CIRCULAR FOR BROKERS NO. 4657-2004

The Philippine Stock Exchange, Inc.

X	Disclosures		Stockholders' Meeting	Others:	
	Dividend Notice		SEC / Gov't Issuance		
	Stock Rights Notice		Transfer Agent's Notice		

Date : **October 22, 2004**
Company : **NEGROS NAVIGATION CO., INC.**

Further to Circular for Brokers No. 4588-2004 dated October 18, 2004 in relation to Negros Navigation Co., Inc.'s ("NN" or the "Corporation") petition to delist its shares from the Official Registry of the Exchange, the Corporation, in the attached letter dated October 20, 2004, which was received by the Exchange on October 21, 2004, submitted a comprehensive disclosure on the effects of the rehabilitation plan to its capital structure.

Attached is a copy of the Rehabilitation Plan and the Evaluation and Recommendation Report dated August 31, 2004 and the Manifestation dated September 24, 2004 of the Corporation's Receiver for your reference.

For your information.

(Original Signed)
MA. PAMELA D. QUIZON-LABAYEN
Head, Disclosure Department

Noted by:

(Original Signed)
JURISITA M. QUINTOS
Senior Vice President – Operations Group

Finance / Admin / Membership	Compliance & Surveillance Grp.	Listing & Disclosures Grp.	COO / Automated Trading Grp.	Business Dev't & Info. Group	CEO / Legal
Tel. No.688-7560/7440/7460	Tel. No. 688-7559	Tel. No. 688-7501/7510	Tel. No. 688-7405/819-4400	Tel. No. 688-7590	Tel. No. 688-7400/819-4408

Via Telefacsimile & Hand
Telefacsimile No.: 636-0809/637-8811

20 October 2004

PHILIPPINE STOCK EXCHANGE, INC.
4th Floor PSE Center, Exchange Road
Ortigas Center, Pasig City

Attention: **Ms. Jurisita M. Quintos**
Senior Vice-President, Operations Group

Re.: Letter dated October 12, 2004

Gentlemen:

This refers to your above-captioned letter requiring us to submit a comprehensive corporate disclosure on the effect of our court-approved Rehabilitation Plan on our capital structure.

We inform you that our court-approved Rehabilitation Plan, as amended by the Evaluation and Recommendation Report dated August 31, 2004 and the Manifestation dated September 24, 2004 of our Rehabilitation Receiver, provides as follows:

"The projected increasing EBITDA for the above-mentioned years assumes the following:

xxxx

c. There will be an infusion of new cash that will be used, among other purposes, to keep the shipping vessels of petitioner in good running condition;

xxxx

Based on the above findings and conclusions, the Rehabilitation Receiver recommends the following:

NEGROS NAVIGATION COMPANY, INC.
Pier 2, North Harbor, Tondo, Manila, Philippines 1012
Telephone Number: (632) 245-5588 Fax Number: (632) 245-1097
Website: www.negrosnavigation.ph

d. New money of about Two Hundred Fifty Million Pesos (Php250M) be infused into petitioner periodically beginning 2004 and until mid-2005 for the purpose of paying the tax liabilities of petitioner, for repairing the M/V St. Ezekiel Moreno, and for dry docking costs of two (2) shipping vessels scheduled for upkeep this 2004.

In the absence of equity investment, the new money shall be borrowed under the following terms and conditions:
x x x x"

As can be seen from the above-quoted portion of our court-approved Rehabilitation Plan, our company needs new money in the amount of Two Hundred Fifty Million Pesos (Php250M), by way of equity infusion or loan.

We attached a copy each of our proposed Rehabilitation Plan and the Evaluation and Recommendation Report dated August 31, 2004 and the Manifestation dated September 24, 2004 of our Rehabilitation Receiver for your ready reference.

To date, of the above-mentioned new money, we obtained, through loan, the amount of One Hundred Twenty Three Million Pesos (Php123,000,000.00) to partially pay for our outstanding tax liabilities.

We are currently looking for third parties to provide us with the balance of the above-mentioned new money in the amount of One Hundred Twenty Seven Million Pesos (Php127,000,000.00) by way of loan or equity infusion.

In the event that we obtain the said balance by way of loan, the provisions of our court-approved Rehabilitation Plan will not affect, in any way, our capital structure. However, in the event that we obtain the said balance by way of equity infusion from third parties, our capital structure will be changed accordingly.

We trust that the foregoing sufficiently addresses your concerns.

For and on behalf of
Negros Navigation Co., Inc.

WILLARD G. MOSQUITO
Corporate Information Officer

SEP 01 2004
REGIONAL TRIAL COURT
BRANCH 46 MANILA
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TIME: 3:55 pm
BY: gep

EVALUATION AND RECOMMENDATION REPORT

Petition for Corporate Rehabilitation with Prayer for Suspension of Payments

Regional Trial Court of Manila
Branch No. 46
SP Proc. No. 04-109532

NEGROS NAVIGATION CO., INC.
Petitioner

August 31, 2004

Submitted by:

MONICO V. JACOB
Rehabilitation Receiver

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I. INTRODUCTION

The Rehabilitation Receiver submits this Evaluation and Recommendation Report to this Honorable Court pursuant to its Order dated May 7, 2004 and Section 9, Rule 4 of the Interim Rules of Procedure on Corporate Rehabilitation (Interim Rules).

The objective of the Rehabilitation Receiver in submitting this Evaluation and Recommendation Report is to recommend to this Honorable Court the best way of rehabilitating the business of petitioner, while at the same time protecting the interests of the creditors, suppliers and stockholders of petitioner and the general public.

In formulating this Evaluation and Recommendation Report, the Rehabilitation Receiver, as required by Section 14, Rule 4 of the Interim Rules, (i) verified the accuracy of the Petition, together with its Annexes; (ii) investigated the acts, conduct, properties, liabilities, and financial condition of petitioner, the operation of its business and the desirability of the continuance thereof; (iii) monitored the operations of petitioner; (iv) evaluated the existing assets and liabilities of petitioner; and (v) studied the proposed Rehabilitation Plan (Annex "B" of the Petition), together with the comments/oppositions thereon of the creditors of petitioner.

The undersigned assumed his office as Rehabilitation Receiver on June 18, 2004, in replacement of Mr. Sulficio O. Tagud, Jr., the original court-appointed Rehabilitation Receiver, who assumed his office on April 12, 2004. Since Mr. Tagud, upon his appointment, already commissioned Eagle Marine Appraisal and Sycip Gorres Velayo & Co. (SGV) to respectively appraise the value of the shipping vessels of petitioner and audit the operations and finances of petitioner, the Rehabilitation Receiver, for orderly procedure, opted to continue the services of the two (2) firms. Further, the undersigned Rehabilitation Receiver, likewise, continued the services of the counsel of Mr. Tagud, Atty. Celso P. Ylagan II, as counsel of the Rehabilitation Receiver.

II. BACKGROUND OF PETITIONER

Petitioner is one of the oldest domestic shipping companies in the Philippines. It is primarily engaged in the business of transporting passengers and cargoes at various ports of call in the Philippines.

In the 1960s, petitioner was the first, among the domestic shipping companies, to operate brand new, fast and luxurious air-conditioned passenger shipping vessels. In the 1970s, petitioner was the first to construct and operate a modern passenger terminal in North Harbor, Tondo, Manila. It also pioneered in offering special cruise trips to various Philippine tourist spots using its coastwise shipping vessels. In the 1980s, petitioner launched its containerization program and ushered a new industry trend on the use of "Roll-on, Roll-off" (RORO) shipping vessels. On June 21, 1994, petitioner became the first domestic shipping company to be listed in the Philippine Stock Exchange.

To date, petitioner has seven (7) RORO passenger and cargo shipping vessels and two (2) purely cargo container shipping vessels, which service the following fourteen (14) ports of call:

a. Luzon – Manila and Palawan;

b. Visayas – Bacolod, Iloilo, Cebu, Tagbilaran, Roxas, Dumaguit and Estancia; and

c. Mindanao – General Santos, Cagayan de Oro, Zamboanga, Iligan and Ozamis.

Since its inception, petitioner has been operating a viable and financially profitable business. Petitioner maintains a hold on around thirty percent (30%) of the total passenger count serviced and around twelve percent (12%) of the total combined cargo weight handled by the domestic shipping industry. As a consequence, in the year 2000, petitioner employed one thousand two hundred ninety two (1,292) direct manpower, consisting of regular, casual, project and contractual employees and consultants. Due to its cost-saving measures pursuant to its goal of being rehabilitated, petitioner, to date, employs seven hundred fifteen (715) direct manpower, and an estimated number of over two thousand (2,000) indirect manpower.

In the years 1996 and 1997, petitioner embarked on a re-fleeting program and invested in a Fast Ferry Project, which were both funded by US Dollar-denominated debts. However, when the Asian Financial Crisis hit the Philippine economy in late 1997, the exchange rate of the Philippine Peso to the US Dollar soared from Twenty Six Pesos to One US Dollar (P26.00:US$1.00) to Forty Five Pesos to One US Dollar (P45.00:US$1.00). Thus, the carrying costs of the US Dollar-denominated debts of petitioner for its re-fleeting program considerably increased. Further, the investment of petitioner in the Fast Ferry Project failed, resulting in petitioner absorbing the amount of Three Million US Dollars (US$3M) of debt, which, to date, stands at the amount of One point Nine Four Four Million US Dollars (US$1.944M).

