

**COVER SHEET**

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S.E.C. Registration Number

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( Company's Full Name )

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

<b>LEAH I. GERALDEZ</b>									
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Contact Person

<b>(032) 411-1800</b>									
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Company Telephone Number

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Month Day

Fiscal Year

**2nd Quarterly Report**

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FORM TYPE

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Month Day

Annual Meeting

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Secondary License Type, if Applicable

S	E	C
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Dept. Requiring this Doc

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Amended Articles Number/Section

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Total No. of Stockholders

X
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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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File Number

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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, 2007
2. Commission identification number CEO2536      3. BIR Tax Identification No. 003-828-269-V
4. Exact name of issuer as specified in its charter

ABOITIZ EQUITY VENTURES, INC.

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

Cebu City, Philippines

6. Industry Classification Code:  (SEC Use Only)

7. Address of issuer's principal office      Postal Code

Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City, Philippines      6000

8. Issuer's telephone number, including area code

(032) 411-1800

9. Former name, former address and former fiscal year, if changed since last report

N.A.

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
<u>Common stock, P1.00 par value</u>	<u>5,694,599,621</u>
<u>Total debt</u>	<u>21,773,833,892</u>

11. Are any or all of the securities listed on a Stock Exchange?

Yes [  ] No [  ]

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

Philippine Stock Exchange

Common

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 [  ] No [  ]

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

Yes [  ] No [  ]

## PART I -- FINANCIAL INFORMATION

### Item 1. Financial Statements.

Please refer to the financial statements and schedules attached herewith

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report.*

#### **Top Five Key Performance Indicators**

Management uses the following indicators to evaluate the performance of registrant and its subsidiaries:

- Equity in Net Earnings (Losses) of Investees.** Equity in net earnings (losses) of investees represents the group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates profitability of the investments and investees' contribution to the group's consolidated net income.  
Manner of Computation: Investee's Net Income (Loss) x Investor's % ownership – Goodwill Impairment Cost
- Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the group's ability to service its debts.
- Cash Flow Generated.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.
- Current Ratio.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the group's short-term debt paying ability. The higher the ratio, the more liquid the group.

5. **Debt-to-Equity Ratio.** Debt-to-Equity ratio gives an indication of how leveraged the group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

During the period under review, all the key performance indicators were well within management expectations.

The growth in equity in net earnings of investees was sustained as fresh income contributions from newly-acquired investee companies were anticipated to make up for the projected drop in earnings of LHC. The downward trend of LHC net income was mainly a result of the annual decline in capacity fee rates as stipulated in its contract with NPC.

Improvement in EBITDA was attributable to the robust operating margins generated by the group as a result of higher revenue and effectively-controlled costs and expenses. The additional margin contribution of the newly consolidated subsidiary further enhanced growth in earnings.

Despite the challenging economic environment, the group has consistently managed its cashflows and operations effectively, generating positive cash inflows and registering healthy financial ratios. This strong financial position enables the group to deliver higher value directly to its shareholders, while continuing to invest in its growth opportunities.

For the remaining part of 2007, the group expects to utilize the cash generated from the scheduled APC IPO in July 2007 in funding its identified power investments, major capital expenditures and other investment opportunities that may be presented in the future.

	<b>JUNE 30, 2007</b>	<b>JUNE 30, 2006</b>	<b>DEC 31/2006</b>
EQUITY IN NET EARNINGS OF INVESTEES	<b>1,459,274</b>	931,803	
EBITDA	<b>4,030,687</b>	3,133,226	
CASH FLOW GENERATED:			
Net cash provided by operating activities	<b>2,429,505</b>	1,517,168	
Net cash provided by (used in) investing activities	<b>(5,438,087)</b>	(29,476)	
Net cash provided by (used in) financing activities	<b>616,504</b>	(1,263,825)	
Net Increase (Decrease) in Cash & Cash Equivalents	<b>(2,392,078)</b>	223,866	
Cash & Cash Equivalent, Beginning	<b>8,009,957</b>	4,622,676	
Cash & Cash Equivalent, End	<b>5,490,677</b>	4,852,983	
CURRENT RATIO	<b>1.53</b>		2.07
DEBT-TO-EQUITY RATIO	<b>0.67</b>		0.68

### **Financial Results of Operations**

AEV's consolidated net income for the first half of 2007 rose by 57% to P2.44 billion from P1.56 billion in the same period last year. Earnings per share improved to P0.43 from P0.32 for the comparative period in review. The strong showing was driven by robust performance of the power and banking groups, accounting for 46% and 33% of total income, respectively. Food continued to be a stable source of earnings (9% of total income) while the transport group's operations (12% of total income) has returned to profitability.

First half 2007 income contribution from the power group was up 16% year-on-year, from P965 million to P1.12 billion. Higher electricity sales by the power distribution group led to a 9% year-on-year

increase in earnings, from P612 million to P669 million. Meanwhile, the power generation business shored in P468 million in income contribution for the period as total net generated power attributable to the company grew by 121%, from 120 GwH to 266 GwH. This can be credited to the increase in the company's generating capacity by 151% through the acquisition of 50% of the 360MW Magat hydro power plant in Isabela, 60% of CPPC that owns and operates a 70MW thermal power plant and 50% of EAUC that owns and operates a 50MW thermal power plant in Mactan, Cebu.

The financial services group contributed net earnings of P802 million in the first semester, 62% higher than previous year's P495 million due to strong performances of both UBP and City Savings Bank.

The transport group ended the first half of 2007 with a net income contribution of P284 million. This was a reversal from previous year's net loss of P1 million.

The food group shored in an income contribution of P230 million, up by 16% from last year's P199 million. Price adjustments, coupled with improved mill operating efficiencies, offset the high input costs in the flour and feeds businesses.

### ***Material Changes in Line Items of Registrant's Income Statement***

AEV's consolidated net income attributable to equity holders increased by 57% due to the following:

First semester 2007 gross profit amounted to P1.53 billion, a 25% increase over the P1.22 billion posted during the same period last year. The 8% growth in consolidated revenue more than offset the 6% hike in costs and expenses.

Majority of the subsidiaries reported improvement in margins due to increase in sales during the current period. Power distribution subsidiaries reported an average increase of 7% in gigawatt-hour (gwhr) sold and this translated to an 8% spike in revenue. Likewise, generation subsidiaries recorded a 370% increase in sales, mainly due to the additional revenue contribution from newly acquired subsidiary, Cebu Private Power Corp. (CPPC).

The 15% boost in sales for the food group was attributed to better selling prices and higher sales volume in its flour, feeds and swine businesses. Improved milling operations, which countered the impact of higher input costs for both flour and feeds also contributed to the improvement in margins.

Despite the 4% decline in revenue due to the reduction in vessel capacity and stiff competition, Aboitiz Transport System Corp. (ATS) and its subsidiaries managed to generate a 93% increase in operating gross margins. This improvement was mainly a result of the P312 million or 6% decrease in consolidated costs and expenses. Enormous savings were achieved through the aggressive efficiency drive and cost-cutting measures that drove down overhead expenses by 31% and terminal expenses by 4%.

Share in net earnings of associates increased by 57% primarily due to the combined income contribution of UBP and CSB, which jumped 62% to P802 million. UBP recorded higher revenues across its businesses, with interest differential income, fees and commissions, and trading gains growing by 87%, 99% and 44%, respectively. Meanwhile, considerable growth in its loan portfolio and deposit base boosted CSB's profitability.

