COVER SHEET

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S.E.C. Registration Number

N	E	G	R	O	S		N	A	V	I	G	A	T	I	O	N		C	O		I	N	C	.					

(Company's Full Name)

P	I	E	R		2		N	O	R	T	H		H	A	R	B	O	R		T	O	N	D	O					
M	A	N	I	L	A																								

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

WILLARD G. MOSQUITO — Contact Person

TEL. NOS. 245 - 5588 — Company Telephone Number

0	6	3	0

Month Day

1	7	-	Q	

FORM TYPE

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks – pls. use black ink for scanning purposes

SEC Number: 1275
File Number : ____

NEGROS NAVIGATION CO., INC.
(Registrant's Full Name)

Pier 2, North Harbor, Manila
(Registrant's Address)

(632) 245-5588
(Telephone Number)

30 June 2004
(Fiscal Year Ending)
(Month & Day)

Quarterly Interim Financial Statements SEC Form 17-Q
(Form Type)

N/A
Amendment Designation (if applicable)

N/A
Period Ended Date

N/A
Secondary License Type and File Number

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA
Mandaluyong City

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 quarter period ended	:	30 June 2004
2. SEC Identification Number	:	1275
3. BIR Tax Identification Number	:	540 - 000 - 199 - 315
4. Exact Name of the Registrant as specified in its charter	:	**NEGROS NAVIGATION CO., INC**.
5. Province, country or other jurisdiction of incorporation or organization	:	Philippines
6. Industrial Classification Code (SEC Use Only)	:	____________________________
7. Address of Registrant's principal office	:	Pier 2, North Harbor, Manila
8. Registrant's telephone number, including area code	:	(632) 245-5588

9. The Registrant has not changed its corporate office address and fiscal since its last report.

10. Securities registered pursuant to Sections 4 and 8 of the RSA	:	Common Stock, ₱1.00 par value Issued and outstanding: 3,025,733,123 shares

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

12. (a) The Registrant has filed all reports required to be filed pursuant to Section 17 of the Code and SCR Rule 17 thereunder of 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.

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

DOCUMENTS INCORPORATED BY REFERENCE

(i) 30 June 2004 Quarterly Report of Negros Navigation Co., Inc. attached as Exhibit I and referred to herein as the "30 June 2004 Quarterly Report".

(ii) Management's Discussion and Analysis of Financial Condition and Results of Operations attached as Exhibit II.

PART I
FINANCIAL INFORMATION

1) Financial Statements

Please refer to attached Exhibit I.

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

Please refer to attached Exhibit II.

PART II
OTHER INFORMATION

Information not previously reported and made in this report in lieu of a report on SEC Form 17-C.

None

SIGNATURES

Pursuant to the requirement of the Securities Regulation Code, the Registrant has duly caused its report to be signed on its behalf by the undersigned hereto duly authorized.

Registrant	:	Negros Navigation Co., Inc. By:		
Title	:	Willard G. Mosquito *Head – Controllership & Financial Reporting*		
Date	:	31 August 2004		
Distribution	:	5 copies	-	Securities and Exchange Commission
		10 copies	-	Philippine Stock Exchange
		1 diskette	-	Philippine Stock Exchange
		1 copy	-	Corporate Secretary

Total number of pages [30]

Exhibit I

30 June 2004
Quarterly Report

NEGROS NAVIGATION CO., INC.

BALANCE SHEETS

(Amounts in thousand Pesos)	**Notes**	**As at 30 June 2004** (Unaudited)	**As at 31 December 2003** (As Restated)
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents		₱21,130	₱19,063
Receivables, net	3, 4	231,756	242,219
Prepayments, deferred finance charges and other current assets	3	25,660	37,413
Total current assets		**278,546**	**298,695**
PROPERTY AND EQUIPMENT, net	3, 5	**2,627,917**	**2,731,842**
OTHER ASSETS, net		**17,339**	**17,188**
		₱2,923,802	**₱3,047,725**
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	7	₱121,830	₱123,380
Accounts payable and accrued expenses	6	1,456,656	1,324,954
Current portion of long-term debts	8	409,619	397,637
Current portion of deferred credits		7,500	12,500
Total current liabilities		**1,995,605**	**1,858,471**
NON-CURRENT LIABILITIES			
Long-term debts, net of current portion		508,698	546,084
Deferred credits, net of current portion		20,833	22,152
Cash bonds		14,122	15,686
Total non-current liabilities		**543,653**	**583,922**
STOCKHOLDERS' EQUITY		**384,544**	**605,332**
		₱2,923,802	**₱3,047,725**

NEGROS NAVIGATION CO., INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

(Amounts In thousand Pesos)	Notes	Six Months Ended 30 June		Three Months Ended 30 June	
		2004 (Unaudited)	**2003** (Unaudited)	**2004** (Unaudited)	**2003** (Unaudited)
Revenues	3, 9	₱964,681	₱1,312,621	₱443,011	₱708,110
Operating costs and expenses	3	959,966	1,053,869	528,715	542,107
Income (loss) from operations		4,715	258,752	(85,704)	166,003
General and administrative expenses	3	128,616	129,480	68,297	67,305
Income (loss) before interest		(123,901)	129,272	(154,000)	98,698
Interest expense, net	3	96,910	57,572	70,274	27,496
Income (loss) before other charges (earnings)		(220,811)	71,700	(224,274)	71,202
Other charges (earnings), net		(3,118)	4,350	(22,229)	14,366
Income (loss) before income tax		(217,693)	67,350	(202,045)	56,836
Provision for tax	3	3,095	4,653	3,095	4,653
Net income (loss) for the period		(220,788)	62,697	(205,141)	52,183
Deficit, beginning of period		(3,246,410)	(2,650,444)	(3,262,057)	(2,639,930)
Deficit, end of period		**(3,467,198)**	**2,587,747**	**(3,467,198)**	**2,587,747**
Earnings (loss) per share	3, 13	**(₱0.073)**	**₱0.017**	**(₱0.068)**	**₱0.017**
Weighted average number of share		**3,025,733,123**	**3,025,733,123**	**3,025,733,123**	**3,025,733,123**