In addition to the devaluation of the Philippine Peso, the Asian Financial Crisis resulted in the following:

a An increase in the annual interest rates on Philippine Peso loans from an average of ten percent (10%) to more than thirty percent (30%), which increased the interest expense for Peso-denominated debts of petitioner;

b. A decrease in the travel frequency of passengers, which decreased the ticket sales for passengers of petitioner; and

c. An increase in the costs of imported goods and services, such as fuel and spare parts, which increased the cost of operation and maintenance of shipping vessels of petitioner.

By the time Metro Pacific Corporation (Metropacific) acquired the majority shareholdings in petitioner, in the year 1998, petitioner could not any longer meet its obligations as they fell due. Metropacific immediately embarked on the reorganization and restructuring of the business of petitioner and caused petitioner to negotiate for the restructuring of its obligations with its creditors. However, despite the implemented reorganization and restructuring of the business of petitioner and the negotiated restructured obligations of petitioner, the cash flows of petitioner remain insufficient to meet the impending deadline for interest payments and principal repayments of its debts because of the continuing decline in the Philippine economy.

III. SUMMARY OF THE PROCEEDINGS

On March 29, 2004, petitioner filed this petition for rehabilitation with this Honorable Court.

On April 1, 2004, this Honorable Court issued the Stay Order, which, among others, stayed the enforcement of all claims, whether for money or otherwise and whether such enforcement is by court action or otherwise against petitioner, and appointed Mr. Tagud as Rehabilitation Receiver of petitioner.

On May 7, 2004, this Honorable Court issued an Order, which ordered the Rehabilitation Receiver to study and evaluate all the comments and motions filed by the creditors of petitioner in connection with the preparation and submission of his final recommendation.

On June 18, 2004, this Honorable Court issued an Order, which replaced Mr. Tagud with the undersigned as Rehabilitation Receiver of petitioner. On the same date, the undersigned accepted his appointment as Rehabilitation Receiver, took the Oath of Office, and posted his Bond in favor of petitioner. Immediately thereafter, the undersigned Rehabilitation Receiver assumed his office as Rehabilitation Receiver of petitioner.

IV. VERIFICATION OF ASSETS AND LIABILITIES

A. Appraisal Report, as of June 26, 2004

As mentioned above, the Rehabilitation Receiver continued the services of Eagle Marine Appraisers to appraise the value of the main properties of petitioner, which are its nine (9) shipping vessels. In summary, the results of the appraisal on the said primary assets of petitioner are shown in the table below:

SHIPPING VESSELS	Acquisition Cost	Accumulated Depreciation	Net Book Value As of Mar. 31, 2004	Appraisal Eagle Marine	Appraisal Date
Mary, Queen of Peace	487,931,740.95	29,407,060.90	458,524,680.05	510,000,000.00	06/28/04
St. Joseph the Worker	540,072,388.75	142,106,861.42	397,965,527.33	380,000,000.00	06/21/04
St.Peter the Apostle	368,926,063.62	115,864,331.34	253,061,732.28	380,000,000.00	06/08/04
St. Ezekiel Moreno	437,274,884.44	98,790,420.27	338,484,464.17	340,000,000.00	06/18/04
San Lorenzo Ruiz	384,139,649.05	91,618,358.40	292,521,290.65	280,000,000.00	06/09/04
San Paolo	245,698,803.78	72,488,986.57	173,209,817.21	150,000,000.00	06/21/04
Princess of Negros	291,242,360.91	109,575,310.49	181,667,050.42	115,000,000.00	06/09/04
Nuestra Sra. Fatima	79,291,308.49	5,716,342.86	73,574,965.63	70,000,000.00	06/21/04
San Sebastian	124,663,037.38	100,614,573.71	24,048,463.67	55,000,000.00	06/09/04
TOTAL	2,959,240,237.37	766,182,245.95	2,193,057,991.42	2,280,000,000.00	

A photocopy of the Appraisal Report of Eagle Marine Appraisers is attached hereto as Annex "A" and made an integral part hereof.

B. Audited Financial Statements, as of March 31, 2004

As mentioned above, the Rehabilitation Receiver, likewise, continued the services of SGV to audit the operations and financials of petitioner. In summary, the audit report prepared by SGV on the books of petitioner shows that as of March 31, 2004, petitioner has assets with a book value in the total amount of Three point Zero One Seven Billion Pesos (P3.017B). Eighty nine percent (89%) of the said amount, or the amount of Two point Six Eight Nine Billion Pesos (P2.689B), consists of properties and equipment of petitioner.

On the other hand, the said audit report shows that as of March 31, 2004, petitioner has liabilities in the total amount of Two point Five Two Zero Billion Pesos (P2.520B), broken down as follows:

Notes Payables	P0.122 Billion
Trade and Other Payables	P1.466 Billion
Current Portion of Long-term Liabilities	P0.918 Billion
Cash Bond	P0.014 Billion
Total Liabilities:	P2.520 Billion

A photocopy of the Audited Financial Statements, as of March 31, 2004, of petitioner by SGV is attached hereto as Annex "B" and made an integral part hereof.

The liabilities of petitioner are classified as follows:

As of March 31, 2004	PRINCIPAL	INTEREST	TOTAL
Unsecured Loans/Debt	936.4	11.8	948.2
Secured Loans/Debt	713.3	144.6	857.9
Tax Liabilities	437.1		437.1
Current Leases/Rentals	160.9	2.3	163.2
Past Due Leases/Rentals	94.2	5.4	99.6
Cash Bond	14.1		14.1
Total Liabilities	2,356.2	164.1	2,520.3

As of March 31, 2004	PRINCIPAL	INTEREST	TOTAL
Current Financial Leases			
Transamerica Leasing	51.3	1.5	52.8
Danlite Industries	62.0	-	62.0
Continental Sales	19.9	0.7	20.6
First Malayan Leasing	22.7	-	22.7
Waterfront Leasing	2.9	-	2.9
Burough Financing	2.2	-	2.2
Total Current Leases	160.9	2.3	163.2
Past Due Operating Leases			
Waterfront Container Leasing	78.7	5.4	84.1
Ge Seaco	15.5	-	15.5
Total Past Due Leases	94.2	5.4	99.6
Total Vessels & Equipment Leases	**255.1**	**7.7**	**262.8**

As of March 31, 2004	PRINCIPAL	INTEREST	TOTAL
Secured Bank Loans			
Development Bank of the Phils. (DBP)	300.3	63.0	363.3
Bank of Commerce (BOC)	121.8	18.6	140.4
Equitable-PCI Bank	41.0	6.3	47.3
Prudential Bank & Trust Co.	39.2	4.4	43.6
Export & Industry Bank	24.4	9.8	34.2
Metropolitan Bank & Trust Co.	10.2	0.5	10.7
	536.9	102.5	639.4
Other Secured Debt			
Shell Philippines	176.4	42.1	218.6
Total Secured Debt	**713.3**	**144.6**	**857.9**

As of March 31, 2004	PRINCIPAL	INTEREST	TOTAL
Unsecured Loan/Debt			
Debis Financial	105.9	-	105.9
Pioneer Insurance	60.0	9.7	69.7
Others	-	2.1	2.1
Total Unsecured Loan/Debt	165.9	11.8	177.7
Other Unsecured Debts			
Tsuneishi Heavy Industries	120.8	-	120.8
Petron	103.9	-	103.9
Caltex	23.7	-	23.7
Philippine Ports Authority	21.7	-	21.7
Banago Stevedoring	14.6	-	14.6
PLDT	13.1	-	13.1
Other unsecured debts	472.7	-	472.7
Total Other Unsecured Debt	770.5	-	770.5
Total Unsecured Debts	**936.4**	**11.8**	**948.2**

A copy of the list of creditors of petitioner is attached hereto as Annexes "C", "C-1" to "C-11" and made an integral part hereof.

C. Solvency of Petitioner

Based on the Audited Financial Statements, as of March 31, 2004, of petitioner, petitioner has assets with a book value in the total amount of Three point Zero One Seven Billion Pesos (P3.017B) and liabilities in the total amount of

Two point Five Two Zero Billion Pesos (P2.520B). Thus, the Rehabilitation Receiver finds that petitioner, whose assets are more than its liabilities, is a solvent corporation.

V. VIABILITY OF THE BUSINESS OF PETITIONER

A. Domestic Shipping Industry Situation

The Rehabilitation Receiver prepared an Industry Profile of the Domestic Shipping Industry, a copy of which is attached hereto as Annex "D" and made an integral part hereof. A summary of the said profile follows below.

The economic experts in the Philippines forecast a growth in the Gross Domestic Product (GDP) at four point two percent (4.2%) to five point two percent (5.2%) within the next five (5) years, depending primarily on the situation in the domestic peace and order and political governance. The said experts explained that they based the lower forecast of four point two percent (4.2%) GDP on a worst-case scenario, *i.e.*, that oil prices would rise and exports would fall due to international negative factors such as terrorism.

