COVER SHEET

4409

SEC Registration Number

ABOITIZ TRANSPORT SYSTEM (ATSC) CORPORATION

(Company's Full Name)

12TH FLOOR TIMES PLAZA BUILDING U.N. AVE. CORNER TAFT AVE. ERMITA MANILA

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

ISMAEL R. CABONSE	**02-5287516 / 02-5287630**
(Contract Person)	(Company Telephone Number)

12 31	17-Q	05 25
Month *Day*	(Form Type)	*Month* *Day*
(Fiscal Year)		(Annual Meeting)

N/A

(Secondary License Type, If Applicable)

Corporation Finance Department	**JUNE 30, 2006**
Dept. Requiring this Doc.	Period Ended Date

	Total Amount of Borrowings	
2,274		
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2006**

2. Commission identification number **4409** 3. BIR Tax Identification No **000-313-401**

4. Exact name of issuer as specified in its charter

Aboitiz Transport System (ATSC) Corporation .

5. Province, country or other jurisdiction of incorporation or organization **Philippines**

6. Industry Classification Code: (SEC Use Only)

12th Floor Times Plaza Building United Nations Avenue corner Taft Avenue Ermita, Manila /1000
7. Address of issuer's principal office Postal Code

(02) 528-7630, (02) 528-7516, (02) 528-7608 and (02) 5287609
8. Issuer's telephone number, including area code

William Gothong and Aboitiz, Inc. Serging Osmeña Blvd. North Reclamation Area, Cebu City
9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock	2,305,449,060
Redeemable Preferred Stock	74,904,087

11. Are any or all of the securities listed on a Stock Exchange?
Yes [**X**] No [ ]

Common and Redeemable Preferred Stock Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
Yes [**X**] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.
Yes [**X**] No [ ]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following Financial Statements are filed as part of this Form 17 - Q:

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SECOND QUARTER – 2006

CONSOLIDATED INCOME STATEMENT

For the first six months ending June 30, 2006, Aboitiz Transport System Corporation ('ATS' or the 'Company') posted consolidated revenues of P5.7 billion, a 12% decrease over last year. This reduction contributed to the Company's net loss registered at P25.5 million.

REVENUES

ATS posted total consolidated revenues of P5.7 billion, a 12% reduction over the same period last year. Among the major contributors to the decline is lower service fees generated by the Company's international charter business from its subsidiary company, Jebsen Management (BVI) Ltd. ('JMBVI') due to unfavorable market conditions.

The Company's passage business also experienced an 11% drop in revenues, from P2.1 billion in 2005 to about 1.9 billion in 2006. This is due to lower volumes carried as a result of the reduction in capacity as two vessels were sold during the period: Our Lady of Guadalupe and Our Lady of Fatima. Aggressive promotions from the airlines have also contributed to lower passage volumes.

COST AND EXPENSES

In spite of rising fuel prices, the Company managed to lower its total costs and expenses by over P434.4 million, or 7% compared to last year, achieving increased operating efficiencies across the organization. The overall reduction in costs is a result of the various cost cutting initiatives the Company has put in place as early as 2 years ago.

Overhead costs decreased 32% from almost P2.0 billion in 2005 to just P1.3 billion in 2006. This is largely attributable to lower charter hire expenses and other general and administrative expenses pertaining to JMBVI.

Operating expenses, on the other hand, increased 5% from almost P3.6 billion in 2005 to almost P3.8 billion in 2006, as fuel costs continue to rise due to escalating fuel prices.

Also, Terminal expenses increased 7%, from P511.6 million in 2005 to P546.3 million in 2006. Among the major reasons for this increase include personnel costs and transportation and delivery costs associated with the Company's new line of service, the RoRo, a fresher and faster way of delivering cargoes.

OTHER INCOME / CHARGES

The Company registered total other charges amounting to P104.4 million. The bulk of this amount is in finance costs, totaling P157.7 million, 11% lower compared to same period last year of P177.7 million. The decrease is a result of lower interest expenses brought about by the P466 million reduction in the Company's total interest bearing debt from P3.6 billion in 2005 to P3.1 billion in 2006.

As part of its continuous initiatives, the Company, during the first six months, disposed of its less efficient assets including some equipment and two vessels. As a result, ATS recorded gains on disposal of property and equipment of P36.1 million.

Foreign exchange transactions registered net loss amounting to P2.1 million compared to last year's net gain of P6.4 million, bulk of such loss was due lower realized foreign exchange gain from its subsidiaries. Aboitiz Jebsen Bulk Transport Corporation (ABOJEB) realized only P0.4 million during the first six months as compared to same period last year of P4.9 million.

In January, JMBVI sold its investment in New Zealand Lumber Shippers, Ltd. ('NZLS'), which primarily caused the 77% or P6.8 million decrease in equity from net earnings. NZLS is an independent shipping service from New Zealand to the US West Coast dedicated to the carriage of timber and timber products.

Other charges of P5.9 million is a reduction versus last year of P20.3 million mainly because of other management fees generated by its subsidiary, Aboitiz One, Inc.

NET INCOME

The Company registered a net loss of P25.5 million versus a net income of P286.8 million in 2005. The P312 million reduction compared to last year is largely due to lower revenues. In addition, ATS had other charges amounting to P104.4 million. Provision for income tax for the period reached P18.0 million.

BALANCE SHEET

As of June 30, 2006, consolidated assets of the Company reached P11.1 billion, posting a slight decrease from its asset level as of year-end 2005 of P11.4 billion.

Total current assets reflected a 5% increase, from P3.6 billion as of year-end 2005 to P3.8 billion in 2006. Major increases in the Company's current assets include prepaid expenses and other current assets which rose 33% to P702.5 million as creditable withholding taxes withheld by customers accumulated during the period. These will be credited against tax due as the company comes into a taxable position in the next years.

Investments in associates dropped 27%, from P46.9 million in 2005 to P34.1 million in 2006, largely due to disposal of NZLS investment.

Property and Equipment dipped to P6.5 billion from P6.9 billion because of the Company's sale of vessels, equipment and other non-performing assets, aside from the regular depreciation during the period.

Total liabilities reached P6.7 billion, a 3% reduction over 2005. The Company's total interest bearing debt, inclusive of obligations under finance lease, reflected a marked reduction of P466 million or 13%, from P3.6 billion in 2005 to P3.1 billion in 2006.

Total Stockholders Equity stood at P4.4 billion, more or less, the same level as year-end 2005.

CASHFLOW

Cash from operations during the first six months of 2006 amounted to P802.1 million compared to last year's P564.3 million. Funds were utilized for capital expenditures totaling P260.1 million, and for loan and interest payments. As such, net cash used in financing activities amounted to 687.4 million.

Cash and Cash equivalents at the end of the six months ended June 30, 2006 was at P828.5 million.

Key Performance Indicators (KPI's)

ATS' management uses the following KPI's to evaluate its performance:

a) Total Revenues - is composed of freight and passage revenues and service fees. These are recognized when the related services are rendered. (See discussion above).

b) Earnings Before Interest, Taxes on Income, Depreciation and Amortization (EBITDA)- is calculated as net income before finance cost, income tax expense, amortization and depreciation. It provides management and investors with a tool for determining the ability to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the company's ability to service its debts. The Company's EBITDA during the period in review amounted to P785.1 million, P374 million lower compared to P1.2 billion in 2005. The decline is owed largely to the reduction in revenues.

c) Net income/(loss) before tax – is the earnings/ (loss) of the Company before income tax expense. ATS recognized a net loss before income tax during the period of P7.5 million versus an income before tax of P363.8 million in 2005. This is largely attributable to the reduction in revenues in addition to its other charges which increase about P 40m from last year.

d) Debt-to-equity ratio - gives an indication of how leveraged the company is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity. ATS' debt-to-equity ratio stands at 1.53:1.0 as of June 30, 2006.

e) Current ratio – is a measurement of liquidity calculated by dividing total current assets by the total current liabilities. It is an indicator of the company's short-term debt paying ability. The higher the ratio, the more liquid the company. The Company's current ratio in 2006 of 0.84:1:00 is slightly better than 0.82:1:00 in 2005.

