*

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

*- Not applicable -*

- 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 continued decline in the construction industry resulted to the Company's incurrence of severe losses from said operation. Thus, to prevent the Company from suffering greater losses as it had experienced for the last several years, Management decided to temporary veer away with the construction business and focus on its tollway operation.*

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

*The expected rehabilitation of the South Luzon Tollway will likewise have an unfavorable impact on the Company's revenue.*



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

Income Statement (P000)	For the Third Quarter Ended		Increase (Decrease)		Explanation of Variances
	09/30/06	09/30/05	Amount	%	
Construction Operations	8,682	41,833	(33,151)	(79.25)	Completion of Tollway related/in-house projects.
Cost of Construction Operations	17,874	27,268	(9,394)	(34.45)	The reduction in costs and expenses is in direct relation to the above, including manpower reduction.
Cost of Equipment Rental/Services	14,060	15,714	(1,654)	(10.53)	Manpower reduction brought about by the Company's on-going Retrenchment Program.
Cost of Tollway Operations	760,661	699,835	60,826	8.69	Charging of the depreciation/amortization of appraisal increase on tollway assets directly to tollway operations.
General and Administrative Overhead	181,794	165,925	15,869	9.56	Engagement of the services of several new consultants, creation of Board Committees, and various official out-of-town trips.
Office Space Rental	16,313	6,740	9,573	142.03	Contract of Lease entered into by and between PNCC and new tenants.
Interest Income	10,529	5,718	4,811	84.14	Interest from bank deposits and money market placements.
Other Income (Expenses)	201,269	(1,116,120)	1,317,389	118.03	6% share in the MNTC's gross revenue from the operation and maintenance of the New North Luzon Expressway, coupled with the adjustment made to extend the amortization period of the appraisal increase in NLT assets.
Accounts Payable	510,049	612,008	(101,959)	(16.66)	Payment of current/overdue obligations to various suppliers/creditors, including portion of the Company's admitted tax liabilities with the BIR.
Accrued Costs and Expenses	188,168	178,978	9,190	5.13	Accrual of various operating costs.
Current Portion of Long-term Debts	5,887,175	5,464,221	422,954	7.74	Reclassification of account from Long-term Debt and recognition of interests from PNB/TRB loans.
Long-term Debts	24,070	58,429	(34,359)	(58.80)	Reclassification of account to Current Portion of Long-term Debt.
Advances from Clients	298,953	366,521	(67,568)	(18.43)	Offsetting of deferred credits and deferred charges accounts.

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

- Not applicable -