The Services Sector remained as the major contributor in the growth of the GDP in the Philippines. All its sub-sectors, including water transport, posted positive gains. In fact, the water transport sector reversed its downward trend of negative one percent (-1%) five (5) years ago to a substantial average growth of four point three percent (4.3%) in the last five (5) years.

Based on the growth trend of the last five (5) years, the economic experts expect that ports all over the Philippines will display renewed strength as business activities regain vigor, particularly in domestic trading, and will post growths in cargo, passenger and ship traffic.

Despite its long business history, industry analysts classify the Philippine shipping industry as a "sunrise industry" as its full potential has yet to be realized. Inter-modal competitions, *i.e.*, air transport and land transport, do not post an immediate threat to maritime transport as it is differentiated by the nature and segment of its markets, *i.e.*, heavy cargo and inter-island passage destinations. With the growth of economic activities both regionally and domestically, industry analysts project that the shipping industry will grow dramatically within the next ten (10) years.

All factors considered, including positive regulatory environment and the expected resurgence in the inter-regional movements of people and goods, the prospect of growth in the domestic shipping industry is promising. For the next five (5) years, the industry analysts conservatively project an average growth in the shipping industry of sixteen percent (16%), or approximately an added market value of Twenty Billion Pesos (P20B) by the year 2010.

A.1. Passenger Traffic

In the year 2003, the total passenger count of the domestic shipping industry reached a volume of four million one hundred eighty seven thousand three hundred fifteen (4,187,315) passengers. The said amount of passengers increased from the total passenger count of three million nine hundred seventy seven thousand eight hundred fifty one (3,977,851) passengers for the year 2002.

Industry analysts project that the domestic shipping industry will sustain in the next five (5) years (2005–2010) the increase in the annual total passenger count because of the expected growth in regional economic activities and in domestic tourism.

A.2. Cargo Traffic

In the year 2003, the combined cargo weight handled by the domestic shipping industry amounted to one hundred forty nine point forty six million (149.46M) metric tons. The said amount of combined cargo weight increased from the combined cargo weight of one hundred forty seven point eighty five million (147.85M) metric tons for the year 2002.

A.3. Container Traffic

On account of costs, bigger capacity and throughput, safety of cargoes and convenience in handling, most shippers now consider the use of containers in the transport of their seaborne goods, not only domestically but also internationally; thus, there is a remarkable growth in container traffic.

In the year 2003, foreign and domestic shipping vessels in and out of the Philippine seaports carried about three point forty six million (3.46M) metric tons of container space, both loaded and empty. Consistently growing in number from the first (1st) quarter to the fourth (4th) quarter of the year 2003, the above-mentioned amount is more than eight percent (8%) over that of the year 2002, which amounted to only three point twenty million (3.20M) metric tons of container space carried.

A.4. Shipping Traffic

In the year 2003, due to the growth in the volume of cargoes transported in and out of the ports nationwide, the total number of ship calls that arrived and departed increased by almost three percent (3%), thereby reversing the eight percent (8%) downswing in shipping calls in the years 2001 to 2002.

Further, domestic shipping vessels, comprising of RORO, cargoes/passenger, container, fast ferries, including fast crafts utilized for short distance travels, barges, tankers and an array of small crafts such as launches and fishing boats, reached two hundred seventy six thousand two hundred twenty three (276,223) shipping vessels, which is a three percent (3%) increase from that of the years 2001 and 2002. The said amount constitutes about ninety seven percent (97%) of the total ship calls for the year 2003.

B. Market Share of Petitioner

To date, there are six (6) major players in the domestic shipping industry, namely, petitioner, William Gothong & Aboitiz, Inc. (WG&A), Sulpicio Lines, Inc. (Sulpicio), Solid Shipping Lines, Inc. (Solid), National Marine Corp. (NMC) and Lorenzo Shipping Lines Corp. (Lorenzo). The top three (3) major players in the domestic shipping industry, namely, petitioner, WG&A and Sulpicio Lines, hold seventy percent (70%) of the passenger and freight business.

In the domestic shipping industry for passengers, the above-mentioned top three (3) competitors covered more than ninety percent (90%) of the year 2003 total market volume as follows:

WG&A	50% Market Share	11 vessels
NENACO	28% Market Share	7 vessels
Sulpicio Lines	16% Market Share	12 Vessels

In the domestic shipping industry for cargoes, all the above-mentioned six (6) competitors hold respective shares in the domestic cargo market, with petitioner holding twelve point four percent (12.4%) of the said market, or eighteen million (18M) metric tons of cargoes carried in the year 2003.

The details of the market share of petitioner in the passenger and cargo market is shown in the Corporate Profile of petitioner, a copy of which is attached hereto as Annex "E" and made an integral part hereof.

C. Major Business Strengths of Petitioner

The above-mentioned market share of petitioner is anchored on its strong and loyal client base in its major route, which is the Manila-Bacolod-Iloilo route.

Further, petitioner has a fleet of nine (9) vessels, which, except for one (1) cargo vessel, can still operate efficiently beyond ten (10) years, if properly maintained.

VI. SUMMARY OF THE BUSINESS PLAN

The Rehabilitation Receiver caused petitioner to prepare a Business Plan for its rehabilitation and for the complete settlement of its obligations. The Rehabilitation Receiver provided petitioner with the general principles, summarized below, in the preparation of the said business plan. The Business Plan prepared by petitioner is attached hereto as Annex "F" and made an integral part hereof.

A. Nature of the Business Plan

The Nature of the Business Plan should be to define the long-term end-goals of petitioner, particularly the transformation of its business and the settlement of its debts. It should also map out the short-term detailed milestones of the critical first two (2) years of its rehabilitation

B. Principal Goal of the Business Plan

The Principal Goal of the Business Plan should go beyond debt settlement; rather, it should be to transform petitioner into a uniquely competitive inter-island RORO leader in the domestic shipping industry.

C. Timeline of the Business Plan

The Timeline of the Business Plan should coincide with the timeline of the proposed debt settlement plan, which, as the Rehabilitation Receiver will propose below, is a ten (10)-year timeline.

D. Phases of the Business Plan

The Rehabilitation Receiver envisions the Business Plan to be divided into three (3) phases.

Phase 1 - <u>Firming up the Basics and Operational Re-structuring</u> – the Pre-Rehabilitation Periods of (i) April 2004 to December 2004 and (ii) December 2004 to December 2006, should be devoted to the firming up and/or the stabilizing of the business operations of petitioner to enable it to meet its cash flow projections for its daily operations and for its scheduled debt repayments. In this phase, petitioner, in order to achieve a firm grasp of its business, will have to do the following:

a. Improve its control of its business and operations;

b. Improve its collection and cash receivables turnover in both its passage and freight business;

c. Stabilize its handling of budget necessary for quality control and ship maintenance;

d. Rationalize its overhead costs, particularly directly controlling the process from budgeting to requisition to disbursement decisions to quality control;

e. Formulate a standard or guidelines in the yearly budgeting and control of other administrative and operating expenses;

f. Provide for a "check and balance" mechanism to ensure reliability and efficiency of ship maintenance, dry docking and repair;

g. Improve its management and organizational set-up; and

h. Identify and map out its core business direction.

Phase 2 - Gearing up for Transformation - the period January 2007 to December 2010, should be devoted to improving the market reach of the business of petitioner.

To date, the business of petitioner focuses mainly on its Manila-Bacolod-Manila route; however, it lacks a steady clientele for its other routes. Phase 2 should, thus, be dedicated to strengthening the market reach of petitioner in the said other routes in order to achieve RORO Leadership in the domestic shipping industry.

In order to achieve this goal, petitioner, in this phase, will have to do the following:

a. Validate and determine the specific routes of its shipping vessels;

b. Improve its marketing strategy in all the routes of its shipping vessels;

c. Explore or penetrate other ports of call; and

d. Improve the quality and efficiency of all its shipping vessels.

Further, in this phase, petitioner should commence its re-fleeting program, such that petitioner will increase the number of its shipping vessels.

Phase 3 - Accomplishing the Goal of Transformation and Completion of Debt Settlement – the period January 2011 to December 2015, should be devoted to completing its goal of transforming itself into a uniquely competitive leader in the shipping industry.

In this phase, petitioner should have increased the number of its shipping vessels to cover a wider market reach or scope of operations.

Further, petitioner should have captured at least fifty percent (50%) of the total passenger market and thirty five percent (35%) of the total cargo market in the domestic shipping industry.

Finally, this phase should, likewise, be committed to the completion of Proposed Debt Settlement of petitioner.