Comparative figures of the Top Five key performance indicators (KPI) for 2006 and 2005 (amounts in millions except for the financial ratios):

	2006	2005
1. Total Revenues *(first 6 mos)*	5,738.9	6,504.3
2. EBITDA *(first 6 mos)*	785.1	1,159.4
3. NIBT/(NLBT) *(first 6 mos)*	(7.5)	363.8
4. Debt-to-equity ratio *(June 30,2006 vs Dec. 31, 2005)*	1.53:1.00	1.56:1.00
5. Current ratio *(June 30,2006 vs Dec. 31, 2005)*	0.84:1.00	0.82:1.00

OTHER INFORMATION

Other material events and uncertainties known to management that would address the past and would have an impact on the Company's future operations are discussed below.

1. Certain loan covenants with bank creditors require the Parent Company to meet an annual current ratio 1.00:1.00. In 2005, the Company was able to get a waiver of the current ratio requirement to 0.50:1.00 for all long-term loans from the majority of its creditor banks.

2. Except as disclosed in the management discussion and notes to the financial statements, there are no other known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation despite the company's low current ratio.

3. Total fuel/lubes expense is a major component of the Company's total cost and expenses. Given this, the Company is constantly looking for ways to reduce fuel consumption to lessen the impact of the increasing fuel prices on the bottom line.

4. ATS has recently firmed up its plans to charter a freighter vessel as an addition to its lean fleet. The vessel, which is expected to be operational during the third quarter of 2006, is intended to partially replace lost capacity from vessels sold since last year and boost revenues.

5. The Company has not made any material commitments for capital expenditures.

6. Except as disclosed in the management discussion and notes to the financial statements, there are no other known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on revenues or income from operations.

7. All significant elements of income or loss from continuing operations are already discussed in the management discussion and notes to financial statements. Likewise any significant elements of income or loss that did not arise from the registrant's continuing operations are disclosed either in the management discussion or notes to financial statements.

8. There is no material off-balance sheet transaction, arrangement, obligation, and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

9. Seasonal aspects of the business are considered in the Company's financial forecast.

SIGNATURE

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

Registrant	Aboitiz Transport System (ATSC) Corporation	
Signature and Title	Lilian P. Cariaso	Corporate Information Officer
Date	August 11, 2006	

ABOITIZ TRANSPORT SYSTEM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Amounts in Thousands)

	3O JUNE 2006	31 DECEMBER 2005 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (see Note 3)	828,496	872,848
Receivables-net (see Note 4 and 17)	1,933,014	1,900,477
Inventories (see Note 5)	343,089	318,915
Prepaid expenses and oher current assets-net (see Note 6)	702,537	529,899
Total Current Assets	3,807,136	3,622,139
Noncurrent assets		
Investments in associates (see Note 7)	34,075	46,915
Available-for-sale investments (see Note 8)	22,215	41,648
Property and equipment (see Note 1, 9, 13 and 14)	6,520,332	6,909,131
Deferred income tax-net (see Note 24)	276,362	242,318
Other noncurrent assets-net (see Note 10)	468,157	491,460
Total Noncurrent Assets	7,321,141	7,731,472
	11,128,277	11,353,611
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Loans payable (see Note 11)	291,963	477,053
Accounts payable and other current liabilities (see Note 12)	3,562,601	3,322,429
Current portion of long-term debt (see Note 13)	486,441	461,164
Current portion of obligations under finance lease (see Note 14)	140,389	140,393
Income tax payable (see Note 24)	32,498	4,468
Total Current Liabilities	4,513,892	4,405,507
Noncurrent Liabilities		
Long-term debt - net of current portion (see Note 13)	1,865,358	2,105,694
Obligations under finance lease - net of current portion (see Note 14)	144,932	210,490
Redeemed preferred shares (see Note 15)	200,317	200,317
Total Noncurrent Liabilities	2,210,607	2,516,501
Equity Attributable to the Equity Holders of the Parent		
Common shares (see Note 16)	2,343,966	2,343,966
Capital in excess of par value	843,698	843,698
Shares in unrealized mark-to-market gain on available-for-sale investment of subsidiaries	2,525	2,776
Cumulative translation adjustments of a subsidiary	(2,216)	(2,756)
Retained earnings	1,236,317	1,238,546
Treasury shares	(58,715)	(58,715)
	4,365,575	4,367,515
Equity Attributable to Minority Interests	38,203	64,088
Total Stockholders' Equity	4,403,778	4,431,603
	11,128,277	11,353,611

ABOITIZ TRANSPORT SYSTEM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Amounts in Thousands, Except Per Share Amounts)

	Second Quarter June 30		Six Months Ended June 30	
	2006	**2005**	**2006**	**2005**
REVENUE				
Freight-net	1,004,026	449,032	2,670,680	2,411,252
Passage -net	1,099,265	1,296,088	1,850,289	2,085,582
Service fees	658,094	1,627,114	718,997	1,702,159
Others	430,656	239,685	498,969	305,343
	3,192,041	3,611,919	5,738,935	6,504,336
COST AND EXPENSES				
Operating (see Note 18)	1,807,415	1,340,794	3,755,380	3,583,809
Terminal (see Note 19)	232,269	247,087	546,319	511,558
Overhead (see Note 20)	870,793	1,525,667	1,340,323	1,981,018
	2,910,477	3,113,548	5,642,022	6,076,385
OTHER INCOME (CHARGES)				
Finance costs-net (see Note 23)	(75,367)	(85,459)	(157,650)	(177,680)
Gain on disposal of property and equipment	2,615	67,885	36,057	70,533
Foreign exchange gain (loss) - net	(11,740)	(4,693)	(2,091)	6,442
Rental income	8,608	3,009	11,317	7,455
Equity in net ernings	2,487	11,004	2,027	8,803
Others - net	2,229	2,956	5,894	20,289
	(71,168)	(5,298)	(104,446)	(64,158)
INCOME (LOSS) BEFORE INCOME TAX	210,396	493,073	(7,533)	363,793
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	16,178	72,184	22,557	80,568
Deffered	27,313	32,319	(4,600)	(3,601)
	43,491	104,503	17,957	76,967
NET INCOME (LOSS)	166,905	388,570	(25,490)	286,825
ATTRIBUTABLE TO:				
Equity holders of the parent	162,757	402,432	(2,229)	278,393
Minority interest	4,148	(13,862)	(23,261)	8,432
	166,905	388,570	(25,490)	286,825
Basic Earnings Per Share	**P0.071**	**P0.213**	**P(0.001)**	**P0.147**

ABOITIZ TRANSPORT SYSTEM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Unaudited)
FOR THE PERIODS ENDED 30 JUNE 2006 AND 2005
(Amounts in Thousands, Except Per Share Amounts)

	Attributable to Equity Holders of the Parent							Minority Interest	Total Equity
	Common Shares	Capital in Excess of Par Value	Share in Unrealized Mark-to-Market Gain on Available- for-Sale Investments of Subsidiaries	Cumulative Translation Adjustment of a Subsidiary	Retained Earnings	Treasury Shares	Total		
Balance at 01 January 2006	2,343,966	843,698	2,776	(2,756)	1,238,546	(58,715)	4,367,515	64,088	4,431,603
Net Income (Loss) for the Period					(2,229)		(2,229)	(23,261)	(25,490)
Share in unrealized mark-to-market gain on available-for-sale investments during the year			(251)				(251)		(251)
Total Income for the Year	-	-	(251)	-	(2,229)	-	(2,480)	(23,261)	(25,741)
Share in cummulative translation adjustment				540			540		540
Net increase in minority interest							-	(2,624)	(2,624)
Balance at 30 June 2006	2,343,966	843,698	2,525	(2,216)	1,236,317	(58,715)	4,365,575	38,203	4,403,778
Balance at 01 January 2005	2,231,488	843,698	(1,346)		1,288,815	(58,715)	4,303,940	37,343	4,341,283
Net Income for the Period					278,393		278,393	8,432	286,825
Share in unrealized mark-to-market gain on available-for-sale investments during the year			(536)				(536)		(536)
Total Income for the Year	-	-	(536)	-	278,393	-	277,857	8,432	286,289
Share in cummulative translation adjustment				(4,102)			(4,102)		(4,102)
Effect of reorganization	112,478				(92,238)		20,240		20,240
Net increase in minority interest								2,332	2,332
Balance at 30 June 2005	2,343,966	843,698	(1,882)	(4,102)	1,474,970	(58,715)	4,597,935	48,107	4,646,042