NEGROS NAVIGATION CO., INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Six Months Ended 30 June 2004 and 2003

(Amounts in thousand Pesos)	Capital Stock (P1 par value) – Issued and Outstanding Number of Shares	Amount	Subscription Receivable	Additional Paid-in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
Balances, 31 December 2002	**3,025,733,123**	**₱3,025,733**	**(₱64,923)**	**₱890,932**	**₱(2,650,444)**	**₱1,201,298**
Net income for the period					62,697	62,697
Balances, 30 June 2003	**3,025,733,123**	**3,025,733**	**(64,923)**	**890,932**	**(2,587,747)**	**1,263,995**
Balances, 31 December 2002	**3,025,733,123**	**3,025,733**	**(64,923)**	**890,932**	**(2,650,444)**	**1,201,298**
Net Loss for the year					(595,966)	(595,966)
Balances, 31 December 2003	**3,025,733,123**	**3,025,733**	**(64,923)**	**890,932**	**(3,246,410)**	**605,332**
Net loss for the period					(220,788)	(220,788)
Balances, 31 March 2004	**3,025,733,123**	**₱3,025,733**	**₱(64,923)**	**₱890,932**	**₱(3,467,198)**	**₱ 384,544**

NEGROS NAVIGATION CO., INC.

STATEMENTS OF CASH FLOWS

(Amounts in thousand Pesos)	Notes	Six Months Ended 30 June 2004 (Unaudited)	 2003 (Unaudited)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net income (loss) before income tax		(₱217,693)	₱67,350
Adjustments for:			
Depreciation and amortization		156,433	172,975
Gain on disposal of assets		-	(491)
Interest Income	3	(46)	(6,871)
Interest Expense	3	87,102	61,601
Unrealized foreign exchange loss		9,753	2,842
Operating income before working capital changes		35,549	297,406
Net change in working capital		50,436	25,718
Cash generated from operation		85,985	323,124
Interest received	3	26	95
Interest paid	3	(4,331)	(18,007)
Net cash from operating activities		81,680	305,212
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES			
Purchased of fixed assets - net		(52,508)	(120,149)
Proceeds from sale of assets		-	491
Decrease (Increase) in other assets		(151)	(53,074)
Net cash used in investing activities		(52,659)	(172,732)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
(Repayment) of loans, net	7, 8	(26,954)	(123,868)
Net cash used in financing activities		(26,954)	(123,868)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,067**	**8,612**
CASH AND CASH EQUIVALENTS			
Beginning of period		19,063	51,659
End of period		**₱21,130**	**₱60,271**

NEGROS NAVIGATION CO., INC.

NOTES TO FINANCIAL STATEMENTS
AS OF 30 JUNE 2004 AND 31 DECEMBER 2003 AND
FOR THE QUARTERS ENDED 30 JUNE 2004 AND 2003
(All amounts in thousands, unless otherwise indicated)

1. Corporate Information

Negros Navigation Co., Inc. (the Company or NENACO) was organized and registered with the Philippine Securities and Exchange Commission (SEC) on July 26, 1932 for the purpose of transporting passengers and cargoes at various ports of call in the Philippines. The registration was subsequently renewed prior to its expiration in July 1982.

The shares of the Company are listed on the Philippine Stock Exchange.

As of March 31, 2004, the Company is 97.2%-owned by Metro Pacific Corporation (MPC, the parent company). MPC is a domestic, publicly-listed property-focused corporation. MPC is a subsidiary of First Pacific Company Limited (FPCL, the ultimate parent company). FPCL is a Hong Kong-based investment and management company with various operations located in Southeast Asia. The shares of FPCL are listed on the Hong Kong Stock Exchange and are also available in the United States through American Depositary Receipts. The principal office address of the Company is Pier 2, North Harbor, Tondo, Manila.

2. Corporate Rehabilitation

On March 20, 2004, on the basis of an attachment order issued by the Regional Trial Court (RTC) of Cebu, Tsuneishi Heavy Industries, Inc. (Tsuneishi), the Company's ship repair provider, seized a Company vessel, M/S St. Peter the Apostle, for the repayment of the Company's past due obligations (see Note 6). As a result of the foregoing and in order to preserve the assets of the Company for cash generation and its restructuring plans, the BOD approved a resolution for the Company to file a petition for corporate rehabilitation. Thus, on March 29, 2004, the Company filed such petition with prayer for suspension of debt payments and approval of its proposed Rehabilitation Plan with the RTC of Manila (Receiver Court). On May 5, 2004, the Supreme Court ordered the reversal of the temporary restraining order (TRO) issued by the Court of Appeals (CA) in favor of Tsuneishi, thus, allowing the Company to operate M/S St. Peter the Apostle (see Note 21).