E. Mechanisms to Support the Business Plan

In order to ensure that the Business Plan may be carried out successfully, the operational and support units of petitioner should be tasked to and focused on internalizing specific unit plans as follows:

a. Freight/Cargo Department ten (10)-Year Strategic Plan - The Freight/Cargo Department should be tasked to undertake the following:

i. Fully computerize its cargo operations;

ii. Open a satellite receiving station in the Visayas and Mindanao areas;

iii. Rationalize ports served based on profitability analysis; and

iv. Outsource branch operations to a cargo agent/specialist.

b. Logistics Department ten (10)-Year Strategic Plan – The Logistics Department should be tasked to undertake the following:

i. Cause the repair of all container handling units as scheduled;

ii. Maintain a sufficient number of reliable container handling equipment to meet the demands of Operations and Marketing;

iii. Re-fleet equipment necessary for Operations and Marketing;

iv. Rehabilitate and upgrade the work area at Pier 4;

v. Devise a program of storing or keeping in stock available parts;

vi. Complete tools and repair equipment;

vii. Install anti-pollution gadgets at the work areas;

viii. Maintain sufficient cargo-worthy containers;

ix. Maintain sufficient trailers; and

x. Train mechanics.

c. Ship Management Department ten (10)-Year Strategic Plan – The Ship Management Department should be tasked to undertake the following:

i. Optimize fuel and lubricant consumption;

ii. Optimize vessel operating cost other than fuel and lubricants;

iii. Continually improve the International Safety System of petitioner;

iv. Maintain a competent and qualified regular pool of key officers on board the shipping vessels;

v. Maintain the reliability of shipping vessels;

vi. Standardize hotel services with a partner concessionaire;

vii. Attain a 3-Star Hotel status in standard and service;

viii. Be a revenue post; and

ix. Continually meet and research the demands of the market.

d. Finance Department ten (10)-Year Strategic Plan –The Finance Department should be tasked to undertake the following:

i. Improve its collection ratios and keep receivables at minimum levels;

ii. Maintain a lean and mean finance organization throughout the ten (10)-year rehabilitation period;

iii. Improve the operating procedures and administrative policies geared towards improved productivity and operating efficiency;

iv. Improve manpower competency; and

v. Install a fully integrated and upgraded computerized system.

e. Human Resources Department ten (10)-Year Strategic Plan – The Human Resources Department should be tasked to undertake the following:

i. Enlist qualified and competent personnel that would commit to perform in congruence with the standards set by petitioner in its quest for service excellence;

ii. Ensure that the outputs of the employees are congruent with pre-determined performance standards and aligned with the Vision, Mission and Corporate Values of petitioner.

iii. Promote, implement and administer an equitable compensation and benefits package in an efficient and timely manner; and

iv. Promote, implement and administer fair, just and reasonable company rules and regulations in accordance with the Code of Discipline, CBA Provisions and Philippine Labor Laws.

Further, the Rehabilitation Receiver sees the importance of an additional department, particularly an Information Technology Department, which should monitor the entire business operations of petitioner. This department should use a particular computer software that will be capable of Passage Ticketing and Reservation, Collection Remittance and Ticket Inventory all at the same time. This will ensure that (1) the management will be able to monitor the Vessel Booking Status, Vessel Utilization, Daily Revenue, Sales, Boarded Summary and other statistical reports that can be used to set the company direction; (2) the agents will be able to issue tickets through the use of a personal computer with an Internet connection, such that all bunks shall be offered on a first come-first served basis to maximize the vessel utilization; and (3) the personnel can do more analytical work.

VII. CASH FLOW/INCOME PROJECTIONS

In the year 2003, petitioner serviced one million thirty six thousand forty seven (1,036,457) passengers, which, translated in terms of revenue, amounted to One point Two Billion Pesos (P1.2B). Further, in the year 2003, petitioner handled seventeen point ninety four million (17.94M) metric tons of cargo weight, which, translated in terms of revenue, amounted to One point Two Billion Pesos (P1.2B). For the year 2003, based on the adjusted audited report prepared by SGV, petitioner generated cash flow/income *i.e.*, Earnings Before Interest, Tax, Depreciation & Amortization (EBITDA), amounting to Five Hundred Million (P500M).

Taking into consideration the above-discussed (i) situation of the domestic shipping industry; (ii) the market share of petitioner therein; (iii) the revenues of petitioner in the year 2003, and (iv) the Business Plan (Annex "F"), the Rehabilitation Receiver caused petitioner to prepare a Cash Flow Projection on its operations in order to determine if it will be able to sustain its operations and at the same time service its outstanding obligations. A photocopy of the Cash Flow and Income Projection prepared by petitioner is attached hereto as Annex "G" and made an integral part hereof.

A. 2004 Cash Flow Projections

The Cash Flow and Income Projections (Annex "G") show a projected cash income from operations or EBITDA for the year 2004 in the amount of Three Hundred Forty Five Million Pesos (P345M).

Petitioner projected a low EBITDA for the year 2004, as compared to that of its prior years, because of the untimely disruption of its operations. During the peak months of March to May 2004, the shipping vessels of petitioner were unduly grounded because of the following:

a. The Regional Trial Court of Cebu, Branch 5 (RTC Cebu) attached the M/V Saint Peter the Apostle of petitioner;

b. The RTC Cebu attempted to arrest all the shipping vessels of petitioner;

c. The Maritime Industry Authority (MARINA) delayed in issuing the permit to operate of petitioner; and

d. The M/V Mary Queen of Peace and the M/V St. Ezekiel Moreno of petitioner are in extended drydocking for repairs.

Moreover, on August 12, 2004, the MV Saint Joseph the Worker was involved in a sea mishap that requires an estimated two (2)-week lay-down for repairs.

In addition to the above-mentioned untimely disruption of its operations, petitioner needs to fund within the next eighteen (18) months its following liabilities, which the Stay Order does not cover, and expenses:

a. Tax liabilities amounting to over Two Hundred Forty Million Pesos (P240M);

b. Redundancy costs amounting to about Forty Million Pesos (P40M); and

c. Capital expenditures and dry-docking expenses in the amount of Four Hundred Million Pesos (P400M).

B. Ten (10)-Year Cash Flow Projections

The Cash Flow and Income Projections (Annex "G") show an increasing projected cash income from operations or EBITDA for the ten (10)-year period in the total amount of Eight point One Billion Pesos (P8.1B). After deducting from the said amount the current equipment/container vans leases/rentals, capital expenditures and dry-docking expenses, income tax payment and servicing of new loan, petitioner expects to generate Four point Three Billion Pesos (P4.3B) cash to service all its past due financial obligations.

The projected increasing EBITDA for the above-mentioned years assumes the following:

a. There will not be any fortuitous event that will disrupt the operations of petitioner;

b. All the shipping vessels of petitioner shall be fully operational and properly maintained in good operating conditions;

c. There will be an infusion of new cash that will be used, among other purposes, to keep the shipping vessels of petitioner in good running condition;

d. There will be a yearly minimum increase of two point five percent (2.5%) in passage ticket price and five percent (5%) in freight rate;

e. There will be a yearly minimum increase of five percent (5%) in passage volume; and

f. There will be a yearly maximum increase of five percent (5%) in operating and administrative expenses.

The supporting documents to the Cash Flow and Income Projections, particularly the Projected Profit & Loss Statements, the Projected Balance Sheets, and the Key Assumptions and Financial Notes are attached hereto as Annexes "G-1", "G-2" and "G-3", respectively, and made integral parts hereof.

Based on the foregoing, the Rehabilitation Receiver finds that the business of petitioner is viable.

VIII. PROVISIONS OF THE PAYMENT SCHEME IN THE PROPOSED REHABILITATION PLAN SUBMITTED BY PETITIONER

Under the proposed Rehabilitation Plan (Annex "B" of the Petition), petitioner proposes to settle its financial obligations as follows:

a. Cash settlement for critical expenses;

b. *Dacion en pago* of passage tickets and cargo space;

c. Debt conversion into common shares of petitioner at par value; and,

d. Restructuring of the balance into long-term notes or preferred shares, under the following terms and conditions:

i. The past due equipment/container vans leases/rentals shall be restructured into six (6)-year term loan with one (1)-year grace period on principal and interest. Interest rate is set at five percent (5%) per annum;

ii. The secured debt shall be restructured into ten (10)-year notes with one (1)-year grace period on interest payment and three (3)-year grace period on principal repayment. Interest rate is set at five percent (5%) per annum;

iii. The unsecured debt shall be converted into Convertible Preferred Shares at two point five percent (2.5%) coupon rate and be redeemable in Year ten (10).

Any remaining cash available for debt service after servicing the scheduled amortization of the past due leases/rentals shall be applied first on servicing the secured debt, then, the unsecured debt.

The Rehabilitation Receiver will evaluate below the above-mentioned payment scheme proposed by petitioner, taking into consideration all the foregoing facts, data and assumptions, as well as the objection and comments of the creditors of petitioner.

IX. OBJECTIONS OF CREDITORS

Based on the records of this case, out of the one thousand six hundred eighty six creditors (1,686) creditors of petitioner, only eleven (11) creditors filed comments/oppositions to the proposed Rehabilitation Plan (Annex "B" of the Petition). The Rehabilitation Receiver, pursuant to the Order dated May 7, 2004 of this Honorable Court, studied the said comments/oppositions of the creditors and considered the same in the formulation of an equitable payment scheme.

In the Evaluation/Recommendation, Section XII below, the Rehabilitation Receiver will discuss the said comments/oppositions and show how the Rehabilitation Receiver addressed the same in the formulation of an equitable payment scheme.