ABOITIZ TRANSPORT SYSTEM CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOWS STATEMENTS (Unaudited)
(Amounts in Thousands, Except Per Share and Exchange Rate Data)

	Second Quarter June 30		Six Months Ended June 30	
	2006	**2005**	**2006**	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (Loss) before income tax	210,396	493,073	(7,533)	363,793
Adjustments to reconcile income before income tax to operating income before changes in working capital:				
Depreciation and amortization	335,293	298,829	634,991	617,877
Provision for:				
Doubtful accounts	13,043	14,317	23,735	23,356
Interest expense	79,942	91,940	164,308	186,375
Interest income	(5,611)	(5,776)	(7,612)	(8,562)
Loss (gain) on disposal of property and equipment	(2,615)	(67,885)	(36,057)	(70,533)
Equity in net losses (earnings) of associates	(2,487)	(11,004)	(2,027)	(8,803)
Operating income before changes in working capital	627,961	813,494	769,805	1,103,503
Changes in operating assets and liabilities				
Decrease (increase) in:				
Receivables	277,168	180,930	(56,510)	(186,104)
Materials, parts and supplies	(38,725)	(14,528)	(24,174)	(75,903)
Prepaid expenses and other current assets	(91,921)	(146,711)	(175,251)	(197,238)
(Decrease) increase in accounts payable and accrued expenses	60,326	(283,425)	293,709	(20,755)
Cash generated from operations	834,809	549,760	807,579	623,503
Income tax paid	(5,474)	(50,860)	(5,474)	(59,244)
Net cash provided by operating activities	829,335	498,900	802,105	564,259
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash from JMBVI	0	(83,695)	0	28,784
Additions to:				
Property and equipment	(135,967)	(148,102)	(260,097)	(366,850)
Proceeds from disposal of property and equipment and tied up vessels	(14,326)	85,481	68,044	89,908
Decrease (increase) in other non-current asset				
Other non-current asset	(65,235)	(53,149)	(24,221)	(24,688)
Investments in associates	0	(15,803)	14,867	(759)
Available for sale investments	30,772	(5,486)	34,525	6,014
Interest received	5,642	5,870	7,851	8,485
Net cash provided by (used in) investing activities	(179,114)	(214,884)	(159,031)	(259,106)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net availments (payments) of loans payable	(179,600)	(90,709)	(185,089)	10,821
Net availmens (payments) of long term debt and obligation under capital lease	(141,152)	(135,293)	(280,622)	(175,751)
Interest paid	(81,329)	(95,021)	(219,091)	(188,840)
Increase in minority interest	(2,905)	35,008	(2,624)	2,332
Net cash used in financing activities	(404,986)	(286,015)	(687,426)	(351,438)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	245,235	(1,999)	(44,352)	(46,285)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	583,261	517,328	872,848	561,614
CASH AND CASH EQUIVALENTS AT END OF PERIOD	828,496	515,329	828,496	515,329

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Share and Exchange Rate Data)

1. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated interim financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines (GAAP) as set forth by Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS), including interpretations, issued by the Philippine Accounting Standards Council.

The principal accounting policies and methods adopted in preparing interim consolidated financial statements of the Company are the same as those followed in the December 31, 2005 audited consolidated financial statements.

The consolidated financial statements have been prepared on a historical cost basis, except investments classified as at fair value through profit or loss and available-for-sale investments which have been measured at fair value.

The consolidated financial statements are presented in Philippine peso, the Group's functional and reporting currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

Changes in Accounting Policies
The adoption of PFRS resulted in certain changes to the Group's previous accounting policies.

a. PAS 19, "Employee Benefits." Under previous GAAP, past service cost and experience adjustments are amortized over the expected average remaining working lives of the covered employees. Under PFRS, actuarial gains and losses that exceed a 10% "corridor" are amortized over the expected average remaining working lives of participating employees and vested past service cost, recognized immediately.

b. PAS 32, "Financial Instruments: Disclosure and Presentation." PAS 32 covers the disclosures and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Group's financial instruments, whether recognized or unrecognized in the consolidated financial statements. New disclosure requirements include terms and conditions of financial instruments used by the Group, types of risk associated with both recognized and unrecognized financial instruments (foreign exchange risk, 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 Group's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.

   Upon adoption of PAS 32, the Parent Company's outstanding redeemable preferred shares amounting to ₱74,904 were reclassified to liability on January 1, 2005 because of mandatory redemption feature at a future date, which is not later than January 7, 2013.

c. PAS 39, "Financial Instruments: Recognition and Measurement." PAS 39 establishes the accounting and reporting standards for recognizing and measuring the Group's financial assets and financial liabilities. The standard also covers the accounting for derivative instruments and has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts.

   The adoption of PAS 39 to financial instruments as of January 1, 2005 increased (decreased) the following accounts:

Available-for-sale investments	₱42,977
Other noncurrent assets	(42,977)
Redeemable preferred shares - noncurrent liabilities	176,630
Redeemable preferred shares - stockholders' equity	(74,904)
Retained earnings	(113,938)
Receivables - nontrade	(18,562)
Minority interest	(6,350)

d. The Group has also adopted the following revised standards. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on equity as of January 1 and December 31, 2004.

   - PAS 1, "PAS 1, "Presentation of Financial Statements";
   - PAS 2, "Inventories";
   - PAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors";
   - PAS 10, "Events after the Balance Sheet Date";
   - PAS 16, "Property, Plant and Equipment";
   - PAS 17, "Leases";
   - PAS 21, "The Effects of Changes in Foreign Exchange Rates";
   - PAS 24, "Related Party Disclosures";
   - PAS 40, "Investment Property";
   - PFRS 3, "Business Combinations"; and
   - PFRS 5, "Noncurrent Assets Available for Sale and Discontinued Operations".

<u>Standards not yet Effective</u>
The Company did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, "Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures" - The revised disclosures from the amendments will be included in the Group's consolidated financial statements when the amendments are adopted in 2006.

- PFRS 7, "Financial Instruments - Disclosures" - The revised disclosures on financial instruments provided by this standard will be included in the Group's consolidated financial statements when the standard is adopted in 2007.

The adoption of the above standards is expected to have no material effect on the consolidated financial statements in 2006 and 2007.

Management's Use of Judgments and Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Allowance for Doubtful Accounts. The Group maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the allowance for doubtful accounts on a continuous basis.

The amounts and timing of recorded provision for doubtful accounts for any period would differ if the Group made different judgments or utilized different estimates. An increase in the Group's allowance for doubtful accounts would increase the recorded operating expenses and decrease its current assets. Receivables, net of allowance for doubtful accounts as of June 30, 2006 and December 31, 2005 amounted to ₱1,933,014 and ₱1,900,477 respectively (see Note 4).

Allowance for Inventory Obsolescence. The Company provides an allowance for inventories whenever the value of inventories becomes lower than its cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The allowance account is reviewed on a annual basis. Inventory items identified to be obsolete and unusable are written off and charged as expense for the period. As of June 30, 2006 and December 31, 2005, the carrying value of inventories amounted to ₱343,089 and ₱318,915, respectively (see Note 5).

Estimated Useful Lives. The useful life of each of the Group's property or equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property or equipment would increase the recorded operating expenses and decrease noncurrent assets. The carrying value of property and equipment amounted to ₱6,520,332 and ₱6,909,131 as of June 30, 2006 and December 31 2005, respectively (see Note 9).