Income contribution of power generation associates also enhanced equity in net earnings. Newly acquired associates, Manila-Oslo Renewable Enterprise, Inc. (MORE) and East Asia Utilities Company (EAUC), contributed P299 million and P12 million, respectively. This combined fresh contribution more than offset the P107 million decrease in income contribution by Luzon Hydro Corp. (LHC). LHC's decline in net profit was attributed to the drop in revenues resulting from the reduction in contracted capacity fee rates and decrease in gwhrs generated due to lesser rainfall, and the higher interest cost due to increase in debt.

Other Income increased to P313 million, 130% higher than the P136 million reported in the same period last year. This was substantially due to the P364 million gains generated by ATS on its sale of

vessels. Said increase was partially offset by the unrealized foreign exchange loss generated by a power subsidiary in restating its dollar denominated receivables.

The overall improvement in consolidated operating income was further boosted by the 158% increase in interest income, coupled with the 20% reduction in finance expense. Higher average cash balances maintained at parent level and decrease in average debt and interest rates accounted for this improvement. Provision for income tax increased by 91% as a result of the higher taxable income reported by the group.

### ***Changes in Registrant's Resources, Liabilities and Shareholders Equity***

Compared to year-end 2006 levels, consolidated assets increased by 33%, from P40.84 billion in Dec. 2006 to P54.36 billion in June 2007, due to the following:

- Trade and Other Receivables reached P11.93 billion, up 225% from P3.66 billion last year, largely due to the US\$159 million advance made by the registrant to SN Aboitiz Power, Inc. (SNAP) to bridge finance its acquisition of Magat Plant. Advances made to contractors related to the construction of a new hydro power plant in Davao and the first-time consolidation of CPPC receivables also contributed to the increase.
- Inventories grew by 22% from P1.69 billion to P2.06 billion, due to higher wheat inventory carried by PILMICO, DLPC's material and supplies build-up for use in future CAPEX projects, and the consolidation of CPPC's P91 million inventories.
- Other Current Assets increased by 54% from P1.08 billion to P1.66 billion, substantially due to accumulation of unutilized prepaid taxes by ATS and parent company. These prepaid taxes represent creditable taxes withheld by customers and creditable senior citizen discounts, which, can be used as payment of future income taxes by these companies.
- Investments and Advances totalled P21.53 billion, up by 55% from year-end 2006 level of P13.87 billion. This substantial increase was attributed to the following: a.) acquisition of MORE & EAUC for a total consideration of P3.52 billion; b.) extension of a stockholder's advance to MORE amounting to P2.85 billion; c.) recognition of a P682 million gain on dilution in UBP; and d.) increase in the carrying value of existing investments due to the recording of P1.46 billion in equity in net earnings, net of the P519 million cash dividends received from these investees during the current period.
- Deferred Income Tax Asset increased by P91 million, mainly due to the consolidation of CPPC's account and the additional provisions for deferred tax on unrealized foreign exchange losses recorded by the Company and one of its power subsidiaries.

The above increases were partially offset by the following decreases:

- Cash & Cash Equivalents stood at P5.49 billion, 31% lower than the P8.01 billion reported as at year-end 2006. This decline was mainly due to the major power acquisitions made during the period under review. Bulk of the funds generated from the registrant's sale of all its treasury shares at the beginning of the year was infused into APC in April 2007. APC then utilized the proceeds from this capital infusion to finance its acquisition of CPPC, MORE and EAUC during the same month.
- Goodwill declined by 73% to P212 million mainly due to the P618 million provisional negative goodwill recognized by APC in its acquisition of CPPC. This negative goodwill represents the excess of APC's share in CPPC's book value over its acquisition cost. It is temporarily recorded as a balance sheet item, pending the outcome of an ongoing fair value (FV) assessment of CPPC's assets and liabilities. It may be adjusted based on the final results of the FV assessment. The resulting negative goodwill, if any, will then be reclassified and recorded as a Profit and Loss item.

Consolidated short-term bank loans increased by P6.75 billion primarily due to the foreign-denominated loan availed by parent company to bridge finance SNAP in its acquisition of Magat plant. On the other hand, long-term liabilities decreased by 28% or P2.73 billion compared to 2006 year-end level, due to prepayment of debt. With its positive cashflows, ATS further reduced its interest-bearing

debt by P1.73 billion during the period under review. The parent company also prepaid some of its long-term debt.

Trade and other payables rose by 20% from P4.62 billion to P5.54 billion mainly due to the assumption of a P878 million debt by APC in its acquisition of EAUC, and the first-time consolidation CPPC payables.

Customers' deposits was up 7%, from 1.13 billion to P1.21 billion, due to the increase in the power distribution group's customer base and adjustments in required amounts of deposits to comply with the Magna Carta and Distribution Service and Open Access Rules (DSOAR).

Income tax payable increased by P197 million due to higher income tax provisions recorded by subsidiaries during the current period.

Equity attributable to equity holders of the parent reached P30.72 billion, up by 33% from year-end 2006 level of P23.08 billion. The upsurge was substantially due to the sale by registrant of all its treasury shares. The P4.45 billion net gains generated from this sale was credited to Additional Paid-in Capital, registering a 332% increase.

Retained earnings amounted to P18.67 billion as at June 30, 2007, compared to P17.37 billion at December 31, 2006. This improvement reflects the positive operating performance of the group, generating P2.44 billion in net income, which resulted in an 8% over-all increase in retained earnings, despite the P1.14 billion cash dividend distribution.

Equity further increased due to the recognition of a P682 million gain on dilution in UBP as a result of AEV's waiver of its pre-emptive right to subscribe to the new shares issued by UBP. During the second quarter of 2007, AEV opted for the conservative approach of recognizing this dilution gain directly in equity instead of recording it as part of the consolidated net income.

The P108 million decrease in share in cumulative translation adjustments of associates was due to the further appreciation of the Philippine Peso in June 2007, from P49.045 as of December 31, 2006 to P46.24 as of end of current period. The power generating associates, which adopt the US dollar functional currency financial reporting, recorded considerable foreign exchange adjustments in generating their first semester 2007 financial statements under the peso presentation currency. These foreign exchange adjustments are booked under Cumulative Translation Adjustments account.

Share in unrealized gains on AFS investments and underwriting accounts declined by 458%. The drop in the market prices of these financial instruments as of the end of the current period resulted to a P141 million share in valuation losses, reversing the P40 million share in gains as of yearend 2006.

### ***Material Changes in Liquidity and Cash Reserves of Registrant***

For the first half of 2007, the group continues to support its liquidity mainly from cash generated from operations and dividends received from associates. External borrowings are also a source of liquidity. When opportunity arises, it disposes of certain assets to strengthen its cash position and be financially prepared to partake in major investment projects.

Consolidated cash generated from operating activities increased by 60%, from P1.52 billion in the 1st half of 2006 to P2.43 billion in the current semester under review. This increase was largely a result of higher income generated by the group.

The current period ended up with a P5.44 billion net cash used in investing activities, compared to the P29 million net cash generated during same period last year. This was mainly due to the higher investment acquisitions made in 2007.

Net cash provided by financing activities jumped 149% to P616 million. The treasury share sale in January 2007 added P5.94 billion to cash. This increase was partially reduced by the higher debt settlement and bigger cash dividends paid during the current period.

For period ended June 2007, net cash outflows were higher than cash inflows, resulting to a 31% decrease in cash and cash equivalents, from P8.01 billion in December 2006 to P5.49 billion in June 2007.