X. LIQUIDATION SCENARIO

Based on all the foregoing facts and data, the Rehabilitation Receiver , with the aid of his Financial Consultants, prepared a Liquidation Analysis, a photocopy of which is attached hereto as Annex "H" and made an integral part hereof.

The Financial Consultants of the Rehabilitation Receiver prepared the Liquidation Analysis (Annex "H") on the premise that the disposition of all the assets of the petitioner shall be done on a fire-sale basis, or within a period of ninety (90) days, and that the proceeds thereof, net of all taxes and other charges, shall first be used to fully settle the obligations of petitioner, which are secured by the assets that have been disposed. Thereafter, the excess, if any, shall be used to settle the tax liabilities of petitioner, and thereafter, the unsecured debts.

Given the present domestic economic conditions and the dominance of one (1) shipping company in the local shipping industry, the disposition of the assets of the petitioner at fire-sale prices will not generate sufficient cash to settle all the obligations of petitioner. As can be seen from the Liquidation Analysis (Annex "H"), only eighty percent (80%) of the secured obligations, both principal and interest, and fifty percent (50%) of the financial leasing obligations of petitioner shall be paid. In sum, only an estimated One point Two Zero Eight Billion Pesos (P1.208B), out of the total obligations of petitioner as of March 31, 2004, in the total amount of Two point Five Two Billion Pesos (P2.52B), or forty eight percent (48%) of said total amount will be paid. The balance of One point Three One Two Billion Pesos (P1.312B), representing fifty two percent (52%) of the said total obligations of petitioner, will not be settled.

In arriving at the above-mentioned figures, the Financial Consultants of the Rehabilitation Receiver assumed the following percentage realizable value of the assets of petitioner:

Shipping Vessels & Other Equipment	40% of Book Value
Container Vans	40% of Book Value
Real Estate Properties	60% of Book Value
Office Equipment & Furniture	40% of Book Value
Transport & Other Equipment	40% of Book Value
Accounts Receivables	30% of Book Value
Inventories & Supplies	30% of Book Value
Pre-Payments	0% of Book Value
Other Assets	10% of Book Value

As can be seen from the foregoing, in a Liquidation Scenario, not all the creditors of petitioner will be paid. Further the business operations of petitioner will necessarily be closed, which will have the following detrimental impacts on the Philippine socio-economic development/progress:

a. The loss of over one thousand (1,000) jobs for the direct and indirect employees of petitioner;

b. The virtual monopoly in the domestic shipping industry by a single shipping company, which will greatly affect the quality of services, thereby affecting the interests of the local riding public numbering four point five (4.5) million a year and to businessmen transporting their goods within the country via shipping vessels; and

c. The loss of business to a huge number of small to medium suppliers and service providers of petitioner.

In addition, more than eight hundred (800) employees will not be paid of their separation/retirement benefits. Further, all the employees, who resigned/retired but have not received their separation/retirement pay, will likewise not be paid the same.

All the above-mentioned impacts shall further result in the loss of revenues for the government as the same equate to taxable transactions.

XI. SUMMARY OF FINDINGS AND CONCLUSION

Taking into consideration all the foregoing facts, data, and assumptions, the Rehabilitation Receiver finds and concludes as follows:

a. Petitioner is a solvent company having assets more than its liabilities. The total value of the assets of petitioner exceeds the total value of its obligations by Four Hundred Ninety Six Million Pesos (P496M). The problem, therefore, of petitioner is its state of illiquidity.

b. Petitioner plays a vital role in the domestic shipping industry, providing services to thirty percent (30%) of the domestic shipping passage market and twelve percent (12%) of domestic shipping cargo market.

c. Under a liquidation scenario, the proceeds of the assets of petitioner under fire-sale circumstances will only be enough to pay the tax liabilities of petitioner, eighty percent (80%) of the secured obligations, and fifty percent (50%) of the financial leasing obligations. Further, there will be a virtual monopoly in the shipping industry, particularly in the domestic passage market, which will be to the detriment of the riding public numbering four point five (4.5) million passengers a year and businessmen carrying their cargoes/products *via* shipping vessels within the country will be adversely affected. Furthermore, thousands of jobs will be lost and the employees/workers of petitioner will not be paid for their separation/retirement benefits should the business operations of petitioner be closed.

d. Given reasonable time, petitioner can generate ample cash from its operations to service all its obligations, taking into consideration the following factors:

i. The business of petitioner is viable considering that the domestic shipping industry is still a growing industry;

ii. Petitioner has a strong and loyal client base particularly in its major route – Manila-Bacolod-Iloilo;

iii. Petitioner has a fleet of nine (9) vessels, which, except for one (1) cargo vessel, can still operate efficiently beyond ten (10) years, if properly maintained;

iv. The objectives and strategies contained in the Business Plan (Annex "F") are feasible;

v. One of the main objectives of the Business Plan (Annex "F") is to improve the management and organizational set-up of petitioner; and

vi. New money/loan will be infused, for the purpose of, among others, settling the tax liabilities of petitioner and dry-docking expenses of all its shipping vessels to make the same in good operating conditions and meeting the international safety standards.

e. Even putting an allowance or provision for contingency/risk on the projected cash income of petitioner, *e.g.*, twenty percent (20%), all the obligations of petitioner will be settled within a ten (10)-year period.

f. The proposed restructuring plan of petitioner gives undue preferential treatment to critical trade and secured creditors versus non-critical and unsecured creditors.

XII. RECOMMENDATIONS OF THE REHABILITATION RECEIVER

A. Recommendations

Based on the above findings and conclusions, the Rehabilitation Receiver recommends the following:

a. Petitioner be rehabilitated.

b. The Business Plan (Annex "F") be accepted and its strategies and action plans be adopted as guidelines for the rehabilitation of petitioner.

c. The financial restructuring of petitioner be implemented under the following principles:

i. Petitioner will settle all of its obligations, both critical and not critical, except unpaid/unremitted taxes, and both secured and unsecured, under the same terms and conditions.

ii. All unpaid interest as of March 31, 2004 and interest accruals at new interest rates shall form part of the principal. Interest accrual for each creditor shall start on the date of the signing of the respective executory documents.

iii. All penalties and other charges shall be waived.

iv. Petitioner shall settle all its past due obligations either *via* a conversion of debt into equity at par value, or restructuring into long-term loan/notes or a combination of both.

v. The cash available for debt service shall be determined as follows:

EBITDA:	Earnings Before Interest, Income Tax, Depreciation & Amortization including amortization of dry-docking expenses
Less:	Working capital requirements, current equipment/container vans leases/rentals, redundancy cost, capital expenditures, income tax, minimum cash balance of P25M
Less:	Debt servicing of the New Loan
Equals:	Cash Available for Debt Service

The resulting cash available for debt service shall first be applied on interest and then on the scheduled principal amortization.

vi. For purposes of conservatism, the EBITDA or cash income as projected by petitioner shall be discounted by twenty percent (20%) to provide for any contingency.

However, should there be excess cash, *i.e.*, remaining cash after settling the scheduled principal amortization, the same shall be used as follows:

- Fifty percent (50%) on debt servicing – First on the redemption of preferred shares, then on the scheduled principal amortization due in the succeeding year; and

- Fifty percent (50%) on building up funds for the re-fleeting program of petitioner, which is expected to further enhance its capacity to service its debt.

A Cash Recapture Mechanism shall be established for determining/monitoring such excess cash. The mechanism shall be controlled/managed by the Rehabilitation Receiver.

vii. The terms and conditions of the Restructured Debt shall include the following:

Facility:	Long Term Notes
Tenor:	Ten (10) years, inclusive of four (4) years grace period on principal repayment.
Interest Rates:	Five percent (5.0%) per year on secured debt and past due equipment/container vans leases/ rentals. Two point five percent (2.5%) per year on unsecured debt/ obligations.
Interest Payments:	Interest due in Year 1 to be paid in 5-Year Redeemable Preferred Shares. Cash payment on interest and dividends shall start in Year 2 and shall be remitted on a quarterly basis.

Principal Repayment:	Payment to start in Year 5 on a quarterly basis under following yearly distribution (as percentage of the beginning principal amount): Yr. 5. - Fifteen Percent (15%) Yr. 6. - Fifteen Percent (15%) Yr. 7. - Fifteen Percent (15%) Yr. 8. - Fifteen Percent (15%) Yr. 9. - Twenty Percent (20%) Yr. 10 - Twenty Percent (20%)
Security:	Secured creditors will keep the properties/assets that they hold as security to their credits.

The other terms and conditions of the Restructured Debt shall be as follows:

- A cash recapture mechanism shall be established and shall be monitored by the Rehabilitation Receiver.

  This mechanism is intended to capture any excess cash as defined above, of which amount, fifty percent (50%) shall be used for debt service.