In 2005, the Group extended the estimated useful lives of ships in operation and improvements from 10-20 years to 15-30 years from the date of acquisition. The change in estimated useful life reduced depreciation expense by ₱37,297 in 2005 (see Note 9).

Estimated Residual Value. The residual value of the Group's property and equipment asset is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the assets are already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of scrap steel. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of scrap steel.

In 2005, the Group estimated the residual value of ships in operation and improvements to be ₱962,128 and this was excluded in the computation of depreciable cost and depreciation expense effective January 1, 2005. The allocation of estimated residual value reduced depreciation expense by ₱77,974 in 2005 (see Note 9).

Deferred Income Tax Assets. 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 future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Management expects future operations will generate sufficient taxable profit that will allow all or part of the deferred income tax assets to be utilized. However, certain temporary differences will not be realized due to the income tax holiday incentives. Unrecognized deferred income tax assets as of December 31, 2005 and 2004 amounted to ₱40,209 and ₱6,820, respectively (see Note 24).

Financial Assets and Liabilities. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of change in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would directly affect the profit and loss and equity.

The carrying value of financial assets and liabilities as of December 31, 2005 amounted to ₱2,814,973 and ₱6,917,540, respectively (see Note 30).

Impairment of Available-for-sale Financial Assets. The Group follows the guidance of PAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

The carrying value of available-for-sale investments amounted to ₱22,215 as of June 30, 2006 (see Note 8).

Asset Impairment. PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment, investments in associates and software development costs, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property and equipment, investments in associates and software development costs are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

The carrying value of property and equipment, investments in associates and software development costs amounted to ₱6,958,275 and ₱7,362,825 as of June 30, 2006 and December 31, 2005, respectively (see Notes 7, 9 and 10).

Pension Cost. The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions were described in and include among others, discount rate, expected return on plan assets and rate of compensation increase. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension and other retirement obligations.

The Group's net unrecognized actuarial gain as of December 31, 2005 and 2004 amounted to ₱27,995 and ₱34,949, respectively.

Contingencies. The Group is currently involved in legal and administrative proceedings. The Group's estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling defense in these matters and is based upon an analysis of potential results. The Group and its legal counsels currently do not believe these proceedings will have a material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 25).

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiaries	Country of Incorporation	Nature of Business	Percentage of Ownership
CFC*	Philippines	Shipping	100.00
WSI**	Philippines	Ships' hotel management	100.00
ZIP***	Philippines	Transportation/logistics	100.00
A-ONE and Subsidiaries	Philippines	Transportation/logistics	100.00
ABOJEB and Subsidiaries	Philippines	Ship management	62.50
AJMSI	Philippines	Manpower services	62.50
JMI	Philippines	Manpower services	62.50
JMBVI and Subsidiaries****	British Virgin Islands	Shipping	50.00

** *Parent Company has taken over CFC's shipping operations since 2003.*
*** *Ceased operations in February 2006.*
**** *Pre-operating.*
**** *Parent Company has control over operating and financial policies.*

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in the consolidation.

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Items included in the financial statements of each entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity.

The functional and presentation currency of JMBVI and Subsidiaries, a controlled entity, is in US dollars.

At the reporting date, the assets and liabilities of JMBVI and Subsidiaries are translated into the presentation currency of the Parent Company using the Philippine Dealing System (PDS) closing rate on the balance sheet date and their statements of income are translated at the PDS weighted average exchange rates for the year. The exchange differences arising from the translation are taken directly to a separate component of equity, under the "Cumulative translation adjustments of a subsidiary" account. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statements of income.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, with original maturities of three months or less, and are subject to an insignificant risk of change in value.

Receivables

Receivables are recognized and carried at original invoice or face amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined using the moving average method for materials, parts and supplies and the first-in, first-out method for fuel and lubricants and materials, parts and supplies. Net realizable value is the current replacement cost.

Investments in Associates

Investments in associates in which the Group exercise significant influence and which are neither a subsidiary nor a joint venture of the Group are accounted for under the equity method of accounting. Under the equity method, the cost of investments in associates is carried in the consolidated balance sheets at cost and is increased or decreased by the Group's share in net earnings or losses of the associates since dates of acquisition and reduced by dividends received.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Property and Equipment

Property and equipment, except land, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Land is carried at cost. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Except for flight equipment, depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property and equipment or the terms of the lease (in case of leasehold improvements), whichever is shorter:

Ships in operation, excluding drydocking costs and vessel equipment and improvements	15-30 years
Containers	5-7 years
Handling equipment	5-7 years
Furniture and equipment	3-5 years
Land improvements	5-10 years
Buildings and warehouses	5-20 years
Leasehold improvements	5-12 years
Transportation equipment	5-10 years

Flight equipment is depreciated based on estimated number of flying hours.

Drydocking costs, consisting mainly of steel plate replacement of the ships' hull and related expenditures, are capitalized as part of "Ships in operation" under the "Property and equipment" account in the consolidated balance sheets and amortized over 30 months or 2 1/2 years. When significant drydocking expenditures occur prior to the expiry of this period, the remaining unamortized balance of the original drydocking cost is expensed in the month of subsequent drydocking.

Vessel equipment and improvements, which are significant components of the "Ships in operation" account are depreciated separately over a useful life of 3-5 years.

Effective January 1, 2005, the depreciable cost of ships in operation excludes residual value which is determined based on estimated scrap value of the ship's hull.

The assets' useful lives, residual values, and depreciation and amortization methods are reviewed, and adjusted if appropriate, at each balance sheet date.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Ships under refurbishment include the acquisition cost of the ships, the cost of on-going refurbishments and other direct costs. Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the refurbishment of ships and construction of other property and equipment are capitalized during the refurbishment and construction period. Ships under refurbishment and construction in progress are not depreciated until such time the relevant assets are completed and available for use.

Tied-up vessels, which represent excess vessels identified in the rationalization of the Group's routing schedules and are offered for sale, are stated at cost less accumulated depreciation at the date when retired from active use and any impairment in value.

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 or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment and other long-lived assets 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 while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the assets belong. Any impairment losses are recognized in the consolidated statements of income.

Financial Assets and Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets and financial liabilities are further classified into the following categories: financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The Group determines the classification at initial recognition and reevaluates this designation at every reporting date.

a. Financial asset or financial liability at fair value through profit or loss

   A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management at fair value through profit or loss. Derivatives are also categorized as held at fair value through profit or loss, except those derivatives designated and considered as effective hedging instruments. Assets or liabilities classified under this category are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets and liabilities are accounted for in the consolidated statement of income. Financial instruments held at fair value through profit or loss are classified as current if they are expected to be realized within 12 months from the balance sheet date.

b. Loans and receivables

   Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the consolidated balance sheets. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

c. Held-to-maturity

   Held-to-maturity investments are nonderivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold these to maturity. Held-to-maturity assets are carried at cost or amortized cost in the consolidated balance sheets. Amortization is determined by using the effective interest rate method. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date and noncurrent assets if maturity is more than a year.

d. Available-for-sale

Available-for-sale financial assets are nonderivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are accounted for in stockholders' equity. These financial assets are classified as noncurrent assets unless the Group's intention is to dispose such assets within 12 months from the balance sheet date. The Group's investments in unquoted shares are classified as available-for-sale investments.

Interest-bearing Loans and Borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-Sale Financial Assets. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Leases
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term.

Software Development Costs
Costs incurred in the development of computer software are capitalized. Software development costs, included under the "Other noncurrent assets" account in the consolidated balance sheets, are amortized using the straight-line method over a period of 3 to 5 years.

The carrying value of software development costs is reviewed for impairment annually when the asset is not yet in use, or when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Freight and passage services. Freight and passage revenues are recognized when the related services are rendered. Customer payments for services which have not yet been rendered are classified as unearned revenue under "Accounts payable and other current liabilities" in the consolidated balance sheets.

Manning and crewing services. Revenue is recognized upon embarkation of qualified ship crew based on agreed rates and when the corresponding training courses have been conducted.