### ***Financial Ratios***

Lower cash balances due to acquisition of power investments accounted for the decrease in current ratio, from 2.07:1 as of year-end 2006 to 1.53:1 as of June 2007. On the other hand, the increase in equity complemented by a decrease in consolidated liabilities further improved debt-to-equity and net debt-to-equity ratios, from 0.68:1 and 0.11:1 as of December 2006 to 0.67:1 and 0.03:1 as of June 2007, respectively.

### ***Known Trends, Events, Uncertainties, which may have Material Impact on Registrant***

Except for the developments disclosed in some other portion of this report and the audited financial statements, there are, as of June 30, 2007 no known trends, events or uncertainties that have had or are reasonably expected to have a material impact on net sales, revenues, income from continuing operations or on relationship between costs and revenues. There were also no events that would trigger substantial or contingent financial obligations or cause any default or acceleration of an existing obligation.

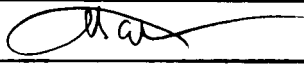

## **PART II -- OTHER INFORMATION**

There are no significant information on the company which requires disclosure herein and/or were not included in SEC Form 17-C.



**SIGNATURES**

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

Issuer	<u>Aboitiz Equity Ventures, Inc.</u>
Principal Accounting Officer	<u>Melinda R. Bathan </u>
Signature and Title.	<u>Vice President – Controller</u>
Date	<u>August 21, 2007</u>
Corporate Secretary	<u> M. Jasmine S. Oporto</u>
Signature and Title.	<u>First Vice President - Legal / Corporate Secretary</u>
Date	<u>August 21, 2007</u>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AT JUNE 30, 2007 AND DECEMBER 31, 2006**  
**(Amounts in Thousands)**

	UNAUDITED JUN 2007	AUDITED DEC 2006
<b>ASSETS</b>		
<b>Noncurrent Assets</b>		
Property, plant, and equipment - net	10,144,295	9,675,326
Investment Property	182,762	194,175
Investments and advances	21,530,267	13,873,533
Available-for-sale (AFS) investments	106,268	96,831
Goodwill	212,159	775,754
Pension Asset	46,048	16,731
Deferred income tax assets	425,107	516,304
Other noncurrent assets - net	558,437	590,977
<b>Total Noncurrent Assets</b>	<b>33,205,343</b>	<b>25,739,631</b>
<b>Current Assets</b>		
Cash and cash equivalents	5,490,677	8,009,957
Trade and other receivables - net	11,934,753	3,661,364
Inventories - net	2,064,316	1,693,333
Other current assets	1,660,176	1,080,628
	21,149,922	14,445,282
Noncurrent asset classified as held for sale	-	659,510
<b>Total Current Assets</b>	<b>21,149,922</b>	<b>15,104,792</b>
<b>TOTAL ASSETS</b>	<b>54,355,265</b>	<b>40,844,423</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans	7,575,872	823,720
Trade and other payables	5,549,307	4,625,153
Dividends payable	11,664	11,416
Income tax payable	289,273	92,270
Current portion of long-term debt	247,845	1,169,083
Current portion of obligations under finance lease	110,182	113,823
	13,784,143	6,835,465
Liabilities directly associated w/ asset classified as held for sale	-	455,037
<b>Total Current Liabilities</b>	<b>13,784,143</b>	<b>7,290,502</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion	4,458,473	5,855,787
Obligations under finance lease - net of current portion	131,346	81,080
Customers' deposits	1,209,640	1,128,794
Redeemable preferred shares	2,139,832	2,139,832
Pension liability	29,183	48,193
Deferred income tax liability	21,217	16,999
<b>Total Noncurrent Liabilities</b>	<b>7,989,691</b>	<b>9,270,685</b>
<b>Total Liabilities</b>	<b>21,773,834</b>	<b>16,561,187</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock	5,694,600	5,694,600
Additional paid-in capital	5,791,324	1,341,245
Net unrealized valuation gain (loss) of AFS investments	19,895	16,058
Cumulative translation adjustments	(4,189)	(4,189)
Share in cumulative translation adjustments of associates	(792)	107,427
Share in net unrealized loss on available-for-sale securities & underwriting accounts of associates	(141,341)	39,519
Gain on Dilution	681,566	-
Retained earnings	18,674,670	17,368,629
Treasury stock at cost	-	(1,485,025)
	30,715,733	23,078,264
<b>Minority Interests</b>	<b>1,865,698</b>	<b>1,204,972</b>
<b>Total Equity</b>	<b>32,581,431</b>	<b>24,283,236</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>54,355,265</b>	<b>40,844,423</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE PERIODS ENDED JUNE 30, 2007 AND 2006**  
(Amounts in Thousands)  
(UNAUDITED)

	JAN-JUN/07	JAN-JUN/06	APR-JUN/07	APR-JUN/06
<b>REVENUES</b>	<b>14,971,095</b>	13,847,338	<b>8,324,099</b>	7,580,548
<b>COSTS AND EXPENSES</b>	<b>13,438,711</b>	12,625,666	<b>7,318,901</b>	6,582,313
<b>GROSS PROFIT</b>	<b>1,532,384</b>	1,221,672	<b>1,005,198</b>	998,235
<b>OTHER INCOME (CHARGES)</b>				
Share in net earnings of associates	<b>1,459,274</b>	931,803	<b>678,238</b>	363,697
Interest income	<b>382,630</b>	148,225	<b>258,314</b>	67,595
Interest expense	<b>(370,205)</b>	(462,659)	<b>(212,403)</b>	(218,878)
Dividends on redeemable preferred	<b>(81,949)</b>	(99,739)	<b>(40,605)</b>	(48,510)
Other income	<b>312,690</b>	135,768	<b>260,157</b>	46,836
	<b>1,702,440</b>	653,398	<b>943,701</b>	210,740
<b>INCOME BEFORE INCOME TAX</b>	<b>3,234,824</b>	1,875,070	<b>1,948,899</b>	1,208,975
<b>PROVISION FOR INCOME TAX</b>	<b>631,137</b>	330,584	<b>415,218</b>	241,089
<b>NET INCOME</b>	<b>2,603,687</b>	1,544,486	<b>1,533,681</b>	967,886
<b>ATTRIBUTABLE TO:</b>				
<b>EQUITY HOLDERS OF THE PARENT</b>	<b>2,444,961</b>	1,556,656	<b>1,368,453</b>	916,800
<b>MINORITY INTERESTS</b>	<b>158,726</b>	(12,170)	<b>165,228</b>	51,086
	<b>2,603,687</b>	1,544,486	<b>1,533,681</b>	967,886
<b>Earnings Per Common Share **</b>				
Basic, for income for the period attributable to ordinary holders of the parent	<b>0.429</b>	0.317	<b>0.240</b>	0.187
Diluted, for income for the period attributable to ordinary holders of the parent	<b>0.429</b>	0.317	<b>0.240</b>	0.187

\*\* Refer to Disclosure F for the computation of Earnings per Common Share.