On April 1, 2004, the RTC of Manila issued a Stay Order relative to the Company's petition, which in part, stays the enforcement of all claims, whether for money or otherwise, and whether such enforcement is by Receiver Court action or otherwise, against the Company and prohibits the Company from making any payment of its liabilities outstanding as of the date of filing of the petition for corporate rehabilitation. The Receiver Court has also appointed a Rehabilitation Receiver to closely oversee and monitor the operations of the Company during the proceedings.

Under the proposed corporate Rehabilitation Plan, which is subject to the ultimate approval of the Receiver Court and the creditors, the Company shall implement: (1) a 10-year Business Plan aimed at restoring operational and business control to optimize value and deliver quality service; and (2) a Debt Settlement Plan primarily designed to map out the short-term detailed milestones of the critical two years of rehabilitation (April 2004 - 2005 and April 2005 - 2006). The salient points of the components of the corporate Rehabilitation Plan are as follows:

a. Business Plan

   1) Consolidate the basic foundations of business and operational rehabilitation specifically focusing on basic minimum capacity and the Company's debt settlement capability;

   2) Correct critical weaknesses and deficiencies which include: (i) controls over business and operations; (ii) collection of receivables and improvement of receivables turnover; (iii) budget formulation and monitoring for critical costs, namely, drydocking, repairs and maintenance, and fuel, among others; (iv) reduction of operating expenses; and (v) definition of core business direction;

   3) Validate and determine the competitive position of the Company which may include establishing goals to achieve "Roll on - Roll off" leadership, rationalizing the ports served, re-routing of certain vessels, opening of satellite receiving stations and outsourcing of branch operations;

   4) Define a re-fleeting program to widen market reach; and

   5) Execute and complete the proposed Debt Settlement Plan.

b. Debt Settlement Plan

   1) Settlement of debt via payment terms covering a period of 10 years with a proposed grace period on the principal;

   2) Inclusion of unpaid interest as part of the principal;

   3) Earmarking a fixed percentage of the Company's cash flow for debt service with the balance for other operational requirements;

   4) Fixed interest rates for secured and unsecured obligations;

   5) Assets held by secured creditors shall secure the restructured obligations of the Company;

   6) Option for creditors to convert their exposure into common shares of the Company; and

   7) Option for creditors to enter into dacion en pago arrangements.

In view of the Stay Order issued by the Receiver Court, payment of the following current liabilities (in thousands) as of March 31, 2004 has been suspended.

	Amount
Notes payable	₱121,830
Trade and other payables	997,965
Current portion of long-term debt and long-term debt in default	312,678
Current portion of obligations under finance lease	96,941
	₱1,529,414

Should the Receiver Court ultimately approve the proposed Debt Settlement Plan discussed in the foregoing, such liabilities will be reclassified as non-current liabilities.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to: (i) secure a favorable court decision on its petition for corporate rehabilitation as well as creditors' consent with respect to debt repayment terms; (ii) generate financing as may be necessary to pay its trade creditors for purchases after the issuance of the Stay Order; (iii) achieve a profitable return from the operations of its vessels through a sound mix between passage and freight services; (iv) attain a significant market share for passage and freight by focusing on plying more profitable routes; and (v) successfully reconfigure certain of its vessels to accommodate more freight volume. The ultimate outcome of these material uncertainties cannot presently be determined. The accompanying financial statements do no include any adjustment relating to the recoverability and classifications of the Company's recorded asset amounts and the amounts and classifications of its liabilities that might be necessary should the Company be unable to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines under the historical cost basis.

The financial statements as of and for the three months ended March 31, 2004 were prepared for submission by the Rehabilitation Receiver together with his Evaluation and Recommendation Report to the Receiver Court pursuant to Section 9, Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation. The amounts presented for the prior period in the statements of operations, changes in stockholders' equity and cash flows and related notes to the financial statements are for the twelve months ended December 31, 2003 and, accordingly, are not comparable with the March 31, 2004 financial statements.

Changes in Accounting Policies

The following changes in accounting policies have been adopted in conformity with the provisions of the respective Statements of Financial Accounting Standards

(SFAS)/International Accounting Standards (IAS) which became effective on January 1, 2004:

- SFAS 12/IAS 12, "Income Taxes," which prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of deferred tax liability with respect to asset revaluations. The adoption of this standard did not result in the restatement of prior period financial statements. The adoption of this standard has no material effect on the Company's financial statements as of March 31, 2004 and for the period then ended.

- SFAS 17/IAS 17, "Leases," which prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

  A lessee is required to recognize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset or the present value of the minimum lease payments at the inception of the lease. The lessee should also depreciate the leased asset. On the other hand, a lessee should charge operating lease payments to current operations. The adoption of this standard has no material effect on the Company's financial statements as of March 31, 2004 and for the period then ended.

<u>New Accounting Standards Effective Subsequent to 2004</u>
The Philippine Accounting Standards Council (ASC) has approved the following accounting standards which will be effective for financial statements covering periods beginning on or after January 1, 2005:

- SFAS 19/IAS 19, "Employee Benefits," requires the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. Past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested; any unvested past service not recognized is included as part of the defined benefit asset or liability. Actuarial gains or losses (consisting of experience adjustments and the effects of changes in actuarial assumptions) are recognized immediately as income or expense to the extent that they exceed 10% of the defined benefit obligation or 10% of the fair value of the plan assets;

- SFAS 21/IAS 21, "The Effects of Changes in Foreign Exchange Rates," provides restrictive conditions for the capitalization of foreign exchange losses.