Management services. Management fee income is recognized when the related services are rendered.

Rental income. Rental income is recognized on a straight-line basis over the lease term.

Interest. Revenue is recognized as the interest accrues.

Dividends. Dividend income is recognized when the shareholders' right to receive the payment is established.

Pension Benefits
The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit

obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or there is an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs are treated as deductible expenses for income tax reporting purposes in the period such are incurred.

Foreign Currency Transactions
Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling on the balance sheet date. All differences are taken to profit or loss, except for foreign exchange differences arising from the translation of assets and liabilities and profit and loss accounts of JMBVI and subsidiaries which are taken directly to a separate component of stockholders' equity. The functional currency of JMBVI and Subsidiaries is the US dollars.

Taxes

Current Tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred Income Tax. Deferred income tax is provided using the balance sheet liability method on temporary differences on the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or 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 profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible 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 profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences 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 future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted on the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in consolidated statements of changes in stockholders' equity and not in the consolidated statements of income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions
Provisions, if any, are recognized when the Group 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.

Related Parties
Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Business Segments
The Group's operating business are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products.

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provision. Segment liabilities include all operating liabilities and consist principally of trade and accrued expenses. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Subsequent Events
Subsequent events that provide evidence of conditions that existed on the balance sheet date are reflected in the consolidated financial statements. Subsequent events that are indicative of conditions that arose after balance sheet date are disclosed in the notes to consolidated financial statements when material.

Basic Earnings Per Share
Basic earnings per share are determined by dividing net income by the weighted average number of common shares outstanding, after retroactive adjustment for any stock dividends and stock splits declared during the year.

2. Segment Information

The Group is in the business of transporting of cargoes and passengers and providing manpower services to foreign shipping principals, among others.

Financial information about business segments follow:

	30 June 2006			
	Transportation	**Manpower Services**	**Elimination**	**Consolidated**
Net revenue	**₱5,701,448**	**₱150,447**	**(₱112,960)**	**₱5,738,935**
Segment results/net income	**(42,514)**	**17,024**		**(25,490)**
Other information				
Segment assets	**11,219,396**	**453,044**	**(544,164)**	**11,128,276**
Segment liabilities	**6,495,543**	**341,242**	**(112,286)**	**6,724,499**

	June 30, 2005			
	Transportation	Manpower Services	Elimination	Consolidated
Net revenue	₱6,488,624	₱157,640	(₱141,928)	₱6,504,336
Segment results/net income	259,425	27,400		286,825
Other information				
Segment assets	11,519,761	386,332	(542,479)	11,363,614
Segment liabilities	6,514,867	330,946	(128,242)	6,717,571

3. Cash and Cash Equivalents

This account consists of:

	June 30 2006	December 31 2005
Cash on hand and in banks	**₱536,577**	₱572,416
Cash equivalents	**291,919**	300,432
	₱828,496	₱872,848

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

4. Receivables

This account consists of:

	June 30 2006	December 31 2005
Trade (see Note 17)	**₱1,544,387**	₱1,672,869
Nontrade (see Notes 1 and 17)	**619,690**	417,784
Advances to officers and employees	**35,689**	52,768
Insurance and other claims	**37,917**	35,021
	2,237,683	2,178,442
Less allowance for doubtful accounts	**304,669**	277,965
	₱1,933,014	₱1,900,477

Insurance claims pertain to the Group's claims for reimbursement of losses against insurance coverage for hull and machinery, cargo, and personal accidents.

5. Inventories

This account consists of:

	June 30 2006	December 31 2005
Fuel and lubricants (at cost)	**₱113,475**	₱165,808
Materials, parts and supplies:		
At net realizable value	**229,614**	153,107
At cost	**340,252**	269,034
Total inventories at lower of cost or net realizable value	**₱343,089**	₱318,915

6. Prepaid Expenses and Other Current Assets

This account consists of:

	June 30 2006	December 31 2005
Prepaid expenses	**₱200,873**	₱477,918
Input value-added tax	**111,156**	61,093
Others	**420,446**	20,826
	732,475	559,837
Less allowance for probable losses	**29,938**	29,938
	₱702,537	₱529,899

7. Investments in Associates (in process)

The details of investments in associates follow:

	June 30 2006	December 31 2005
Acquisition cost:		
Balance at beginning of year	**₱24,084**	₱16,336
Additions during the year		2,150
Disposal during the year	**(4,259)**	–
Balance at end of year	**19,825**	18,486
Accumulated equity in net earnings:		
Balance at beginning of year	**22,831**	5,902
Equity in net earnings (losses) during the year	**2,027**	22,527
Disposal during the year	**(10,608)**	–
Dividends received	**–**	–
Balance at end of year	**14,250**	28,429
	₱34,075	₱46,915

The details of investments of the Group's significant associates which are accounted for under the equity method follow:

Associates	Country of Incorporation	Nature of Business	Percentage of Ownership
Refrigerated Transport Services, Inc.	Philippines	Refrigerated transport services	50%
Reefer Van Specialist, Inc.	Philippines	Refrigerated transport services	50%
Aboitiz Project TS Corporation	Philippines	Project logistics and consultancy	50%
WG & A Jebsen Ship Management, Inc.	Philippines	Ship management	40%

8. Available-for-Sale Investments

In 30 June 2006, this account consists of:

Unlisted shares of stock – at cost	₱20,015
Club shares	2,200
	₱22,215

As discussed in Note 1, adoption of PAS 39 resulted in the reclassification of investments in shares of stock and club shares previously carried at cost and included under the "Other noncurrent assets" account in the 2004 consolidated balance sheet.

Listed shares of stock and club shares are carried at market value. Shares in unrealized mark-to-market gain on available-for-sale investments amounting to ₱2,525 were included in the "Stockholders' Equity" section of the 30 June 2006 consolidated balance sheet. Impairment loss arising from permanent decline in market value of certain available-for-sale investments amounting to ₱6.6 million was charged to 2005 consolidated statement of income (see Note 1).

Listed shares amounting to ₱15,093 as of June 30, 2006 was classified to marketable securities under other current assets.

Unlisted shares of stock do not have market values and there are no other reliable sources of their fair values, hence, they are stated at cost.

9. Property and Equipment

The details of this account are presented on page 30.

Containers include units acquired under finance lease arrangements (see Note 14). The related depreciation of the leased containers amounting to ₱68,303 in 30 June 2006 and ₱113,690 in 2005, were computed on the basis of the Group's depreciation policy for owned assets.

The Parent Company's ships in operation, land and improvements, and buildings and warehouses, were appraised to determine their market values. Based on the latest appraisal made by various independent and professionally qualified firms of appraisers, the related property and equipment have an aggregate market value of ₱8,444,999 against a net book value of ₱5,396,077 as of 30 June 2006.

In 2005, the Group revised the estimated useful lives of ships in operation from 10-20 years up to 15-30 years from the date of acquisition based on the current review of useful lives. The Group's management believes that the revised period better reflects the expected pattern of economic benefits from the use of ships in operation. As a result, depreciation expense was reduced by ₱37,297 in 2005. Also, the Group estimated the residual value of ships in operation to be ₱962,128 and was excluded in the computation of depreciable cost as of January 1, 2005. The allocation of estimated residual value reduced depreciation expense by ₱77,974 in 2005 (see Note 1).

To ensure the maintenance of the vessels in accordance with international standards, the Parent Company has availed of the services of its subsidiary and ship management company, ABOJEB, to oversee the regular upgrading and maintenance of the vessels.

Borrowing costs incurred in connection with the loans obtained specifically to finance the refurbishment of newly acquired vessels prior to its operations are capitalized. There were no borrowing costs capitalized in 2005 and 2006.