- Quarterly payments on interest due and scheduled principal amortization shall be distributed as follows:

First Quarter	:	30%
Second Quarter	:	30%
Third Quarter	:	0%
Fourth Quarter	:	40%

The Projected Cash Distribution and the Indicative Terms Sheets for the major creditors are attached hereto as Annex "I" and Annexes "J", "J-1" to "J-17", respectively, and made integral parts hereof.

d. New money of about Two Hundred Fifty Million Pesos (P250M) be infused into petitioner periodically beginning 2004 and until mid-2005 for the purpose of paying the tax liabilities of petitioner, for repairing the M/V St. Ezekiel Moreno, and for dry-docking costs of two (2) shipping vessels scheduled for upkeep this 2004.

In the absence of equity investment, the new money shall be borrowed under the following terms and conditions:

Facility:	Medium Term Notes
Tenor:	Three (3) years and six (6) months, inclusive of the following grace periods: One (1) year and six (6) months on interest payment; and Two (2) years and six (6) months on principal repayment.
Interest Rates:	Fifteen percent (15%) per annum.
Principal Repayment:	To start at the end of Year 2.
Security:	Nil.
Other conditions:	Debt servicing of the new loan shall have priority over debt servicing of the Restructured Debt; in particular, no principal repayment shall be applied on the Restructured Debt unless the new loan (both interest and principal) is fully paid.

e. The Preferred Shares to be used to settle Year 1 interests be with the following key features:

i. The said shares are redeemable for a maximum period of five (5) years;

ii. The said shares are convertible to common shares anytime within the five (5)-year period;

iii. The dividend rate of the said shares shall be five percent (5%) per annum on the secured debt and two point five percent (2.5%) on the unsecured debt; and

iv. In case of excess cash, the shares shall be redeemed prior to payment of unscheduled principal amortization.

f. All contracts on passage ticketing, freight/cargo booking, hotel & food services and other out-source services be reviewed, renegotiated and/or cancelled.

B. Rationale of the Payment Scheme Recommended

The Rehabilitation Receiver divided the application of the cash flows of petitioner into two (2) groups.

The first (1st) group consists of payments of the current obligations of petitioner. These obligations are either for the payment of expenses in the ordinary course of business of petitioner, which are necessary for the continued operation of petitioner, and/or obligations incurred after the issuance of the Stay Order dated April 1, 2004.

The first (1st) group also consists of payment of unpaid taxes for the reason that existing jurisprudence provide that the collection of taxes is not subject to a restraining or injunction order.

The second (2nd) group consists of payments of the outstanding obligations of petitioner as of March 31, 2004, both secured and unsecured.

Unlike the proposed payment scheme in the Rehabilitation Plan of petitioner (Annex "B" of the Petition), which categorizes some obligations as those having priority payments, such that the unsecured obligations shall be paid after these obligations and the secured debts are fully settled, the payment scheme that the Rehabilitation Receiver herein recommended treats all creditors equally, such that there will be no priority payments for the critical trade suppliers/contractors and secured creditors and that all outstanding obligations, both secured and unsecured, shall be restructured under the same terms and conditions. This is in consonance with existing jurisprudence that in rehabilitation proceedings, all creditors, whether secured or unsecured, should be treated equally.

Further, unlike the proposed payment scheme in the Rehabilitation Plan of petitioner (Annex "B" of the Petition), the payment scheme that the Rehabilitation Receiver herein recommended provides for a cash recapture mechanism such that fifty percent (50%) of excess cash, if any, shall be applied to payment of the obligations to the creditors, both secured and unsecured on a *pro rata* basis. The following table shows the comparison between the proposed payment scheme in the Rehabilitation Plan of petitioner (Annex "B" of the Petition) and the payment scheme that the Rehabilitation Receiver herein recommended.

	Proposed Payment Scheme	Revised Payment Scheme
Tax Liabilities	To be paid on current basis.	Same
Current OPEX	To be paid on current basis.	Same
Current Financial/Operating Leases	To be paid as scheduled.	Same
Past Due Leases	To be restructured into 6-year term notes with 1 year grace period on interest and principal repayments.	To be restructured into 10-year term notes with 4 years grace period on principal repayments. Year 1 interest to be paid in 5-year Redeemable Preferred Shares, with dividend payments in year 2.

	The interest rate shall be fixed at 5% annually.	Same
Secured Obligations	To be restructured into 10-year term loan with 1 year grace period on interest payments and 3 year grace period on principal repayments.	To be restructured into 10-year term notes with 4 year grace period on principal repayments.
		Year 1 interest to be paid in 5-year Redeemable Preferred Shares, with dividend payments in year 2.
	The interest rate shall be fixed at 5% annually.	Same
	Existing Collaterals secured restructured obligations.	Same
	Option to convert exposure into common shares.	Same
	Option to be settled *via dacion en pago* of passage tickets and cargo space.	No dacion en pago of tickets and cargo space
Unsecured Obligations	To be restructured into 10-year Convertible Notes.	To be restructured into 10-year term notes with 4 year grace period on principal repayments.
	Interest/Coupon Rate – 2.5%	Same
		Year 1 interest to be paid in 5-year Redeemable Preferred Shares, with dividend payments in year 2
	Option to be settled *via dacion en pago* of passage tickets and cargo space.	No *dacion en pago* of tickets and cargo space
	Option to convert exposure into common shares.	Same

C. Addressing the Objections of Creditors.

As mentioned above, only eleven (11) creditors filed their comments/oppositions to the proposed Rehabilitation Plan (Annex "B" of the Petition). The Rehabilitation Receiver, pursuant to the Order dated May 7, 2004 of this Honorable Court, studied the said comments/oppositions of the creditors and considered the same in the formulation of an equitable payment scheme.

The table below shows the creditors, which filed their comments/oppositions to the proposed Rehabilitation Plan (Annex "B" of the Petition); their respective comments/oppositions thereto; and how the Rehabilitation Receiver addressed the same in the formulation of an equitable payment scheme.

Creditor	Comments/Opposition	How Addressed
1. Banago Port Stevedoring, Inc.	a. The proposed Rehabilitation Plan does not provide a detailed course of action on how to meet its priority payments.	a. The recommended payment scheme does away with priority payments such that all obligations of petitioner will be restructured.
	b. The proposed Rehabilitation Plan does not provide for a schedule of payment of priority credits or a reasonable time table when petitioner expects to be fully rehabilitated.	b. The recommended payment scheme already provides for a schedule of payments.
2. Bank of Commerce	a. The terms and conditions of the proposed Rehabilitation Plan are arbitrary and without any basis.	a. The recommended payment scheme is based on the Cash Flow and Income Projections (Annex "G") and the Projected Cash Distribution (Annex "I"), which are in turn based on the past performance of the business of petitioner and reasonable assumptions.
3. CMC Industries Phil. Inc.	a. The unpaid account of CMC has the least preference and that it will be settled through *dacion en pago* of passenger tickets or conversion into shares of stocks of petitioner, instead of cash.	a. The recommended payment scheme does away with priority payments such that all obligations of petitioner will be restructured.
	b. The proposed Rehabilitation Plan will bar CMC from being paid, and in the mean time, CMC has no more working capital to go on with its business and in fact is in the jaws of insolvency.	b. The recommended payment scheme provides that petitioners will start making interest payments in cash beginning the year 2, and principal repayments beginning the year 5.
	c. CMC desires to be given preference in the payments of petitioner through cash in order to save its business.	c. Existing jurisprudence prohibits giving preference to any creditor of the debtor corporation.
4. Danlite Industries Corporation	a. The proposed Rehabilitation Plan does not contain a proposed repayment period for the obligations of petitioner.	a. The recommended payment scheme provides for a repayment period of ten (10) years for the repayment of the obligations of petitioner.
	b. The proposed Rehabilitation Plan is generalized and has no specific action plans for the rehabilitation of petitioner, and the same is impractical, not feasible and futile.	b. The Business Plan provides for the specific action plans for the rehabilitation of petitioner.
5. Development Bank of the Philippines	a. The proposed Rehabilitation Plan does not have financial projections covering the 10-year rehabilitation period; and that petitioner has not outlined the projected operation and income parameters that would give the creditors the confidence that debt-repayment could be accomplished during the 10-year rehabilitation period.	a. The recommended payment scheme is based on the Cash Flow and Income Projections (Annex "G") and the Projected Cash Distribution (Annex "I"), which is in turn based on the past performance of the business of petitioner and reasonable assumptions.
	b. The means for execution of the Rehabilitation Plan is not supported by verifiable and quantifiable basis.	b. Same as No. 1.