  The International Accounting Standards Board (IASB) has recently issued an amended IAS 21, which among others, removes the limited option in the previous version of IAS 21 to capitalize exchange differences resulting from a severe devaluation or depreciation of a currency against which there is no practical means of hedging. Such exchange differences will be recognized directly in profit or loss under the amended IAS 21. The ASC has yet to adopt the amended IAS 21.

- SFAS 32/IAS 32, "Financial Instruments: Disclosure and Presentation," covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (e.g., price risk, credit risk, liquidity risk and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The Standard also requires financial instruments to be classified as liabilities or equity in accordance with its substance and not its legal form.

- SFAS 39/IAS 39, "Financial Instruments: Recognition and Measurement", establishes the accounting and reporting standards for recognizing, measuring and disclosing information on the company's financial assets and liabilities. The standard requires a financial asset or financial liability to be recognized initially at cost including related transaction costs. Subsequent to initial recognition, the company should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities held for trading and derivatives, which are subsequently measured at fair value.

  SFAS 39/IAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the effectiveness of derivative transactions that receive hedge accounting treatment.

- SFAS 40/IAS 40, "Investment Property," prescribes the accounting treatment for investment property which is defined as land and/or building held to earn rentals or for capital appreciation or both. Investment property is initially recognized at cost. Subsequent to initial recognition, investment property is either carried at (i) cost, less accumulated depreciation and any accumulated impairment losses, or (ii) fair value, wherein fair value movements are recognized as income or expense. Transfers to or from investment property classification are made only when there is evidence of a change in use.

The Company will adopt the foregoing IAS in 2005 and is currently in the process of evaluating the impact on the financial statements of such adoption. The Company is also expected to adopt the following revised standards:

- IAS 1 - “Presentation of Financial Statements”;
- IAS 2 - “Inventories”;
- IAS 8 - “Accounting Policies, Changes in Accounting Estimates and Errors”;
- IAS 10 - “Events After Balance Sheet Date”;
- IAS 16 - “Property, Plant and Equipment”;
- IAS 17 - “Leases”;
- IAS 24 - “Related Party Disclosures”;
- IAS 28 - “Investments in Associates”;
- IAS 31 - “Investments in Joint Ventures”; and
- IAS 33 - “Earnings Per Share.”

The IASB has also issued the following International Financial Reporting Standards (IFRS) which will potentially have an impact on the Company’s financial statements:

- IFRS 1 - “First Time Adoption of International Financial Reporting Standards”;
- IFRS 2 - “Share Based Payment”;
- IFRS 3 - “Business Combinations”; and
- IFRS 5 - “Noncurrent Assets Held for Sale and Presentation of Discontinued Operations.”

The Company will evaluate and determine the impact of the new and revised standards on its financial statements.

Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amount. Other receivables are stated at face value, after allowance for any uncollectible amount.

An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

Inventories consisting of fuel, lubricants, materials and supplies are carried at the lower of cost or net realizable value. Cost is accounted for using the first-in, first-out method. Net realizable value of such inventories is the current replacement cost.

Property and Equipment

Property and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment loss. Land is carried at cost (initial purchase price and other cost directly attributable to bringing such asset to its working condition) less any impairment loss. The cost of property and equipment, except land, consists of its purchase price, including import duties, nonrefundable purchase taxes and other directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Drydocking costs, consisting mainly of main engine overhaul, steel plate replacement of the vessels' hull and related expenditures, are capitalized as part of "Vessels and improvements" under "Property and equipment" account in the balance sheet and amortized over a period of two and three years for passenger and cargo vessels, respectively. Amortization of drydocking costs is directly deducted from the cost of vessels and improvements. When significant drydocking expenditures occur prior to the expiry of this period, the remaining unamortized balance of the original drydocking costs is expensed in the month of subsequent drydocking.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property and equipment:

	Estimated Useful Lives in Years
Vessels in operation and improvements, excluding drydocking costs	30
Leasehold improvements	5 to 20 or lease term, whichever is shorter
Containers	5
Terminal equipment	10
Furniture, fixtures and other equipment	5

The useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Vessels under refurbishment, if any, include the acquisition cost of the vessels, the cost of ongoing refurbishments and other direct costs. Construction in progress, if any, represents structures under construction and is stated at cost, less any impairment loss. This includes cost of construction and other direct costs. Vessels under refurbishment and construction in progress are not depreciated until such time that the relevant assets are completed and put into operational use.

Vessel on lay-over represents vessel for which drydocking has not been done pending availability of the necessary spare parts. Such vessel, included under the "Property and equipment - vessels and improvements" account in the balance sheet is stated at cost less accumulated depreciation and any impairment loss.

When assets are sold or retired, the cost and related accumulated depreciation and amortization and any impairment loss are eliminated from the accounts and any resulting gain or loss is credited or charged to current operations.

Investments in Proprietary Shares and Shares of Stock

Investments in proprietary shares and shares of stock, included under "Other noncurrent assets" account in the balance sheet are carried at cost less any significant and apparent permanent decline in value, if any.

Asset Impairment

The carrying values of property and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets and cash-generating units are written down to their recoverable amount. The recoverable amount of the asset is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Provision for impairment loss, if any, is recognized in the statement of operations.