Details of property and equipment are as follows:

	June 30, 2006											December 31, 2005
	Ships in Operation and Improvments	Containers	Handling Equipment	Flight Equipment	Furniture and Equipment	Land and Improvements	Buildings and Warehouses	Leasehold Improvements	Transportation Equipment	Ships under Refurbishment and Construction in Progress	Total	
Cost												
At January 1	8,972,271	1,976,604	1,240,518	165,483	662,228	226,362	230,187	303,452	239,182	19,415	14,035,702	13,438,434
Additions	155,863	0	5,245	1,966	64,782	60,684	6,280	52,232	20,368	(1,094)	366,327	937,566
Disposals	(110,080)	(48,219)	(27,746)	0	(13,273)		0	(21,800)	(10,788)	0	(231,906)	(346,497)
Transfers/Reclassifications	(2,129,283)	0	(711)	0	(11,015)	(9,771)	(2,257)	(18,068)	(2,749)	(748)	(2,174,601)	
Balance, end	6,888,771	1,928,384	1,217,307	167,448	702,721	277,276	234,211	315,817	246,012	17,574	11,995,521	14,029,503
Accumulated Depreciation and Amortization												
At January 1	3,518,104	1,601,101	946,120	100,694	482,155	48,100	147,850	131,808	155,011	0	7,130,944	6,179,054
Depreciaiton for the year	406,716	69,513	45,709	5,886	61,855	2,986	5,503	22,707	17,107	0	637,982	1,246,552
Disposals	(116,734)	(48,058)	(27,898)	0	(7,917)		0	(2,750)	(5,977)	0	(209,334)	(305,234)
Transfers/Reclassification	(2,084,374)	0	0	0	(14)	0	(1)	(13)	0	0	(2,084,403)	
Impairment for the year	0	0	0	0		0	0	0	0	0	0	
Balance, end	1,723,712	1,622,556	963,931	106,580	536,078	51,086	153,352	151,753	166,141	0	5,475,189	7,120,372
Net Book Value	**5,165,058**	**305,828**	**253,376**	**60,868**	**166,643**	**226,190**	**80,859**	**164,064**	**79,872**	**17,574**	**6,520,332**	**6,909,131**

10. Other Noncurrent Assets

This account consists of:

	June 30 2006	December 31 2005
Software development costs (net of accumulated amortization)	**₱403,868**	₱406,779
Pension assets	**24,371**	24,726
Refundable deposits and others	**39,918**	59,955
	₱468,157	₱491,460

Software development costs comprise of all expenditures that can be directly attributed to the development and acquisition of several application software related to integrated financial accounting and revenue management system.

Software development costs include software under development amounting to ₱271,738 and ₱256,681 as of 30 June 2006 and 31 December 2005, respectively.

11. Loans Payable

This account consists of:

	June 30 2006	December 31 2005
Peso loans	**₱ 56,700**	₱338,950
US dollar loans	**154,981**	76,981
US dollar overdraft facility	**80,282**	61,122
	₱291,963	₱477,053

The peso loans pertain to unsecured short-term notes payable obtained by A-ONE from local banks with annual interest rates ranging from 8.20% to 10.50% in 30 June 2006 and 7.22% to 10.60% in 2005.

The US dollar loans pertain to unsecured short-term notes payable obtained by ABOJEB, JMI and JMBVI from foreign and local banks. These loans bear interest rates of 5.45% to 5.95% in 30 June 2006 and 6.07% in 2005.

The US dollar overdraft facility pertains to a loan obtained from a foreign bank by Jebsens Orient Shipping AS, a wholly owned subsidiary of JMBVI based in Norway, with interest at the aggregate of LIBOR plus a margin of 1.50% per year. This loan is secured by an assignment of borrower's earnings and a guarantee of JMBVI shareholder.

12. **Accounts Payable and Other Current Liabilities**

This account consists of:

	June 30 2006	December 31 2005
Trade (see Note 17)	**₱1,349,074**	₱1,587,070
Accrued expenses	**1,334,777**	1,042,121
Nontrade (see Note 17)	**765,410**	566,536
Unearned revenue - net of deferred discounts	**108,386**	115,343
Pension liability	**4,954**	11,359
	₱3,562,601	₱3,322,429

13. **Long-term Debt**

This account consists of as follows:

	Effective Interest Rate	**June 30 2006**	December 31 2005
Bank loans:			
Peso loans due until 2010	9.90% to 10.70%	**₱2,320,544**	₱2,529,231
Australian (AU) dollar loan due until 2009	LIBOR + 1.75%	**31,255**	37,627
		2,351,799	2,566,858
Less current portion:			
Bank loans		**486,441**	461,164
		₱1,865,358	**₱2,105,694**

Repayments of long-term debt outstanding as of 30 June 2006 are scheduled as follows:

2006	₱246,105
2007	550,748
2008	490,363
2009	358,333
2010	706,250
	₱2,351,799

Bank loans denominated in Philippine peso were obtained by the Parent Company and are collateralized by certain parcels of land and vessels of the Parent Company with carrying value of ₱4,486,990 in June 2006 and ₱4,937,342 in 2005. The pledged assets have an aggregate appraised value of ₱6,938,051 and ₱7,566,513 as of 30 June 2006 and 31 December 2005, respectively.

Some agreements covering bank loans provide for certain restrictions and requirements that include, among others, maintenance of favorable financial ratios such as current ratio, debt to tangible net worth ratio and debt service coverage ratio. As of 30 June 2006 and 31 December 2005, the Parent Company was not able to meet the required current ratio of 1:1 and debt service coverage ratio of 1.5:1. However, the Parent Company has obtained waivers from the creditor banks which are valid for one year from December 31, 2005.

The AU dollar-denominated loan pertains to unsecured 5-year term loan obtained by International Marketing and Logistics PTY Ltd (IML), a subsidiary of JMBVI based in Australia. This loan requires IML to ensure that during the term of the loan, dividend payments will be restricted to ensure that cash and cash equivalents reduced by the dividend payments exceed the debt service of the following half year.

14. Finance Lease

The Parent Company acquired certain containers under finance lease arrangements denominated in US dollars. Containers as of December 31, 2005 and 2004, shown under "Property and equipment" account in the consolidated balance sheets, include the following amounts:

	June 30 2006	December 31 2005
Cost	**₱956,242**	₱1,113,424
Less accumulated depreciation	**654,865**	743,709
	₱301,377	₱369,715

Future minimum lease payments under finance lease, together with the present value of minimum lease payments, are as follows:

	June 30 2006	December 31 2005
2006	**₱86,801**	₱165,636
2007 to 2009	**239,684**	237,336
Total minimum lease obligation	**326,485**	402,972
Less amount representing interest	**41,165**	52,089
Present value of minimum lease payments	**285,320**	350,883
Less current portion	**140,389**	140,393
	₱144,931	₱210,490

The outstanding balance of the US dollar-denominated finance lease obligation of US$5,324 as of June 30, 2006 and US$6,613 as of December 31, 2005 has been restated at the rate prevailing as of those dates of ₱53.587 to US$1 and ₱53.062 to US$1, respectively.

15. Redeemable Preferred Shares

On January 7, 2003, the Parent Company issued 374,520,487 redeemable preferred shares in the form of stock dividends out of capital in excess of par value at the rate of one share for every four common shares held by the stockholders.

The redeemable preferred shares have the following features:

- non-voting;
- preference on dividends at the same rate as common shares;
- redeemable at any time, in whole or in part, as may be determined by the BOD within a period not exceeding 10 years from the date of issuance at a price of not lower than ₱6 per share as maybe determined by the BOD. The shares must be redeemed in the amount of at least ₱250,000 per calendar year;

- if not redeemed in accordance with the foregoing, the redeemable preferred shares may be converted to a bond bearing interest at 4% over prevailing treasury bill rate to be issued by the Parent Company; and,

- preference over assets in the event of liquidation.

As discussed in Note 1, the outstanding Parent Company's redeemable preferred shares with par value of ₱1 per share were reclassified to liability effective January 1, 2005 because of the mandatory redemption feature at a future date, which is not later than January 7, 2013. As of December 31, 2005 and 2004, 74.9 million redeemable preferred shares have not been redeemed.