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE PERIODS ENDED JUNE 30, 2007 AND DECEMBER 31, 2006**

	Attributable to equity holders of the parent										
	Capital Stock Common	Additional Paid-in Capital	Net Unrealized Gains (Losses) on Noncurrent Marketable Equity Securities and AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Gain on Dilution	Retained Earnings	Treasury Stock	Minority Interests	Total
<b>Balances at December 31, 2006</b>	<b>5,694,600</b>	<b>1,341,245</b>	<b>16,058</b>	<b>(4,189)</b>	<b>107,427</b>	<b>39,519</b>		<b>17,368,629</b>	<b>(1,485,025)</b>	<b>1,204,973</b>	<b>24,283,237</b>
Sale of treasury shares		4,450,080							1,485,025		5,935,104
Net income for the period								2,444,961		158,726	2,603,687
Gain on Dilution							681,567				681,567
Cash dividends								(1,138,920)			(1,138,920)
Movement of unrealized valuation gains of AFS investments			3,837								3,837
Movement of cumulative translation adjustments										501,999	501,999
Share in movement of cumulative translation adjustment of associates					(108,220)						(108,220)
<b>Balances at June 30, 2007</b>	<b>5,694,600</b>	<b>5,791,324</b>	<b>19,895</b>	<b>(4,189)</b>	<b>(792)</b>	<b>(141,341)</b>	<b>681,567</b>	<b>18,674,670</b>	<b>-</b>	<b>1,865,698</b>	<b>32,581,431</b>

	Attributable to equity holders of the parent										
	Capital Stock Common	Additional Paid-in Capit:	Net Unrealized Gains (Losses) on Noncurrent Marketable Equity Securities and AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Gain on Dilution	Retained Earnings	Treasury Stock	Minority Interests	Total
<b>Balances at December 31, 2005</b>	<b>5,694,600</b>	<b>1,201,051</b>	<b>1,656</b>	<b>(2,097)</b>	<b>373,330</b>	<b>122,290</b>		<b>14,346,796</b>	<b>(1,576,463)</b>	<b>1,178,330</b>	<b>21,339,493</b>
Sale of treasury shares		140,194							91,438		231,632
Net income for the period								3,753,926		60,127	3,814,053
Cash dividends								(735,955)			(735,955)
Acquisition of minority interest								3,862			3,862
Movement of unrealized valuation gains of AFS investments			14,402								14,402
Share in movement of unrealized valuation gains on AFS investments of associates						(82,771)					(82,771)
Movement of cumulative translation adjustments				(2,092)						(33,485)	(35,577)
Share in movement of cumulative translation adjustment of associates					(265,902)						(265,902)
<b>Balances at December 31, 2006</b>	<b>5,694,600</b>	<b>1,341,245</b>	<b>16,058</b>	<b>(4,189)</b>	<b>107,427</b>	<b>39,519</b>	<b>-</b>	<b>17,368,629</b>	<b>(1,485,025)</b>	<b>1,204,972</b>	<b>24,283,237</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE PERIODS ENDED JUNE 30, 2006**

Attributable to equity holders of the parent

	Capital Stock Common	Additional Paid-in Capital	Net Unrealized Gains (Losses) on Noncurrent Marketable Equity Securities and AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Retained Earnings	Treasury Stock	Minority Interests	Total
<b>Balances at December 31, 2005</b>	<b>5,694,600</b>	<b>1,201,051</b>	<b>1,656</b>	<b>(2,097)</b>	<b>452,617</b>	<b>122,290</b>	<b>14,234,479</b>	<b>(1,576,463)</b>	<b>1,178,331</b>	<b>21,306,463</b>
Net income for the period							1,556,656		(12,171)	1,544,486
Cash dividends							(735,955)			(735,955)
Effect of peso translation of prior years' net US dollar foreign exchange gain							17,749			17,749
Movement of unrealized valuation gains of AFS investments			3,283						(985)	2,298
Share in movement of unrealized valuation gains on AFS investments of associates						(413,107)				(413,107)
Movement of cumulative translation adjustments				410					(1,840)	(1,430)
Share in movement of cumulative translation adjustment of associates					(12,727)					(12,727)
<b>Balances at June 30, 2006</b>	<b>5,694,600</b>	<b>1,201,051</b>	<b>4,939</b>	<b>(1,687)</b>	<b>439,890</b>	<b>(290,817)</b>	<b>15,072,930</b>	<b>(1,576,463)</b>	<b>1,163,335</b>	<b>21,707,778</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED JUNE 30, 2007 AND 2006**  
**(Amounts in Thousands)**  
**(UNAUDITED)**

	<b>JAN-JUN/07</b>	<b>JAN-JUN/06</b>	<b>APR-JUN/07</b>	<b>APR-JUN/06</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before income tax	<b>3,234,824</b>	1,875,070	<b>1,948,899</b>	1,208,975
Adjustments for:				
Share in net earnings of associates	<b>(1,459,273)</b>	(931,803)	<b>(678,237)</b>	(363,698)
Depreciation and amortization	<b>909,012</b>	843,983	<b>480,421</b>	390,301
Interest income	<b>(382,630)</b>	(148,225)	<b>(258,314)</b>	(67,595)
Interest expense	<b>452,154</b>	562,398	<b>253,008</b>	267,388
Dividend income	<b>(706)</b>	(26)	-	(26)
Provision for decline in value of assets	<b>134</b>	112	<b>69</b>	112
Provision for retirement benefits	<b>2,574</b>	1,570	<b>1,286</b>	1,570
Unrealized foreign exchange loss (gain)	<b>118,141</b>	(6,441)	<b>96,111</b>	(75,936)
Gain on sale of investments in shares of stock	-	-	<b>(548)</b>	-
Gain on sale of available-for-sale investments	<b>(1,123)</b>	(168)	<b>(529)</b>	(168)
Gain on sale of property, plant & equipment	<b>(364,298)</b>	(36,075)	<b>(363,959)</b>	(2,734)
Operating income before working capital changes	<b>2,508,809</b>	2,160,395	<b>1,478,207</b>	1,358,189
Changes in:				
Decrease (increase) in operating current assets	<b>(827,525)</b>	(815,646)	<b>(1,083,404)</b>	98,556
Increase in operating current liabilities	<b>991,413</b>	415,806	<b>856,432</b>	89,954
Cash provided by operations	<b>2,672,697</b>	1,760,555	<b>1,251,235</b>	1,546,699
Income and final taxes paid	<b>(243,192)</b>	(243,413)	<b>(124,144)</b>	(232,874)
Net cash provided by operating activities	<b>2,429,505</b>	1,517,142	<b>1,127,091</b>	1,313,825
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Dividends received	<b>519,435</b>	548,530	<b>415,253</b>	528,249
Interest received	<b>263,845</b>	129,505	<b>165,234</b>	60,611
Decrease (increase) in investments and advances	<b>(6,324,453)</b>	33,489	<b>(6,325,043)</b>	(229,601)
Disposals (acquisitions) of property, plant and equipment - net	<b>(342,894)</b>	(669,892)	<b>160,129</b>	(399,347)
Disposals (acquisitions) of available for sale investments	<b>(4,477)</b>	8,696	<b>(6,385)</b>	4,451
Proceeds from sale of investments in shares of stock	-	-	<b>548</b>	-
Decrease (increase) in other assets	<b>450,457</b>	(79,779)	<b>450,211</b>	(55,415)
Net cash used in investing activities	<b>(5,438,087)</b>	(29,450)	<b>(5,140,053)</b>	(91,052)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from (payments of) loans payable	<b>6,752,152</b>	(565,325)	<b>7,273,905</b>	(759,741)
Proceeds from (payments of) long-term debt	<b>(2,726,963)</b>	567,981	<b>(2,224,526)</b>	(1,258,126)
Advances to Related Parties	<b>(8,277,609)</b>	-	<b>(8,277,609)</b>	-
Interest paid	<b>(429,259)</b>	(527,702)	<b>(194,147)</b>	(57,628)
Cash dividends paid	<b>(1,138,920)</b>	(735,955)	-	-
Increase (decrease) in minority interest	<b>501,999</b>	(2,824)	<b>500,065</b>	(2,829)
Re-issuance of treasury shares	<b>5,935,104</b>	-	-	-
Net cash provided by (used in) financing activities	<b>616,504</b>	(1,263,825)	<b>(2,922,312)</b>	(2,078,324)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,392,078)</b>	223,866	<b>(6,935,274)</b>	(855,551)
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH &amp; CASH EQUIVALENTS</b>	<b>(127,201)</b>	6,441	<b>(101,863)</b>	75,937
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>8,009,956</b>	4,622,676	<b>12,527,814</b>	5,632,597
<b>CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD</b>	<b>5,490,677</b>	4,852,983	<b>5,490,677</b>	4,852,983