Reversal of impairment loss recognized in prior period is recorded when there is an indication that the impairment loss recognized for the asset no longer exists or has decreased. The reversal is recorded as income. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized only to the extent that it does not exceed the carrying amount that would have been determined had impairment loss not been recognized for that asset in the prior period.

Revenues

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from shipping operations. Passage and freight revenues are recognized when the related services are rendered, net of percentage taxes and allowance for rebate. Customer payments for services which have not been rendered are classified as unearned revenue.

Agency fees. One-time revenue from agency arrangements with new ticket agents is recognized upon execution of the agency agreement and is included under "Other operating income" account in the statement of operations.

Commission. Commission from the Company's concessionaire for its vessels is recognized in accordance with the terms of the agreement, and is included under "Other operating income" account in the statement of operations. Advance collections are recorded under "Deferred credits" account in the balance sheet.

Rent. Rent is recognized on a straight-line basis, and is included under “Other operating income” account in the statement of operations. Advance collections are recorded under “Deferred credits” account in the balance sheet.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Finance Leases

Leases, where substantially all the risks and rewards incident to ownership of an asset is transferred to the Company, are accounted for as finance leases.

Finance leases are recognized as assets and liabilities in the balance sheet at amounts equal to the lower of the fair value of the leased properties or the present value of the minimum lease payments at the inception of the lease. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the incremental borrowing rate is used. Initial direct costs incurred are included as part of the cost of the asset. Lease payments are apportioned between finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as borrowing cost for the year. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

Operating Leases

Leases, where substantially all the risks and rewards of ownership of the asset remain with the lessor, are accounted for as operating leases. Operating lease payments are recognized as expense in the statement of operations on a straight-line basis.

For income tax reporting purposes, operating lease payments are considered as deductible expense in accordance with the terms of the lease agreements.

Provisions

Provisions, if any, are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase due to the passage of time is recognized as interest expense but classified as additional provisions.

Borrowing Costs

Borrowing costs are expensed as incurred.

Retirement Benefits

The Company has a contributory defined benefit retirement plan covering all regular and permanent employees. Retirement benefits are actuarially determined using the projected unit credit cost method. This method reflects the years of service rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate at the balance sheet date. All exchange rate differences, including those arising from the settlement of monetary items at rates different from those at which they were recorded, are recognized in the statement of operations in the period in which the differences arise.

For income tax reporting purposes, exchange gains and losses are treated as taxable income or deductible expense in the period these are realized.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the Philippines requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Income Tax

Deferred income tax is provided using the balance sheet liability method, on all taxable and deductible temporary differences at the balance sheet date between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- Except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probably that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of net operating loss carry over (NOLCO), and carryforward benefit of excess of the minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, NOLCO and MCIT can be utilized:

- Except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary difference can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate that has been enacted or substantively enacted at the balance sheet.

Basic Earnings Per Share (EPS)
Basic EPS is calculated by dividing net income or loss for the period by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any stock dividend declaration.

Subsequent Events
Subsequent events that provide additional evidence of conditions that existed at the balance sheet date (adjusting events) are reflected in the financial statements. Subsequent events that are indicative of conditions that arose after balance sheet date (non-adjusting events) are disclosed in the notes to financial statements, if material.

Segment Reporting
For purposes of segment reporting, the Company has only one reportable segment which is vessel operations.

Note 4 – Receivables - net

	Balances as of	
Receivables consist of:	**06/30/2004**	12/31/2003
Trade	**₱314,785**	₱317,383
Advances to officers and employees	**4,532**	8,694
Due from customers, suppliers and contractors	**6,767**	7,355
Others	**53,511**	52,626
Receivables, gross of allowance for doubtful accounts	**379,595**	386,058
Less - allowance for doubtful accounts	**147,839**	143,839
Receivables, net	**₱231,756**	₱242,219

The aging of trade receivables is as follows:	Balances as of 06/30/2004	12/31/2003
01 - 30 days	**49,142**	65,538
31 – 60 days	**29,339**	50,724
61 – 90 days	**22,255**	39,555
91 – 120 days	**25,502**	14,272
121 – 360 days	**90,288**	55,723
Over 360 days	**98,259**	91,571
	314,785	₱317,383

Note 5 – Property and equipment - net

	Balances as of 06/30/2004	12/31/2003
At cost		
Vessels	**3,099,116**	3,061,540
Container vans	**687,543**	679,436
Terminal equipment	**326,023**	322,553
Furniture, fixtures and other equipment	**244,304**	241,441
Banago wharf and improvements	**162,943**	162,943
Buildings, structures and improvements	**122,176**	121,684
Land	**3,064**	3,064
Total	**4,645,169**	4,592,661
Accumulated depreciation	**2,017,252**	1,860,819
	2,627,917	2,731,842

The vessels, terminal equipment and land are mortgaged to secure certain obligations of the Company as of June 30, 2004.

As discussed in Note 2, on March 20, 2004, on the basis of an attachment order issued by the RTC of Cebu, Tsuneishi seized M/S St. Peter the Apostle for the repayment of the Company's past due obligations to the former relating to drydocking and ship repair services aggregating to ₱108.0 million presented among "Trade and other payables" account in the balance sheet.

As of August 31, 2004, a Company vessel, M/S St. Ezekiel Moreno, is on temporary lay-over while awaiting availability of funds for the importation of the required spare parts.

Vessels and improvements were appraised by an independent firm of appraisers as of various dates in June 2004. The Company, however, has not recorded the appraised values in its books. The appraised values of the vessels and improvements amount to ₱2.3 billion.