6. Delbros Waterfront Leasing Co., Inc.	a. Delbros should be given highest priority in the cash settlement.	a. Existing jurisprudence prohibits giving preference to any creditor of the debtor corporation.
7. Equitable-PCI Bank	a. The term of ten (10) years for the proposed restructuring is too long.	a. The recommended payment scheme provides for cash recapture mechanism to accelerate debt repayments.
	b. The cash recapture of the one (1) year grace period on interest payments should commence on the second (2nd) year.	b. All accrued interests in Year 1 shall immediately be payable with Redeemable Preferred Shares, which earn dividends, payable starting Year 2, and redeemable not later than Year 5.
	c. The payment of the three (3) years grace period on unpaid/accrued interest should be paid before the implementation of the rehabilitation plan.	c. Same as No. 2.
	d. All capitalized interest should bear interest similar to the restructured loans and should carry a definite repayment plan.	d. Considering that the capitalized interest will form part of the principal obligation to be paid, the payment of the same necessarily follows the terms and conditions of the settlement of the principal obligation.
	e. The interest should have a rate of 8% to 10% with a partial recapture at the end of a certain period.	e. The Cash Flow and Income Projections (Annex "G") and the Projected Cash Distribution (Annex "I") can only afford interest rates as recommended.
	f. The repayment of the principal should be covered by post-dated checks on a yearly basis.	f. The Court, through the Rehabilitation Receiver, shall monitor the implementation of the recommended payment scheme.
8. North Star Port Development	a. The terms and conditions of the proposed Rehabilitation Plan show the losses and discounts the creditors will absorb; however, no concrete measures for increasing the cash flows of petitioner are indicated.	a. The recommended payment scheme maximizes payments to all creditors of petitioner, and the Business Plan (Annex "F") provides for the ways and means for petitioner to strengthen its cash flows.
9. Pilipinas Shell Petroleum Corporation	a. The proposed Rehabilitation Plan consists only of a detailed payment restructuring scheme.	a. The recommended payment scheme is based on adjusted Cash Flow and Income Projections (Annex "G") and the Projected Cash Distribution (Annex "I"), and are in turn based on the past performance of the business of petitioner and reasonable assumptions.
	b. The proposed Rehabilitation Plan did not mention how petitioner would raise the funds to make payments.	b. The Business Plan (Annex "F") shows how petitioner will be able to raise funds to fully settle its obligations.
	c. There is no concrete showing on how the averments in the proposed Rehabilitation Plan would inure to the	c. The Business Plan (Annex "F") and the Liquidation Analysis (Annex "H") show how the

	benefit of the creditors, employers(ees) and stockholders.	recommended payment scheme will inure to the benefit of the creditors, employers(ees) and stockholders.
	d. There is no Customer Value Proposition set forth in the proposed Rehabilitation Plan.	d. The Business Plan (Annex "F") shows the eventual benefits of the customers of petitioner.
	e. The proposed Rehabilitation Plan violates the principle that no creditor should take preference over the others.	e. The recommended payment scheme does away with priority payments such that all obligations of petitioner will be restructured.
10. Pioneer Insurance and Surety Corporation	a. The proposed Rehabilitation Plan proposes to pay secured creditors through *dacion en pago* and/or debt-equity conversion and PISC prefers to be paid in cash.	a. The recommended payment scheme provides for a restructuring of all the obligations of petitioner and that the debt-equity conversion will be implemented only if the creditors opt to be paid through these schemes.
11. Sigma Coatings (Phils.), Inc.	a. There is no showing that the claim of Sigma is included among the Priority Payments.	a. The recommended payment scheme does away with priority payments such that all obligations of petitioner will be restructured.
	b. The proposed Rehabilitation Plan does not give Sigma the opportunity to recover cost of money on the amount of goods supplied to petitioner.	b. The recommended payment scheme treats all creditors of petitioner in the same way such that not all creditors will be able to recover cost of money on their respective exposures.
	c. The proposed Rehabilitation Plan is highly speculative and dependent on the assumption that the vessels would be fully operational.	c. The Cash Flow and Income Projections (Annex "G") and the Projected Cash Distribution (Annex "I"), which are based on the past performance of the business of petitioner and reasonable assumptions, shows that petitioner may be able to make all its shipping vessels fully operational

As can be seen from the table above, all the respective comments/oppositions of the above-mentioned creditors were addressed by the Rehabilitation Receiver in this Evaluation and Recommendation Report. The Rehabilitation Receiver trusts that the above-mentioned creditors will reconsider their above-mentioned respective comments/oppositions.

REPUBLIC OF THE PHILIPPINES
REGIONAL TRIAL COURT
NATIONAL CAPITAL JUDICIAL REGION
CITY OF MANILA
Branch 46

IN THE MATTER OF:

PETITION FOR CORPORATE REHABILITATION WITH PRAYER FOR SUSPENSION OF PAYMENTS.

Sp. Proc. No. 04109532

NEGROS NAVIGATION CO., INC.,
Petitioner.
x - x

MANIFESTATION

The undersigned Rehabilitation Receiver of petitioner, MONICO V. JACOB, to this Honorable Court, most respectfully states that:

1. On August 31, 2004, the undersigned receiver submitted his Evaluation and Recommendation Report to this Honorable Court.

2. In the said evaluation and recommendation report, the undersigned recommended that the obligations of petitioner to the secured creditors shall be restructured under the following terms and conditions:

"vii. The terms and conditions of the Restructured Debt shall include the following:

Facility:	Long Term Notes
Tenor:	Ten (10) years, inclusive of four (4) years grace period on principal repayment.
Interest Rates:	Five percent (5.0%) per year on secured debt and past due equipment/container vans leases/ rentals. Two point five percent (2.5%) per year on unsecured debt/ obligations.
Interest Payments:	Interest due in Year 1 to be paid in 5-Year Redeemable Preferred Shares. Cash payment on interest and dividends shall start in Year 2 and shall be remitted on a quarterly basis.
Principal Repayment:	Payment to start in Year 5 on a quarterly basis under following yearly distribution (as percentage of the beginning principal amount): Yr. 5. - Fifteen Percent (15%) Yr. 6. - Fifteen Percent (15%) Yr. 7. - Fifteen Percent (15%) Yr. 8. - Fifteen Percent (15%) Yr. 9. - Twenty Percent (20%) Yr. 10 - Twenty Percent (20%)
Security:	Secured creditors will keep the properties/assets that they hold as security to their credits.

x x x x" (Pages 21 and 22 of the Evaluation and Recommendation Report.)

Further, in the said evaluation and recommendation report, the undersigned recommended that new money of about Two Hundred Fifty Million Pesos (P250,000,000.00) be infused into petitioner periodically beginning 2004 and until mid-2005 for the purpose of paying its tax liabilities, for repairing the M/V St. Ezekiel Moreno, and for dry-docking costs of two (2) of its shipping vessels scheduled for upkeep this 2004, which amount shall be payable under the following terms and conditions:

> "In the absence of equity investment, the new money shall be borrowed under the following terms and conditions:

Facility:	Medium Term Notes
Tenor:	Three (3) years and six (6) months, inclusive of the following grace periods: One (1) year and six (6) months on interest payment; and Two (2) years and six (6) months on principal repayment.
Interest Rates:	Fifteen percent (15%) per annum.
Principal Repayment:	To start at the end of Year 2.
Security:	Nil.
Other conditions:	Debt servicing of the new loan shall have priority over debt servicing of the Restructured Debt; in particular, no principal repayment shall be applied on the Restructured Debt unless the new loan (both interest and principal) is fully paid.

> x x x x" (Page 23 of the Evaluation and Recommendation Report.)

3. On September 14 and 21 2004, and at other various dates after the undersigned submitted his Evaluation and Recommendation Report to this Honorable Court, the undersigned met with the creditors of petitioner to discuss their respective comments and/or objections to the said evaluation and recommendation report.

4. During the said meetings, the secured creditors of petitioner were objecting to the proposed interest rate of five percent (5%) per annum. The secured creditors commented that the same is below their respective costs of money and suggested that there should be a provision for them to recover the interest differential.

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5. Further, during the said meetings, the secured creditors were, likewise, objecting to the proposed payment terms and its corresponding fifteen percent (15%) per annum interest rates of the "new loan".

a. The undersigned and the President of petitioner, Mr. Sulficio O. Tagud, Jr., informed the secured creditors that due to the immediate need of paying the current tax liabilities of petitioner, Metropacific Corporation extended a loan to petitioner in the amount of One Hundred Twenty Three Million Pesos (P123,000,000.00), which forms part pf the "new loan" in the amount of Two Hundred Fifty Million Pesos (P250,000,000.00).

b. The secured creditors commented that the terms and conditions of the payment of the "new loan", particularly the amount loaned by Metropacific Corporation, should not be better than the terms and conditions of the restructured obligations of the secured creditors.

6. After carefully studying and re-evaluating the Cashflow and Income Projections of petitioner (Exhibit "G" of the Evaluation and Recommendation Report) and the Projected Cash Distribution formulated by the undersigned (Exhibit "I" of the Evaluation and Recommendation Report), the undersigned determined that petitioner may be able to service its outstanding obligations to the secured creditors, under the terms and conditions proposed in the Evaluation and Recommendation Report with the following modifications:

a. The interest rate will remain at five percent (5%) per annum on the first (1^{st}) to fourth (4^{th}) year;

b. Interest rate beginning on the fifth (5^{th}) year will be increased seven point five (7.5%); and

c. The accrual of the two point five percent (2.5%) interest differential shall begin the fifth (5^{th}) year, but shall be paid on the tenth (10^{th}) year.

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7. Further, after consultations between the undersigned and Metropacific Corporation, the latter agreed that the above-mentioned loan it granted to petitioner shall, likewise, be paid under the same terms and conditions as that of the restructured obligations of petitioner to the secured creditors.