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**FINANCIAL STATEMENT SCHEDULES AND DISCLOSURES**  
**AT JUNE 30, 2007 AND DECEMBER 31, 2006**  
**(Peso Amounts in Thousands)**

**A. INVESTMENTS AND ADVANCES**

	% OWNERSHIP 2007	JUN 2007	DEC 2006
Investments in shares of stock			
At equity			
Acquisition cost:			
Union Bank of the Philippines	36.22%	4,184,474	4,184,474
Accuria, Inc.	49.54%	567,451	567,451
Western Mindanao Power Corporation	20.00%	263,665	263,665
Cebu International Container Terminal, Inc.	20.00%	240,125	240,125
Hijos de Escaño, Inc.	46.66%	857,197	857,197
San Fernando Electric Light & Power Co., Inc.	20.29%	180,864	180,864
Pampanga Energy Ventures, Inc.	42.84%	209,465	209,465
Southern Philippines Power Corporation	20.00%	152,587	152,587
Visayan Electric Co., Inc.	55.02%	651,889	651,469
Manila Oslo Renewable Enterprise, Inc.	83.33%	2,508,474	-
East Asia Utilities Corporation	50.00%	1,009,143	-
City Savings Bank	34.42%	78,998	78,991
South Western Cement Corporation	20.00%	28,995	28,995
Luzon Hydro Corporation	50.00%	1,048,251	1,048,251
Cordillera Hydro Corporation	35.00%	88	88
One Cebu Energy Solutions, Inc.	0.00%	-	750
Aboitiz Projects TS Corp.	50.00%	1,888	1,888
Reefer Van Specialist, Inc.	50.00%	7,150	7,150
Refrigerated Transport Services, Inc.	50.00%	4,600	4,600
WG&A Jebsen Ship Management, Inc.	40.00%	400	400
Hapag-Lloyd Philippines, Inc.	15.00%	1,800	1,800
Jade Ocean Shipmanagement, Inc.	50.00%	3,986	3,986
JAIB, Inc.	49.00%	1,884	1,884
Balance at end of period		12,003,375	8,486,080
Accumulated equity in net earnings:			
Balance, beginning of year		5,050,712	5,288,814
Share in net earnings for the year		1,459,273	2,114,710
Investments sold		-	(42,919)
Effect of Power reorganization		(592)	-
Cash dividends received		(518,729)	(2,309,893)
Balance, end of period		5,990,664	5,050,712
Gain on dilution		681,567	-
Share in net unrealized gains (losses) on available-for-sale securities & underwriting accounts of an associate		(141,341)	39,519
Share in associates' cumulative translation adjustments		(792)	107,427
		18,533,472	13,683,738
Allowance for decline in value		(28,995)	(28,995)
<b>Investments, at equity</b>		<b>18,504,477</b>	<b>13,654,743</b>
<b>Advances to investees</b>		<b>3,025,790</b>	<b>218,789</b>
		<b>21,530,267</b>	<b>13,873,533</b>

**B. ACCOUNTS PAYABLE & ACCRUED EXPENSES**

Trade	2,764,792
DOSRI	-
Others	2,784,515
<b>TOTAL</b>	<b>5,549,307</b>

**C. SHORT-TERM LOANS**

	Effective Interest Rate	JUNE 2007	DEC 2006
Financial institutions - unsecured	5.45% - 10.25%	7,575,872	823,720

**D. LONG-TERM LOANS**

	Effective Interest Rate	JUNE 2007	DEC 2006
<b>Company:</b>			
Financial institutions - unsecured			
peso denominated loans	various	2,700,000	4,170,000
Non-financial institutions	11.00% - 12.00%	21,000	22,500
		<b>2,721,000</b>	4,192,500
<b>Subsidiaries:</b>			
ATSC and subsidiaries			
Financial institutions - secured:			
Peso loans due until 2010	0.1004	76,923	1,711,859
Australian (AU) dollar loan due until 2009	LIBOR + 1.75%	12,703	18,215
		<b>89,626</b>	1,730,074
HEDCOR			
Financial institution - secured	2.25% over the applicable three-month Treasury Securities rate	648,000	649,000
DLP			
Financial institutions - secured	10.89% - 11.2%	-	320,000
PILMICO			
Financial institutions - secured	various	763,461	293,590
SEZC			
Financial institution - secured	9.50%	185,000	182,486
FILAM			
Financial institution - secured	7.22% - 10.04%	287,500	95,833
CLP			
Financial institution - secured	8.78%	11,731	16,423
		<b>1,985,318</b>	3,287,406
Total		<b>4,706,318</b>	7,479,906
Less: Current portion		<b>247,845</b>	1,169,082
		<b>4,458,473</b>	6,310,824
Less: Liabilities directly associated with noncurrent asset classified as held for sale		-	455,037
		<b>4,458,473</b>	5,855,787

**E. DEBT SECURITIES**

The P300 million long-term Commercial Papers issued in 1997 by Davao Light & Power Co., Inc., one of the subsidiaries, were fully prepaid in December 2001. Since then, there have been no new debt security issuances made by the registrant or its subsidiaries.

**F. EARNINGS PER SHARE**

Earnings per common share amounts were computed as follows:

	JUNE 2007	JUNE 2006
a. Net income to common stockholders	2,444,961	1,556,656
b. Average number of outstanding shares	5,694,599,621	4,906,368,683
c. Earnings per share (a/b)	0.429	0.317



## G. BUSINESS SEGMENT INFORMATION

Financial information on the operations of the business segment is summarized as follows:

	Power		Food Manufacturing		Transport Services		Parent Company and Others		Eliminations		Consolidated	
	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006	Jan-Jun 2007	Jan-Jun 2006
<b>REVENUES</b>	<b>5,258,751</b>	4,213,868	<b>4,074,393</b>	3,547,583	<b>5,541,355</b>	5,738,935	<b>241,638</b>	346,952	<b>(145,042)</b>	-	<b>14,971,095</b>	13,847,338
<b>RESULT</b>												
Segment results	<b>859,426</b>	582,370	<b>359,992</b>	323,677	<b>212,571</b>	97,094	<b>98,345</b>	218,530	<b>2,050</b>	-	<b>1,532,384</b>	1,221,672
Unallocated corporate income (expenses)	<b>(54,367)</b>	33,364	<b>16,834</b>	3,213	<b>370,472</b>	50,997	<b>(18,199)</b>	48,194	<b>(2,050)</b>	-	<b>312,690</b>	135,768
<b>INCOME FROM OPERATIONS</b>											<b>1,845,074</b>	1,357,440
Interest Expense	<b>(51,478)</b>	(84,687)	<b>(23,268)</b>	(24,718)	<b>(77,787)</b>	(165,246)	<b>(299,621)</b>	(287,747)	-	-	<b>(452,154)</b>	(562,398)
Interest Income	<b>20,478</b>	20,471	<b>2,239</b>	3,580	<b>12,678</b>	7,596	<b>347,235</b>	116,578	-	-	<b>382,630</b>	148,225
Share in net earnings of associates	<b>676,332</b>	296,261	-	2,990	<b>5,003</b>	2,027	<b>2,421,702</b>	1,486,023	<b>(1,643,764)</b>	(855,498)	<b>1,459,274</b>	931,803
Provision for Income tax	<b>(254,211)</b>	(192,611)	<b>(126,002)</b>	(110,087)	<b>(153,651)</b>	(17,956)	<b>(97,273)</b>	(9,930)	-	-	<b>(631,137)</b>	(330,584)
<b>NET INCOME</b>											<b>2,603,687</b>	1,544,486
<b>OTHER INFORMATION</b>	<b>Jun 2007</b>	Dec 2006	<b>Jun 2007</b>	Dec 2006	<b>Jun 2007</b>	Dec 2006	<b>Jun 2007</b>	Dec 2006	<b>Jun 2007</b>	Dec 2006	<b>Jun 2007</b>	Dec 2006
Segment assets	<b>4,412,973</b>	2,656,399	<b>2,361,514</b>	2,123,510	<b>3,794,762</b>	4,568,249	<b>11,298,873</b>	6,421,034	<b>(718,200)</b>	(664,400)	<b>21,149,921</b>	15,104,791
Investments and advances	<b>8,741,331</b>	2,153,859	-	-	<b>42,358</b>	37,355	<b>31,592,817</b>	24,697,161	<b>(20,809,265)</b>	(13,014,842)	<b>19,567,241</b>	13,873,533
Unallocated corporate assets	<b>6,006,829</b>	3,527,019	<b>1,475,085</b>	1,480,099	<b>4,989,040</b>	5,696,362	<b>557,656</b>	607,093	<b>609,493</b>	555,526	<b>13,638,103</b>	11,866,099
<b>Consolidated total assets</b>											<b>54,355,265</b>	40,844,423
Segment liabilities	<b>4,539,873</b>	1,596,445	<b>1,693,892</b>	1,714,021	<b>3,580,229</b>	5,473,623	<b>12,417,133</b>	8,343,781	<b>(796,967)</b>	(724,145)	<b>21,434,160</b>	16,403,725
Unallocated corporate liabilities	<b>207,790</b>	94,866	<b>56,967</b>	33,643	<b>52,644</b>	12,691	<b>22,272</b>	16,262	-	-	<b>339,674</b>	157,462
<b>Consolidated total liabilities</b>											<b>21,773,834</b>	16,561,187
<b>Depreciation</b>	<b>246,635</b>	184,487	<b>55,343</b>	4,481	<b>583,014</b>	634,991	<b>24,020</b>	20,024	-	-	<b>909,012</b>	843,983

## H. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments comprise cash and cash equivalents and long term debts. The main purpose of these instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, amounts owed by parent company and related parties, accounts payable and accrued expenses and customers' deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments.

**Liquidity risk.** The Group maintains sufficient cash and cash equivalents to finance 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.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 6.93% of its debt will mature in less than one year at June 30, 2007 (Dec. 31, 2006: 13.14%). For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

**Interest rate risk.** The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. 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 June 30, 2007, 43.48% of the Group's long term debt had floating interest rates ranging from 5.58% to 12.55%, and 56.52% are with fixed rates ranging from 6.75% to 12.0%. As of December 31, 2006, 47.5% of the Group's long term debt had floating interest rates ranging from 6.19% to 11.09%, and 52.5% are with fixed rates ranging from 7.75% to 12.0%.

The following table set out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

### As of June 30, 2007

	< 1 year	1 - 5 years	> 5 years	Total
Floating rate - long-term debt	155,000	2,045,703	-	2,200,703
Fixed rate - long-term debt	226,269	2,178,503	100,843	2,505,615
Redeemable preferred shares - floating	-	639,832	-	639,832
Redeemable preferred shares - fixed	-	1,000,000	500,000	1,500,000
Obligations under finance lease - floating	110,182	131,346	-	241,528
	491,451	5,995,384	600,843	7,087,678

### As of December 31, 2006

	< 1 year	1 - 5 years	> 5 years	Total
Floating rate - long-term debt	387,667	3,439,548	-	3,827,215
Fixed rate - long-term debt	788,347	2,791,349	72,995	3,652,691
Redeemable preferred shares - floating	-	639,832	-	639,832
Redeemable preferred shares - fixed	-	1,000,000	500,000	1,500,000
Obligations under finance lease - floating	113,823	81,080	-	194,903
	1,289,837	7,951,809	572,995	9,814,641

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/decrease in basis points	Effect on profit before tax	Effect on equity
June 2007	100	15,496	15,496
	50	7,748	7,748
June 2006	100	21,501	21,501
	50	10,751	10,751

The sources of interest expense recognized during the period are as follows:

	<b>June 2007</b>	<b>June 2006</b>
Bank loans and long term debt	345,719	413,309
Customers' deposits	1,561	5,958
Obligations under finance lease	9,278	17,220
Advances from related parties	13,647	26,172
	<u>370,205</u>	<u>462,659</u>

**Credit risk.** For its cash investments, AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash and AFS investments, 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. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has no significant concentration risk to a counterparty or group of counterparties.

**Foreign exchange risk.** The foreign exchange risk of the Group pertains significantly to its foreign currency denominated borrowings, including obligations under finance 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. As of June 30, 2007 and December 31, 2006, foreign currency denominated borrowings account for 53.1% and 2.7%, respectively, of total consolidated borrowings.

**Capital management.** The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period ended June 30, 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by equity attributable to equity holders of the parent plus net debt. The Group's policy is to keep the gearing ratio at 30% or below. The Group determines net debt as the sum of interest-bearing short-term and long-term loans less cash and short-term deposits.

Gearing ratios of the Group as of June 30, 2007 and December 31, 2006 are as follows:

	<b><u>JUNE 2007</u></b>	<b><u>DEC 2006</u></b>
Bank Loans	7,575,872	1,278,757
Long - term debt	7,087,678	9,359,604
Cash and cash equivalents	(5,490,677)	(8,009,957)
Temporary advances to related parties	<u>(8,277,609)</u>	

Net Debt (a)	895,263	2,628,404
Equity attributable to equity holders of the parent	30,715,733	23,078,264
Equity and Net Debt (b)	<u>31,610,996</u>	<u>25,706,668</u>
<b>Gearing Ratio (a/b)</b>	<b><u>2.83%</u></b>	<b><u>10.22%</u></b>

## I. DISCLOSURES

### 1. Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS).

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

The Group has adopted the following new and amended PFRS and Philippine Interpretations during the period. Adoption of these revised standards and interpretations did not have any effect on the Group except for the additional disclosures on the financial statements.

- PFRS 7, *Financial Instruments: Disclosures*
- Complementary amendment to PAS 1, *Presentation of Financial Statements*
- Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) 11, PFRS 2 - Group and Treasury Share Transactions

The principal effects of these changes, if any, are as follows:

#### *PFRS 7, Financial Instruments: Disclosures*

PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in PAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under PFRS.

#### *Complementary amendment to PAS 1, Presentation of Financial Statements*

The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1.