Note 6 - Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of:	Balances as of 06/30/2004	Balances as of 12/31/2003
Trade	**640,145**	₱491,123
Income taxes and other taxes payable	**429,763**	506,945
Accruals:		
Interest and penalties	**198,826**	172,296
Rentals	**98,912**	96,920
Salaries and employee benefits	**11,273**	9,825
Others	**33,732**	28,374
Damages and claims	**9,254**	13,540
Others	**34,751**	5,931
	1,456,656	₱1,324,954

Note 7 - Notes payable

Notes payable consist of:	Balances as of 06/30/2004	Balances as of 12/31/2003
Secured	**₱121,830**	₱121,830
Unsecured	**-**	1,550
	₱121,830	₱123,380

BOC

The Company's outstanding loans from BOC are secured by a Company vessel, M/S Mary Queen of Peace. The average annual interest is 17.9% in 2004 (12.7% in 2003). As of August 31, 2004, the principal amounts due on various dates in May and June 2004 remain outstanding.

PIC

In September 2001, the Company obtained a ₱60 million loan from PIC which matured in 2003. Such loan was covered by a General Lien Agreement which secured the said loan by constituting a lien over the Company's accounts receivable. Certain trade accounts receivable totaling ₱60 million were set aside and/or ceded and/or assigned to PIC (see Note 5). The lien shall extend not only to the aggregate principal amount of ₱60 million but also to such interests and other charges as may be due and owing as provided for in the loan agreement. Prior to loan maturities in 2003, the parties agreed to extend the terms of the loans amounting to ₱50 million and ₱10 million up to February and August 2004, respectively. The loans bear average annual interest of 13.0% in 2004 (14.8% in 2003).

As of August 31, 2004, the principal amount due in February 2004 remains outstanding.

Note 8 - Long-term debts

Long-term debts at consist of:	Balances as of 06/30/2004	Balances as of 12/31/2003
Bank loans	**475,094**	₱479,880
Finance leases	**158,575**	179,032
Others (including supplier's credit)	**284,648**	284,809

	918,317	943,721
Less - current portions	**409,619**	397,637
	₱508,698	₱546,084

The Company's long-term peso denominated loans from banks bear interests ranging from 8.5 to 13.9 percent per annum and are payable in a period up to 2010, as rescheduled. These loans are secured by certain property and equipment.

Other long-term debts include loans with Pilipinas Shell Petroleum Corporation (PSPC) and finance leases with various leasing companies. The loan with PSPC consists of a restructured loan payable in three years starting July 2003 up to December 2006 with interest based on 182-day treasury bill plus 4 percent. Finance leases for container vans and terminal equipment with various leasing companies are payable over a period of three to seven years until 2008.

Note 9 - Revenues

Revenues for the six months ended 30 June 2004 and 2003 consist of:

	2004	2003
Passage	**₱563,691**	₱780,777
Freight	**392,431**	483,109
Others	**8,559**	48,735
	₱964,681	₱1,312,621

Others revenues mainly represent the Company's share of revenues from hotel and restaurant services on board Company vessels provided by a third party, freight overages and franchise revenues recognized from new ticket agents.

Note 10 - Retirement benefit plan

The Company has a funded, contributory defined benefit retirement plan (Plan) covering all regular employees. Normal retirement benefit, which may be given in lump sum or in yearly installments but not exceeding five annual installments at the Company's option, is equivalent to 100 percent of the employee's monthly salary as of the date of retirement multiplied by the total years of credited service.

Each employee and the Company shall contribute regularly to the Plan as follows:

- Employee - 2 percent of total annual basic salary, such contribution shall be made through equal deductions by the Company from the participant's salary on each payday.

- Company - 6 percent of the employee's total annual basic salary, such contributions shall be paid by the Company to the Trustee once a month but not later than the 10th day of the following month.

In December 2003, the Company commissioned an independent actuary to conduct an independent review and evaluation of the Company's retirement plan to consider the effects of the redundancy program that the Company had implemented (see Note 15).

As of December 31, 2003, the date of the latest actuarial valuation, the Company's actuarial present value of retirement benefits amounted to ₱35.9 million and the fair value of the fund assets amounted to ₱0.4 million. The unfunded past service liability amounted to ₱35.5 million. The principal assumptions used to determine retirement benefits were an annual salary increase of 5% and return on plan assets of 7%.

Actuarial valuation is made at least every three years. The annual contribution to the plan consists of the current service cost for the year, plus the annual amortization of the unfunded past service liability over the average working lives of employees. As of valuation date, the actuarial recommended annual contributions to the fund for current service cost and amortization for unfunded liability amounted to ₱3.9 million and ₱2.9 million, respectively.

Retirement expense charged to operations amounted to ₱1.7 million in 2004 (₱6.8 million in 2003).

Note 11 - Redundancy program

To improve operating efficiencies, the Company implemented a redundancy program starting July 2000. A total of 26 employees in 2004 (96 employees in 2003) have been separated from the Company with separation pay totaling ₱19.1 million (₱47.9 million in 2003).