8. Thus, in view of the foregoing, the undersigned recommends that the new terms and conditions of the restructured obligations of petitioner to the secured creditors shall be paid under the following terms and conditions:

Facility:	Long Term Notes
Tenor:	Ten (10) years, inclusive of four (4) years grace period on principal repayment.
Interest Rates:	Five percent (5.0%) per year from the first (1st) year to the fourth (4th) year on secured debt and past due equipment/container vans leases/ rentals. The interest rate beginning on the fifth (5th) year will be increased to seven point five (7.5%); and the accrual of the two point five percent (2.5%) interest differential shall begin the fifth (5th) year, but shall be paid on the tenth (10th) year. Two point five percent (2.5%) per year on unsecured debt/ obligations.
Interest Payments:	Interest due in Year 1 to be paid in 5-Year Redeemable Preferred Shares. Cash payment on interest and dividends shall start in Year 2 and shall be remitted on a quarterly basis.
Principal Repayment:	Payment to start in Year 5 on a quarterly basis under following yearly distribution (as percentage of the beginning principal amount): Yr. 5. - Fifteen Percent (15%) Yr. 6. - Fifteen Percent (15%) Yr. 7. - Fifteen Percent (15%) Yr. 8. - Fifteen Percent (15%) Yr. 9. - Twenty Percent (20%) Yr. 10 - Twenty Percent (20%)
Security:	Secured creditors will keep the properties/assets that they hold as security to their credits.

9. Further, upon agreement of Metropacific Corporation, the undersigned recommends that petitioner pay the loan extended to it by Metropacific Corporation, in the amount of One Hundred Twenty Three Million Pesos (P123,000,000.00), under the same terms and conditions as that of the restructured obligations of petitioner to the secured creditors.

10. With regard to the One Hundred Twenty Seven Million Pesos (P127,000,000.00), which comprises the balance of the proposed "new loan", petitioner should negotiate with possible creditors to extend a loan to it in the said amount and payable under the same terms and conditions as that of the

loan of Metropacific Corporation to petitioner and the restructured obligations of petitioner to the secured creditors.

11. Necessarily, the Projected Cash Distribution formulated by the undersigned (Exhibit "I" of the Evaluation and Recommendation Report) shall be modified in accordance with the above-mentioned recommendations. The Modified Projected Cash Distribution, a copy of which is attached hereto as Annex "A" and made an integral part hereof, is, thus, submitted to this Honorable Court to replace the Projected Cash Distribution formulated by the undersigned (Exhibit "I" of the Evaluation and Recommendation Report).

Respectfully submitted.

Makati City for Manila.

September 24, 2004.

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(EXPLANATION: Due to time constraints and the fact that there are numerous parties/counsels in this petition for rehabilitation with addresses at different places in Metro Manila, rehabilitation receiver is constrained to serve copies of the foregoing Manifestation through registered mail.]

ANNEX "A"

NEGROS NAVIGATION COMPANY., INC.

PROJECTED CASH DISTRIBUTION

(In Thousand Pesos)

As Amended with additional interest of 2.50%

	Year 0 2004	Year 1 2005	Year 2 2006	Year 3 2007	Year 4 2008	Year 5 2009	Year 6 2010	Year 7 2011	Year 8 2012	Year 9 2013	Year 10 2014	Total 10 YEARS
EBITDA	345,725	575,724	655,014	668,999	713,336	803,706	823,766	882,858	948,639	991,348	1,056,797	8,120,188
80% of EBITDA	**345,725**	**460,579**	**524,011**	**535,199**	**570,669**	**642,965**	**659,013**	**706,287**	**758,911**	**793,078**	**845,437**	**6,496,150**
Redundancy cost	(4,664)	(39,325)										(39,325)
Vessel & equipment rentals/leases	(68,238)	(72,437)	(47,916)	(16,501)	(13,789)	-	-	-	-	-	-	(150,643)
Change in working capital	(4,324)	(15,546)	(4,474)	(1,203)	(7,582)	(7,373)	(1,083)	(11,348)	(9,780)	(4,696)	(15,684)	(78,768)
Collection of old accounts receivable	97,236	-	-	-	-	-	-	-	-	-	-	-
Beginning Cash	19,063	14,798	31,696	24,666	208,365	298,379	193,948	147,536	186,271	249,813	178,463	14,798
Projected Cash Available	**384,798**	**348,069**	**503,317**	**542,161**	**757,664**	**933,971**	**851,879**	**842,475**	**935,402**	**1,038,195**	**1,008,216**	**6,242,211**
LESS: CAPEX & Dry-docking Cost	(405,000)	(270,000)	(250,000)	(250,000)	(375,000)	(280,000)	(325,000)	(280,000)	(311,000)	(357,000)	(303,000)	(3,001,000)
Income Tax	-	-	-	-	(488)	(2,613)	(15,318)	(24,149)	(34,507)	(76,019)	(95,742)	(248,836)
Net Cash Available	**(20,202)**	**78,069**	**253,317**	**292,161**	**382,175**	**651,358**	**511,560**	**538,325**	**589,896**	**605,176**	**609,474**	**2,992,376**
LESS: Unpaid Taxes	(123,000)	(118,000)	-	-	-	-	-	-	-	-	-	(118,000)
New Loan from MPC (Principal)	123,000		-	-								-
New 3rd Party Loan (Principal)	35,000	92,000										92,000
New 3rd Party Loan (Principal Repaym	-	-	(127,000)	-	-	-						(127,000)
New 3rd Party Loan (Interest)	-	(20,373)	(19,050)	-	-	-	-	-	-	-	-	(39,423)
Total	35,000	(46,373)	(146,050)	-	-	-	-	-	-	-	-	(192,423)
Cash Available for Debt Service	**14,798**	**31,696**	**107,267**	**292,161**	**382,175**	**651,358**	**511,560**	**538,325**	**589,896**	**605,176**	**609,474**	**2,799,952**

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NEGROS NAVIGATION COMPANY., INC.

PROJECTED CASH DISTRIBUTION

(In Thousand Pesos)

As Amended with additional interest of 2.50%

	Year 0 2004	Year 1 2005	Year 2 2006	Year 3 2007	Year 4 2008	Year 5 2009	Year 6 2010	Year 7 2011	Year 8 2012	Year 9 2013	Year 10 2014	Total 10 YEARS
Cash Available for Debt Service	14,798	31,696	107,267	292,161	382,175	651,358	511,560	538,325	589,896	605,176	609,474	2,799,952
Interest Payment												
Past Due Leases	-	-	(5,159)	(5,159)	(5,159)	(5,159)	(4,772)	(3,998)	(3,224)	(2,451)	(1,548)	(36,629)
Secured Debt	-	-	(47,836)	(47,836)	(47,836)	(44,248)	(37,073)	(29,897)	(22,722)	(14,351)	(4,784)	(296,580)
New Loan from MPC		-	(6,150)	(6,150)	(6,150)	(5,689)	(4,766)	(3,844)	(2,921)	(1,845)	(615)	(38,130)
Unsecured Debt	-	-	(20,661)	(20,661)	(20,661)	(19,112)	(16,012)	(12,913)	(9,814)	(6,198)	(2,066)	(128,100)
Cash Dividends on Preferred Shares												
Past Due Leases	-	-	(258)	(258)	(258)	(129)	-	-	-	-	-	(903)
Secured Debt	-	-	(1,196)	(2,392)	(2,392)	(1,196)	-	-	-	-	-	(7,175)
New Loan from MPC	-	-	(308)	(308)	(308)	(154)	-	-	-	-	-	(1,076)
Unsecured Debt	-	-	(1,033)	(1,033)	(1,033)	(517)	-	-	-	-	-	(3,616)
Cash Available for Principal Repayment	14,798	31,696	24,666	208,365	298,379	575,156	448,937	487,673	551,214	580,332	600,462	2,287,742
Principal Repayment												
Past Due Leases		-	-	-	-	(15,477)	(15,477)	(15,477)	(15,477)	(20,636)	(20,636)	(103,181)
Secured Debt		-	-	-	-	(143,507)	(143,507)	(143,507)	(143,507)	(191,342)	(191,342)	(956,711)
New Loan from MPC	-	-	-	-	-	(18,450)	(18,450)	(18,450)	(18,450)	(24,600)	(24,600)	(123,000)
Unsecured Debt		-	-	-	-	(123,968)	(123,968)	(123,968)	(123,968)	(165,290)	(165,290)	(826,451)
Redemption of Preferred Shares												
Past Due Leases		-	-	-	-	(5,159)	-	-	-	-	-	(5,159)
Secured Debt		-	-	-	-	(47,836)	-	-	-	-	-	(47,836)
New Loan from MPC		-	-	-	-	(6,150)	-	-	-	-	-	(6,150)
Unsecured Debt		-	-	-	-	(20,661)	-	-	-	-	-	(20,661)
Additional Interest												
Past Due Leases		-	-	-	-	-	-	-	-	-	(8,255)	(8,255)
Secured Debt		-	-	-	-	-	-	-	-	-	(76,537)	(76,537)
New Loan from MPC		-	-	-	-	-	-	-	-	-	(9,840)	(9,840)
NET AVAILABLE CASH	14,798	31,696	24,666	208,365	298,379	193,948	147,536	186,271	249,813	178,463	103,962	103,962