#### *Philippine Interpretation IFRIC 11, PFRS 2 - Group and Treasury Share Transactions*

Philippine Interpretation IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity if the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or the shareholders of the entity provide the equity instruments needed. Philippine Interpretation IFRIC 11 also extends the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instrument of the parent.

### 2. Seasonality of Interim Operations

Operations of hydropower plants are generally affected by climatic seasonality. Seasonality and location have a direct effect on the level of precipitation. In Luzon where rainy and summer seasons are more pronounced, higher rainfall is normally experienced in the months of June to September. As such, the hydropower plants located in Luzon operate at their maximum capacity during this period. In contrast, the hydropower plants in Mindanao experience a well distributed rainfall throughout the year, with a slightly better precipitation during the months of December to April. This provides continuous water flow and thus makes it favorable to all 'run-of-river' hydropower plants' operations.

There were no unexpected seasonal aspects that had a material effect on the Group's financial condition or results of operations.

### 3. Material Events and Changes

#### a. AEV Dividend Declaration

On January 11, 2007, AEV Board of Directors approved the declaration of cash dividend of P0.20 per share to all stockholders of record as of the close of business hours on February 9, 2007, payable on February 23, 2007. Cash dividends paid on said date amounted to P1.139 Billion, using internally-sourced funds.

For subsequent years, the Board also voted to adopt the policy of distributing at least one-third of its previous year's earnings as cash dividends to its stockholders.

#### b. Treasury Sales

On January 26, 2007, the Company successfully placed its entire treasury shares holdings representing 742,511,938 shares at a price of 8.20 per share or a 5.7% discount to the share price close of 8.70. The treasury sale transaction represents approximately 6.1 billion, equivalent to US\$124 million. The proceeds of the sale will be used by the Company for its various power projects and participation in the privatization in the NPC's power plants.

#### c. Magat Power Plant

On January 9, 2007, the Power Sector Assets and Liabilities Management Corporation (PSALM) issued the Notice of Award to the consortium between Aboitiz Power Corporation (APC) and Norway's SN Power, SN Aboitiz Power, Inc. (SNAP), officially declaring the group as the winning bidder for the 360-megawatt Magat Hydroelectric Power Plant in Ramon, Isabela.

The Company was advised by its affiliate, SN Aboitiz Power, Inc. (SNAP), that as of midnight of April 26, 2007, the PSALM had turned over possession and control of the Magat power plant to SNAP after PSALM received a down payment of US\$371 million toward the purchase of the plant. The balance of US\$159 million is to be paid over a period of seven years.

SNAP is a special purpose joint venture company which is 60%-owned by Manila-Oslo Renewable Enterprise, Inc. (MORE) and 40%-owned by SN Power Holding Singapore Pte. Ltd. (SN Power Holding), a subsidiary of SN Power. In turn, MORE is 83.3%-owned by Philippine Hydropower Corporation (PHC), which is wholly-owned by APC, and 16.7%-owned by SN Power Holding.

#### d. Power Reorganization

In January 11, 2007, the Board of Directors of the Company approved the consolidation of all the Company's power assets and the transfer of the Company's interests in various power distribution companies to Aboitiz Power Corporation (APC), a wholly-owned subsidiary, in exchange for APC shares, subject to the approval of the PSE, SEC, BIR and all other required regulatory authorities.

On January 16, 2007, the Company entered into a share exchange arrangement with APC wherein AEV transferred its ownership shares in the following distribution companies in exchange (Exchange) for approximately 2,889 million shares of APC:

	Acquired	
	% Ownership	Number of Shares
Davao Light & Power Co, Inc. (DLPC)	99.91%	299,729,524
Cotabato Light and Power Company (CLPC)	99.91%	150,689,118
Pampanga Energy Ventures, Inc. (PEVI)	42.84%	12,996,191
Visayan Electric Company, Inc. (VECO)	43.03%	3,291,719
Aboitiz Energy Solutions, Inc. (AESI)	100.00%	3,000,000
Subic Enerzone Corp. (SEZC)	20.00%	2,000,000
San Fernando Light and Power Co., Inc. (SFELAPCO)	20.29%	540,809
Hijos de F. Escaño, Inc. (HIJOS)	46.66%	13,340

The Reorganization was undertaken by the Group to consolidate its power generation and distribution assets and operations and allow the Group to enhance efficiencies and competitiveness.

The Exchange was approved by the Securities and Exchange Commission (SEC) on May 3, 2007.

As a result of the above Reorganization, all the power distribution companies as mentioned above have been transferred to the Company. Accordingly, after the Reorganization, the Group is now engaged in power generation and power distribution.

The above transaction was treated as a reorganization of companies under common control and accounted for at historical cost in a manner similar to pooling-of-interests method. Accordingly, all financial data as of and for the periods prior to the above Reorganization as presented have been restated to reflect the combination as if it had occurred from the beginning of the earliest period presented in the consolidated financial statements.

**e. APC & TCIC Joint Venture**

On February 17, 2007, APC entered into a Memorandum of Agreement with Taiwan Cogeneration Int'l. Corp. (TCIC) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone. APC and TCIC have agreed to form a joint venture company which will serve as a vehicle for the implementation of the proposed Subic Bay coal-fired power plant.

The proposed Subic Bay coal-fired power plant is expected to supply electricity to Subic Bay Metropolitan Authority (SBMA) and other economic zones around the country.

**f. Capital Infusion into APC**

On April 12, 2007, the Company subscribed for and was issued an additional 400,000,000 Shares of APC for a subscription price of P4.0 billion. APC intended to use this subscription amount to cover a portion of the initial 40% down payment of U.S.\$212.0 million for the Magat hydroelectric plant payable on April 25, 2007.

**g. Acquisition of EAUC**

On April 20, 2007, APC acquired a 50% ownership interest in East Asia Utilities Company (EAUC) for a total consideration of P1.009 billion, broken into P131.0 million cash payment and P878.0 million assumption of seller's debt.

EAUC operates a 50 MW thermal plant within the MEPZ 1 export processing zone in Mactan Island near Cebu.

The fair value of the identifiable assets and liabilities as at the date of acquisition is still not determined since the result of the ongoing valuation by independent appraiser has not yet been received as of June 30, 2007. Below sets out EAUC's net book value as of March 31, 2007, which was provisionally used as the basis in determining the carrying value of this new investment in the books of APC, at the date of acquisition.

	( P '000)
	<u>Carrying Value</u>
Property, Plant and Equipment	921,925
Cash and Cash Equivalents	292,357
Trade and Other Receivables	1,988,518
Inventories	155,241
Other Assets	356,347
	<u>3,714,388</u>
Trade and Other Payables	<u>604,325</u>
Net Assets	<u><u>3,110,063</u></u>
APC's 50% Share in Net Assets of EAUC	1,555,032
Provisional goodwill arising from acquisition	(545,889)
Total Consideration	<u><u>1,009,143</u></u>

From the date of acquisition, this new associate has contributed P12 million to AEV's consolidated net income.

#### **h. Acquisition of CPPC**

On April 20, 2007, APC purchased 60% of the outstanding common shares of Cebu Private Power Corp. (CPPC) for approximately P176.0 million. CPPC operates a 70 MW thermal plant in Cebu City under a BOT agreement to supply 62 MW of power to VECO.

The fair value of the company as at the date of acquisition is still not determined since the result of the ongoing assessment by an independent party has not been received as of June 30, 2007. Below sets out CPPC's net book value as of March 31, 2007, which was provisionally used as the basis in determining the carrying value of this new investment in the books of APC, at the date of acquisition.