Note 12 - Lease commitments

The future aggregate minimum lease payments under operating leases as of June 30, 2004 are as follows:

From June 30	Amount
Not later than one year	₱98,455
Later than one year and not later than five years	383,248
Later than five years	2,700

The terms of the significant lease agreements are as follows:

a. On November 8, 2002, the Company entered into an agreement with the BOC (lessor) to lease the latter's land with a total area of 29,709 square meters at Barangay Banago, Bacolod City. The lease provides for an annual escalation of ₱1 million beginning on the second year of the lease term. The term of the lease is for five years up to December 5, 2007. The agreement required payment of an advance deposit and rental, which is presented as part of "Other noncurrent assets" account in the balance sheet.

   Total rentals charged to operations amounted to ₱2.6 million in 2004 (₱9.6 million in 2003).

b. The Company leases from Philippine National Bank (lessor) certain parcels of land where the Company's integrated container yard facility is located. The term of the lease shall be for a period of five years commencing on November 1, 2001, with an annual escalation of 10% starting on the third year of the lease term. The agreement requires advance rentals and deposits and is renewable upon mutual agreement of the parties.

   Total rentals charged to operations amounted to ₱4.2 million in 2004 (₱15.6 million in 2003).

c. On April 1, 2001, the Company entered into an agreement with GE Sea Co. (lessor) for the lease of 1,516 units of 20-footer dry freight containers for three years commencing on the date of delivery of the containers at the rates agreed upon by both parties. Thereafter, the lease shall, unless negotiated 90 days prior to termination, remain in full force until terminated by either party.

   Total rentals charged to operations amounted to ₱3.0 million in 2004 (₱11.9 million in 2003).

d. On October 24, 2002, the Company entered into a Memorandum of Agreement with Waterfront Container Leasing Co., Inc. (Waterfront-lessor) for the rental of 1,351 containers for a period of three to five years at the rates agreed upon by both parties. The agreement also provides for the payment of outstanding balance of US$1.6 million (₱83.2 million) owing to Waterfront as of October 11, 2002 via the payment of ₱0.6 million on a weekly basis starting October 30, 2002 and will continue until the outstanding balance is paid. The weekly payments shall be applied equally to the total outstanding amount until the maturity of each respective lease term on various dates in 2005 to 2007.

   Total rentals charged to operations amounted to ₱7.0 million in 2004 (₱26.7 million in 2003).

Note 13 – Basic earnings (loss) per share

Earnings (loss) per share is calculated by dividing the income (loss) attributable to common stockholders by 3,026 million common shares.

Note 14 - Contingencies

Income and Other Internal Revenue Taxes

The recurring losses incurred by the Company resulted in serious liquidity problems. As a result, the Company defaulted in the payment of certain of its tax liabilities, among which were corporate income, value-added, common carrier's, and fringe benefit taxes. In addition, the Company was unable to remit to the BIR taxes withheld at source from its suppliers. The foregoing liabilities amounted to ₱436.6 million.

In order to alleviate the Company's financial and cash flow difficulties and, in line with the Company's turnaround plan, the BOD of MPC in 2001 approved the conversion of its advances to the Company totaling ₱2.7 billion into equity. The issuance of the equivalent

2,748,348,748 shares at ₱1 par value a share is pending the payment of the documentary stamp tax due of ₱27.5 million.

Thereafter, on October 4, 2002, the BIR issued an Assessment Notice to the Company for deficiency documentary stamp taxes arising from the conversion by MPC of its advances to the Company into equity.

In the first quarter of 2004, the Company initiated a compromise settlement with the BIR covering the foregoing taxes due, except with respect to withholding and fringe benefits tax, which, although not subject to a compromise, qualified for an abatement. The total amount of the compromise settlement and abatement amounted to ₱241.0 million. The compromise settlement consists of the payment by the Company of a percentage of the basic taxes due while the abatement consists of 100% of the withholding and fringe benefits taxes due based on the provisions of the National Internal Revenue Code. The compromise settlement and abatement amounting to ₱148.0 million and ₱93.4 million, respectively, were favorably recommended by the Head and Members of the Technical Working Group of the BIR and duly approved by the Commissioner of Internal Revenue on July 30, 2004. An initial payment by the Company of ₱29.6 million out of the total compromise tax due of ₱148.0 million and ₱93.4 million representing abatement were made. The balance of the compromise settlement shall be payable within 12 months from the approval date by the Commissioner of Internal Revenue.

Tsuneishi Heavy Industries, Inc.

On February 9, 2004, Tsuneishi filed a complaint with the RTC of Cebu against the Company with a prayer for the issuance of a Writ of Preliminary Attachment for unpaid liabilities totaling ₱36 million of the Company in connection with drydocking and repairs services rendered. Thereafter, on March 19, 2004, Tsuneishi served a Writ of Attachment and Levy against a vessel of the Company, St. Peter the Apostle, which caused the temporary grounding of such vessel since the Philippine Ports Authority would no longer issue any clearance for the vessel to sail. On March 29, 2004, the Company filed a petition for suspension of payment and corporate rehabilitation with the Receiver Court, to which a Stay Order was issued. Tsuneishi, on April 6, 2004, amended its complaint to make an admiralty case and included a further claim of ₱69 million for drydocking and repair costs for the grounded vessel. RTC of Cebu ordered all law enforcement agencies and institutions to sheriff five Nenaco vessels, namely: M/S St. Peter the Apostle, M/S Princess of Negros, M/S San Sebastian, M/S Nossa Senhora de Fatima, M/S St. Joseph the Worker. A series of business interruptions occurred although the Company was able to obtain the ultimate clearance of the Marine Transport Authority.