As required by PAS 39, the excess of mandatory redemption price over the remaining issue price of unredeemed preferred shares as of January 1, 2005 amounting to ₱374,520 was discounted up to January 1, 2005 to determine its present value. The present value was determined using an effective interest rate of 13.4% which is comparable to the interest rate of a 10-year Philippine peso bond at the date of issuance. Present value of redemption price amounted to ₱176,630 as of January 1, 2005. The difference between the present value of the redemption price at January 1, 2005 and issue price amounted to ₱101,726. This was charged against retained earnings as of January 1, 2005. Accretion of premium amounted to ₱23,688 in 2005 and was charged to interest expense in the 2005 consolidated statement of income. The carrying value of the redeemable preferred shares shown under "Noncurrent Liabilities" section of the 2005 consolidated balance sheet amounted to ₱200,317.

The Board of Directors of Aboitiz Transport System (ATSC) Corporation at its meeting last April 27, 2006 has approved the amendment of Articles of Incorporation to add a convertibility feature to the redeemable preferred shares so as to allow holders of redeemable preferred shares, at their option, to convert every redeemable preferred share into two (2) common shares of the Company, which conversion must be exercised on or before December 29, 2006 or within 120 days from the approval by the Securities and Exchange Commission of such amendment whichever occur earlier. The aforesaid amendment was also ratified by stockholders representing at least two thirds of the outstanding capital stock of ATSC during their annual stockholder meeting held last May 25, 2006.

On June 15, 2006, the SEC approved the Company's application for the amendment of its Articles of Incorporation for the addition of this convertibility feature of RPS. Likewise the PSE also approved last July 12, 2006 for the listing of underlying common shares.

16. Stockholders' Equity

a. Capital stock

Movements in the authorized capital stock are as follows:

	Number of Shares	
	June 30 2006	December 31 2005
Redeemable preferred shares, ₱1 par value:		
Balance at beginning of year	**74,908,000**	75,383,600
Reduction during the year	**-**	(475,600)
Balance at end of year	**74,908,000**	74,908,000

Common shares, ₱1 par value:		
Balance at beginning of year	**4,000,000,000**	2,375,000,000
Increase during the year	**-**	1,625,000,000
Balance at end of year	**4,000,000,000**	4,000,000,000

Movements in the outstanding capital stock are as follows:

	Number of Shares	
	June 30 2006	December 31 2005
Common shares issued:		
Balance at beginning of year, prior to reorganization	**2,343,965,560**	1,929,844,437
Stock dividends declared	**–**	–
Effect of reorganization - issuance of shares	**--**	414,121,123
Balance at end of year, after reorganization	**2,343,965,560**	2,343,965,560
Less treasury shares	**38,516,500**	38,516,500
	2,305,449,060	2,305,449,060

The Parent Company issued 414,121,123 common shares to effect the reorganization. The transaction was treated as a reorganization of companies under common control and accounted for at historical cost in a manner similar to pooling-of-interest method. The issuance of shares as presented have been restated in 2004, except for the 112,478,241 shares issued to JMBVI and subsidiaries which were acquired by ACO in 2005.

17. Related Party Transactions

Transaction with fellow subsidiaries, associates and related parties

In the normal course of business, transactions with fellow subsidiaries, associates and other related companies consist of shipping services, charter hire, management services, ship management services, purchases of steward supplies, availment of stevedoring, arrastre, trucking, and repair services and rental. Those transactions were entered into at terms no less favorable than could have been obtained if the transactions were entered into with unrelated parties. The amounts included in the consolidated financial statements with respect to these transactions are as follows:

	30 June			
	2006		2005	
	Receivables/ Advances	**Accounts Payable and Other Current Liabilities**	Receivables/ Advances	Accounts Payable and Other Current Liabilities
Reefer Van Specialist, Inc.	**₱33,487**	**₱–**	₱74,754	₱–
Total Distribution Logistics Systems, Inc.	–	**3,712**	411	–
Pilmico Foods Corporation		–	29	–
Fil-am Foods			9,730	
Others	**911**	**25,177**	85,563	–
	₱34,398	**₱28,889**	₱170,487	₱0

The consolidated balance sheets include the following amounts with respect to the transactions with the above-related parties:

	2006		2005	
	Revenue	**Purchases/ Expenses**	Revenue	Purchases/ Expenses
Reefer Van Specialist, Inc.	**₱67,800**	**₱141**	₱105,127	₱183
Total Distribution Logistics Systems, Inc.	–	**46,569**	–	40,801
Pilmico Foods Corporation	**54,419**	–	45,222	159
Fil-am Foods, Inc.	**16,747**	–	32,343	225
Others	**11,224**	**47,572**	159,961	169,952
	₱150,190	**₱94,282**	₱342,653	₱211,320

Compensation of the Parent Company's key management personnel

Compensation of the Parent Company's key management personnel comprised of short-term employee benefits amounting to ₱37,499 in 2005 and ₱29,495 in 2004 and post-employment benefits amounting to ₱954 in 2005 and ₱998 in 2004.

18. **Operating Expenses**

This account consists of:

	June 30 2006	June 30 2005
Fuel and lubricants	**₱1,745,270**	₱1,480,655
Depreciation and amortization (see Notes 9 and 21)	**428,032**	417,581
Outside services	**71,953**	63,138
Personnel (see Notes 22)	**189,361**	200,489
Repairs and maintenance	**176,249**	246,688
Insurance	**123,664**	180,770
Food and subsistence	**136,716**	159,141
Commissions	**80,673**	92,642
Steward supplies	**61,484**	77,374
Others	**741,978**	665,331
	₱3,755,380	₱3,583,809

19. **Terminal Expenses**

This account consists of:

	June 30 2006	June 30 2005
Outside services (see Notes 17 and 28)	**₱48,122**	₱47,066
Depreciation (see Notes 9 and 21)	**127,384**	120,566
Transportation and delivery	**56,614**	41,615
Repairs and maintenance	**39,269**	55,172
Personnel (see Notes 22)	**49,033**	34,794
Rent	**23,177**	24,608
Fuel and lubricants	**19,906**	22,432
Others	**182,814**	165,305
	₱546,319	₱511,558

20. **Overhead Expenses**

This account consists of:

	June 30 2006	June 30 2005
Personnel (see Notes 22)	**₱342,029**	₱361,023
Depreciation and amortization (see Notes 9 and 21)	**79,575**	79,729
Outside services	**53,596**	63,625
Advertising	**57,077**	56,537
Communication, light and water	**47,049**	51,851
Rent	**68,786**	57,835
Provision for doubtful accounts (see Note 4)	**23,735**	23,356
Entertainment, amusement and recreation	**14,225**	17,260
Others	**654,251**	1,269,802
	₱1,340,323	₱1,981,018

21. **Depreciation and Amortization Expenses**

This account consists of depreciation and amortization expenses on the following:

	June 30 2006	June 30 2005
Ships in operation and improvements (see Note 9)	**₱406,526**	₱397,608
Other property and equipment (see Note 9)	**210,382**	207,227
Software development costs (see Note 10)	**18,083**	13,042
	₱634,991	₱617,877

22. **Personnel Expenses**

This account consists of:

	June 30 2006	June 30 2005
Salaries and wages	**₱375,567**	₱373,518
Crewing cost	**124,405**	139,655
Retirement benefits	**14,612**	15,185
Other employee benefits	**65,839**	67,948
	₱580,423	₱596,306

23. Finance Costs

This account consists of:

	June 30 2006	June 30 2005
Interest expense (see Notes 11, 13, 14 and 15)	**₱164,308**	₱185,269
Other financing costs	**954**	2,863
	165,262	188,132
Interest income	**(7,612)**	(10,452)
	₱157,650	₱177,680

24. Income Tax

The components of deferred income tax assets (liability) are as follows:

	2006	2005
NOLCO	**₱147,420**	₱92,626
Allowances for:		
Doubtful accounts and probable losses	**67,756**	65,579
Inventory obsolescence	**38,723**	40,211
MCIT	**40,196**	40,215
Unrealized foreign exchange loss (gain)	**4,944**	(1,156)
Capitalized borrowing cost	**(22,677)**	
Accrued pension benefits and others		4,843
	₱276,362	₱242,318

In computing deferred tax assets and liability in 2005, the rate used was 35% which is the rate expected to apply to taxable income in the years in which the deferred tax assets and liability are expected to be recovered or settled.