	( P '000)
	<u>Carrying Value</u>
Property, Plant and Equipment	928,282
Cash and Cash Equivalents	77,856
Trade and Other Receivables	342,108
Inventories	94,205
Deferred Tax Asset	69,133
Other Assets	<u>240,870</u>
	<u>1,752,454</u>
Trade and Other Payables	<u>426,016</u>
Net Assets	<u>1,326,438</u>
APC's 60% Share in Net Assets of CPPC	795,863
Provisional goodwill arising from acquisition	<u>(617,797)</u>
Total Consideration	<u>178,066</u>

Accordingly, the financial results and net assets of this new subsidiary are included in AEV's consolidated financial statements starting April 1, 2007. For the period ended and as at June 30, 2007, CPPC has contributed P23 million to consolidated net income, and P801 million, P669 million, P1,603 million and P342 million to consolidated net revenue, costs & expenses, assets and liabilities, respectively.

#### **i. UBP Share Offering**

UnionBank listed 78.3 million common shares at an offer price of P59 per share on May 10, 2007, and issued additional 11.7 million shares under the over-allotment portion on May 22, 2007. Out of this stock offering, P4.5 million shares were offered to its existing shareholders on record as of May 2, 2007.

AEV waived its pre-emptive right to subscribe to these shares. As a result, its equity ownership in UBP was reduced from 42.14% to 36.22%, and a gain on dilution amounting to P681.6million was generated. During the 2nd quarter of 2007, AEV opted to recognize this gain on dilution directly in equity instead of recording it as part of the consolidated net income.

#### **j. APC Initial Public Offering (IPO)**

On January 11, 2007, the Board of Directors of both APC and the Company approved the IPO of APC, subject to the approval of the PSE, SEC and all other required regulatory authorities.

The following IPO-related events transpired during the 2nd and 3rd quarters of 2007:

- April 25 - In preparation for its IPO, APC filed a preliminary registration statement for the registration of 7.2 billion common shares with the SEC.
- May 10 - APC filed a revised registration statement with the SEC, increasing the number of common shares to be registered to 7.4 billion.
- May 28 - APC was granted PSE approval for the listing of its 7.4 billion common shares subject to its completion of PSE listing requirements. The IPO shall consist of a primary offering of up to 1.7 billion common shares and over-allotment option of up to 300 million shares.
- June 15 - APC held its IPO domestic roadshow on this day.
- June 18 - 29 - APC IPO International roadshow and bookbuilding were undertaken during this period.



- June 30 - Offer price at P5.80 per common share was set on this date. A total of 1,739,130,435 APC common shares are to be offered to the domestic and international markets, while another 260,869,565 shares will be issued in case an over-allotment option is exercised. APC appointed UBS AG (UBS) as Sole Global Coordinator and Bookrunner, and CLSA Limited and Macquarie Securities (Asia) Pte Limited as Co-Lead Managers, of the international offer. It expected to raise total proceeds of P10.087 billion from the public offer, without taking into account the over-allotment option.
- July 4 - SEC issued APC a Certificate of Permit to Offer Securities for Sale. This day marked the start of the domestic offer of up to 521,739,130 APC common shares. APC appointed BDO Capital & Investment Corp. and PCI Capital Corporation as Domestic Lead Underwriters, and ATR KimEng Capital Partners, Inc., BPI Capital Corporation and First Metro Investment Corp. as Domestic Co-Lead Underwriters.
- July 16 - APC common shares were listed with the PSE on this date.
- Aug 3 - UBS exercised its over-allotment option for an additional 48,533,565 APC common shares at the price of P5.80 per share.

#### **k. Acquisition of STEAG**

On August 10, 2007, APC signed a Share Purchase Agreement with STEAG GmbH, following its successful bid for a 34% stake in STEAG State Power, Inc. The winning bid tendered by APC was US\$91.91 million. STEAG State Power, Inc. is the owner and operator of a 232MW (gross) coal-fired power plant located in the PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. It enjoys a 25-year power purchase agreement with the National Power Corporation, which agreement is backed by a Performance Undertaking issued by the Republic of the Philippines. It built the plant under a BOT arrangement, and started commercial operations on November 15, 2006.

Under the terms of the Share Purchase Agreement, the sale and purchase of the 34% equity should close on or before November 30, 2007.

Except for the above developments and as disclosed in some other portions of this report, no other significant event occurred that would have a material impact on the registrant and its subsidiaries, and no other known trend, event or uncertainty came about that had or were reasonably expected to have a material favorable or unfavorable impact on revenues or income from continuing operations, since the end of the most recently completed fiscal year. There were also no significant elements of income or loss that did not arise from the continuing operations of the registrant and its subsidiaries.

Other than those disclosed above, no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons entities or other persons were created during the interim period. There were also no events that would trigger substantial direct or contingent financial obligations or cause any default or acceleration of an existing obligation.

Likewise, there were no other material changes made in such items as: accounting principles & practices, estimates inherent in the preparation of financial statements, status of long-term contracts, changes in the composition of the issuer, and reporting entity resulting from business combinations or dispositions.

Lastly, there were no changes in estimates of amounts reported in prior interim period and financial year that would have a material effect in the current interim period.

#### **4. Material Adjustments**

There were no material, non-recurring adjustments made during period that would require appropriate disclosures. All other adjustments are of a normal recurring nature.

#### **5. Contingencies**

There are legal cases filed against certain subsidiaries in the normal course of business. Management and its legal counsel believe that the subsidiaries have substantial legal and factual bases for their 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.

**ABOITIZ EQUITY VENTURES, INC. & SUBSIDIARIES****AGING OF RECEIVABLES**

AS OF : JUN 30/2007

	30 Days	60 Days	90 Days	Over 90 Days	Total
<b>A/R - Trade:</b>					
Power Generation/Distribution Customers	699,599	71,819	60,478	80,404	912,300
Food Production Customers	431,441	104,537	3,772	28,434	568,184
Aviation Services Customers	1,220	258	0	200	1,678
Real Estate Lessees	1,259	300	(32)	98	1,625
Transport Services Customers	467,020	113,816	66,252	496,521	1,143,609
Management Services Customers	62,162	878	2,002	19,285	84,327
<b>Sub-total - A/R - Trade</b>	<b>1,662,701</b>	<b>291,608</b>	<b>132,472</b>	<b>624,942</b>	<b>2,711,723</b>
<b>Less : Allowance for Doubtful Accounts</b>					<b>342,377</b>
<b>Net Trade Receivables</b>					<b>2,369,346</b>
<b>A/R - Non Trade</b>	<b>1,640,589</b>	<b>197,163</b>	<b>7,484,393</b>	<b>243,261</b>	<b>9,565,406</b>
<b>Grand Total</b>	<b>3,303,290</b>	<b>488,771</b>	<b>7,616,865</b>	<b>868,203</b>	<b>11,934,752</b>

**ACCOUNTS RECEIVABLE DESCRIPTION**

Type of Receivable	Nature / Description	Period
Trade	uncollected billings to customers for sale of power, goods and services	30 - 60 days
Non-Trade	claims, operating cash advances and advances to suppliers & employees	30 - 120 days

**NORMAL OPERATING CYCLE**

## Power Subsidiaries

- Distribution - 60 days
- Generation - 65 days
- Food Subsidiary - 90 days
- Aviation Subsidiary - 60 days
- Real Estate Subsidiary - 30 days
- Transport Subsidiary - 40 days