In order to protect its interest, Tsuneishi, on April 29, 2004, obtained a TRO from the CA stopping the implementation of the Stay Order and a clarificatory order, which in effect prevented the Company's vessels from sailing. On May 5, 2004 though, the Supreme Court issued a TRO stopping the CA and Tsuneishi from implementing their TRO dated April 29, 2004.

The total claim of Tsuneishi amounting to ₱120.8 million as of March 31, 2004 and is included in the "Trade and other payables" account of the balance sheet.

Refund from Meralco

As a customer of the Manila Electric Company ("Meralco"), the Company could expect to receive a refund for some of its previous billings. On April 30, 2003, the Third Division of the Supreme Court (SC) denied the Urgent Motion for Consideration filed by Meralco, rendering the SC decision dated November 15, 2002 final and executory. The decision mandates that Meralco refund its customers ₱0.167 per kilowatt-hour starting with the billing cycles beginning February 1994 until its billing cycles beginning May 2003, or credit the refund in favor of the customers against their future power consumption.

Meralco had reached an agreement with the Energy Regulatory Commission (ERC) on the manner and timing of the refund. The refund to the smaller, mostly residential, customers (Refund Phases I to III) will first be satisfied and is presently ongoing. Refunds to commercial and industrial customers (Refund Phase IV) are proposed to be paid over a period of approximately five years starting May 2005. Details of Refund Phase IV will require further ERC approval.

The Company is covered by Refund Phase IV. It will recognize the Meralco refund when it is virtually certain of collection, both as to amount and timing of receipt.

Others

In the normal course of business, other than the matters discussed in Note 2, the Company has contingent liabilities arising from labor cases filed by former employees for alleged illegal transfer, suspension and dismissal which are pending before the courts and are presently being contested. In the opinion of management, based on the advice of legal counsel, the ultimate disposition of these contingencies will not have any significant effects on the financial condition, results of operations or cash flows of the Company as of and for the three months ended March 31, 2004 and year ended December 31, 2003.

Note 15 - Shareholdings of the directors

Shareholdings of the members of the Board of Directors as at 30 June 2004 are as follows:

Directors	Number of shares
Daniel L. Lacson, Jr.	1,037,341
Julio A. Ledesma IV	477,666
Jose Manuel L. Mapa	13,973
Conrado A. Carballo	8,442
Manuel V. Pangilinan	160
Edward S. Go	100
Meliton V. Salazar	100
Napoleon L. Nazareno	100
Augusto P. Palisoc, Jr.	1
Jose Maria K. Lim	0
Vivian S. Liban	0
Jeremias E. Cruzabra	0
Elmer D. Nitura	0

Exhibit II

Management's Discussion and Analysis of Financial Condition and Results of Operations

NEGROS NAVIGATION CO., INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE QUARTER ENDED 30 JUNE 2004 AND 2003

(1) RESULTS OF OPERATIONS

Total revenues for the first half this year posted a 26 percent decline or ₱347.9 million at ₱964.7 million against ₱1,312.6 million of last year due mainly to the following:

a. Drydocking of four passenger and cargo vessels at various dates during the two quarters.
b. Extended layover of another major vessel awaiting availability of needed spare parts; and
c. Grounding of five major vessels arising from the issuance by the Regional Trial Court of Cebu, Branch 5 on March 5, 2004 of a Writ of Preliminary Attachment following the filing of a collection case by Tsuneishi Heavy Industries, Inc. – the Company's former drydocking service provider.
d. Cancellation of all vessel trips from April 23-28, 2004 caused by the non-issuance of MARINA permit.

Operating costs and expenses for the first half of ₱960 million was ₱93.9 million or 8 percent lower compared to ₱1,053.9 million in 2003 due to lower fuel consumption and lower cargo handling costs arising from lesser number of operating vessels and trips during the period. Inspite of the provision for doubtful account receivables and write-down of certain pre-payments and other current assets, general and administrative expenses, on the other hand, remains at the same level in 2003 principally due to substantial reduction on manpower and utility costs caused by the continuous redundancy and cost-cutting program implemented by the Company.

Financing costs increased substantially by ₱39 million or 68 percent during the first half due to provision for financing charges and accrual of penalties for late payments.

(2) FINANCIAL CONDITION

Current assets as of June 30, 2004 of ₱278 million was decreased by 6 percent compared to ₱298.7 million in 2003 mainly because of the increase in provision for uncollectible accounts receivable from shippers arising from freight transactions and write down of certain pre-payments and other current assets.

Property and equipment decreased significantly by ₱119.2 million mainly due to reversal of capitalized repairs and maintenance from 2001 to 2003 and depreciation expense for the period. Drydocking costs for the period amounts to ₱62 million pertaining to the four passenger and cargo vessels.

Vessels and improvements were appraised by an independent firm of appraisers as of various dates in June 2004. The Company, however, has not recorded the appraised values in its books. The appraised values of the vessels and improvements amount to ₱2.3 billion.

The increase of the total liabilities by ₱81.6 million represents mainly an accrual of interest, penalties and other financing cost.

On April 1, 2004, the RTC of Manila issued a Stay Order relative to the Company's petition, which in part, stays the enforcement of all claims, whether for money or otherwise, against the Company and prohibits the Company from making any payment of its liabilities outstanding as of March 31, 2004.

Please see the accompanying Notes to the Financial Statements for more information and discussions.

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For further information, please contact:

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Willard G. Mosquito — Tel: 02 244 0302
Head – Controllership and Financial Reporting