25. Contingencies

There are certain legal cases filed against the Group in the normal course of business. Management and its legal counsel believe that the Group has substantial legal and factual bases for its position and are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the consolidated financial statements.

26. Basic Earnings Per Share

Basic earnings per share were computed as follows:

	Six Months Ended June 30 2006	2005
Net income attributable to equity holders of the parent (a)	**₱(2,229)**	₱278,393
Weighted average number of common shares outstanding for the year (b):	**2,305,449,060**	1,891,328,646
Basic earnings per share (a/b)	**₱(0.001)**	₱0.147

27. **Registration with the BOI**

The Parent Company is registered with the BOI under the Omnibus Investment Code of 1987 as a new operator of inter-island shipping on a pioneer status through the following:

Ships in Operations	**BOI Registration**
MV SuperFerry 15, 16, 17 and 18	Entitled to income tax holiday for a period of six years starting February 13, 2003.
MV SuperFerry 19	Entitled to income tax holiday for a period of three years starting December 29, 2004.
MV SuperFerry 12	Entitled to income tax holiday for a period of three years starting May 4, 2005.

A-ONE is also registered with the BOI as an Expanding Operator of Air Transport Facility (Passenger and Cargo) on a non-pioneer status with a capacity of 2 aircrafts, subject to specific and general terms and conditions set forth in the registration. As a BOI registered enterprise, A-ONE is entitled to certain tax and nontax incentives such as income tax holiday for 3 years (starting from November 1998 or from the actual start of commercial operations whichever is earlier but in no case earlier than the date of registration), unrestricted use of consigned equipment, employment of foreign nationals, and others. All the fiscal and non-fiscal incentives set forth in the registration which do not contain a specific period for enjoyment shall terminate after a period of not more than ten years from the date of registration or actual start of commercial operations.

Income tax holiday incentive availed by the Group amounted to ₱55,344 in June 30, 2006 and ₱52,256 in 2005.

28. **Commitments**

a. In 2002, the Parent Company entered into a Memorandum of Agreement (Agreement) with Asian Terminals, Inc. (ATI) for the use of the latter's facilities and services at the South Harbor for the embarkation and disembarkation of the Parent Company's domestic passengers, as well as loading, unloading and storage of cargoes. The Agreement shall be for a period of five years, which shall commence from the first scheduled service of the Parent Company at the South Harbor. The Agreement is renewable for another five years under such terms as may be agreed by the parties in writing. If the total term of the Agreement is less than ten years, then the Parent Company shall pay the penalty equivalent to unamortized reimbursement of capital expenditures and other related costs incurred by ATI in the development of South Harbor. The Agreement became effective on January 14, 2003.

   Under the terms and conditions of the Agreement, the Parent Company shall avail of the terminal services of ATI, which include, among others, stevedoring, arrastre, storage, warehousing and passenger terminal. Domestic tariff for such services (at various rates per type of service as enumerated in the Agreement) shall be subject to an escalation of 5% every year. Total service fees charged to operations amounted to ₱279,808 in 2005 and ₱222,230 in 2004.

b. ABOJEB, JMI and AJMSI (Agents) have outstanding agreements with foreign shipping principals, wherein the Agents render manning and crew management services consisting primarily of the employment of crew for the principals' vessels. As such, the principals have authorized the Agents to act on their behalf with respect to all matters relating to the manning of the vessels. Total service fees recognized in the consolidated statements of income amounted to ₱342,839 in 2005 and ₱321,858 in 2004.

c. JMBVI and Subsidiaries have outstanding Charter Party Agreements with vessels' owners for the use of the vessels or for sublease to third parties within the specified periods of 1 to 3 years under the terms and conditions covered in the agreements. In consideration thereof, JMBVI recognized charter hire expense amounting to ₱1,890,139 in 2005.

d. The Group has entered into various operating lease agreements for its office spaces. As of December 31, 2005, future minimum rentals payable under noncancellable operating leases are as follows:

Within one year	₱19,360
After one year but not more than five years	61,509
	₱80,869

29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, receivables, accounts payable and other current liabilities, redeemable preferred shares, and interest-bearing loans. The main purpose of these financial instruments is to raise finances for its operations and capital expenditures.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term loans; credit risk involving possible exposure to counter-party default on its cash investments and receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

Interest rate risk. The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt and obligations under finance lease. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2005 and 2004, 7% and 3% of the Group's long-term debt had floating interest rates ranging from 10.1% to 12.1% and 9.1% to 9.7%, respectively, and 93% and 97% are with fixed rates ranging from 9.9% to 10.7% and 6.7% and 10.9%, respectively (see Note 13). Interest rates of obligations under finance lease range from 8.2% to 13.7% (see Note 14).

The carrying amounts, by maturity, of the financial instruments as of December 31, 2005, that are exposed to interest rate risk are as follows:

	<1 year	1-5 years	>5 years	Total
Fixed rate - long-term debt	₱381,955	₱1,591,026	₱406,250	₱2,379,231
Floating rate - long-term debt	79,209	108,418	–	187,627
Obligations under finance lease	140,393	210,490	–	350,883
	₱601,557	₱1,909,934	₱406,250	₱2,917,741

Credit risk. The Group trades only with recognized, creditworthy third parties and the exposure to credit risk is monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Since the Group trades only with the recognized third parties, collateral is not required in respect of financial assets.

For its cash investments, the Group's credit risk is generally concentrated on possible default of the counter-party, with a maximum exposure equal to the carrying amount of these investments (see Note 30). The risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing.

Liquidity risk. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations. The Group, in general, matches the appropriate long-term funding instruments with the general nature of its equity investments.

The Group's policy is that not more than 35% of borrowings should mature in any 12-month period. As of December 31, 2005, 32% of its long-term debt will mature in less than one year.

Foreign Exchange. The foreign exchange risk of the Group is mainly with respect to its foreign currency-denominated bank loans and obligation under capital lease. To mitigate the risk of incurring foreign exchange losses, foreign currency holdings are matched against the potential need for foreign currency in financing equity investments and new projects.

30. Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments as of December 31, 2005:

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	₱872,848	₱872,848
Receivables	1,900,477	1,900,477
Available-for-sale investments	41,648	41,648
	₱2,814,973	₱2,814,973
Financial liabilities:		
Loans payable	₱477,053	₱477,053
Accounts payable and other current liabilities	3,322,429	3,322,429
Long-term debt	2,566,858	2,566,948
Obligations under finance lease	350,883	389,567
Redeemable preferred shares	200,317	200,317
	₱6,917,540	₱6,956,314

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's-length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents and other financial assets. The carrying amount of cash and cash equivalents and other financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Long-term borrowings and obligations under finance lease. The fair value of borrowings with variable interest rates approximates their carrying amounts due to quarterly repricing of interest. The fair values of borrowings with fixed interest rate and obligations under finance lease are based on the discounted net present value of cash flows using an effective discount rate of 9.9% to10.7% and 4.2% to 4.4%, respectively, as of December 31, 2005.

ABOITIZ TRANSPORT SYSTEM (ATSC) CORPORATION AND SUBSIDIARIES
CONSOLIDATED AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2006
Amounts in Thousands of Pesos

	30 Days	60 Days	90 Days	Over 90 Days	ADA/Under Litigation	Total
A/R - Trade	1,045,631	145,088	89,270	264,398	-	1,544,387
A/R - Affiliates	160,515	25,714	1,938	39,126	-	227,293
A/R - Others	303,070	23,773	21,855	107,276	10,029	466,003
Allowance for Doubful Accounts	(20,639)	(8,148)	(7,603)	(258,250)	(10,029)	(304,669)
Items Under Litigation						
TOTAL	**1,488,577**	**186,427**	**105,460**	**152,550**	**-**	**1,933,014**