

**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 )

LEAH I. GERALDEZ
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Contact Person

(032) 231-2580 LOC 310
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Company Telephone Number

<b>Preliminary Information Statement 2007</b>
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Month Day

Fiscal Year

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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 20-IS  
INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:  
 Preliminary Information Statement  
 Definitive Information Statement
2. Name of Registrant as specified in its charter **ABOITIZ EQUITY VENTURES, INC.**
3. **Cebu, Philippines**  
Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number **CEO2536**
5. BIR Tax Identification Code **003-828-269-V**
6. **Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City, Philippines**  
Address of principal office Postal Code **6000**
7. Registrant's telephone number, including area code **(032) 231-2580**
8. **21 May 2007, 4 o'clock p.m., Grand Ballroom, Cebu City Marriott Hotel, Cebu Business Park, Cebu City, Cebu**  
Date, time and place of the meeting of security holders
9. Approximate date when the Information Statement is first to be sent or given to security holders **27 April 2007**
10. In case of Proxy Solicitations: **NA**
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the Revised Securities Act (information on number of shares and amount of debt is applicable only to corporate registrants):
- | Title of Each Class   | Number of Shares of Stock<br>Outstanding and Amount of Debt Outstanding |
|---|---|
| Authorized Capital Stock:<br>(9,600,000,000 Common Shares, PV P1.00;<br>400,000,000 Preferred Shares, PV P1.00) | 10,000,000,00   |
| No. of Common Shares Outstanding<br>as of 28 February 2007  | 5,694,599,621   |
| Amount of Debt Outstanding<br>as of 31 December 2006  | 16,561,186,000  |
12. **Are any or all of registrant's securities listed on a Stock Exchange?**  
Yes  No

The common stock of the Corporation is listed on the Philippine Stock Exchange.

## INFORMATION REQUIRED IN INFORMATION STATEMENT

### A. GENERAL INFORMATION

#### Item 1. Date, time and place of annual stockholders' meeting

Date of meeting	:	<b>21 May 2007</b>
Time of meeting	:	<b>4 o'clock p.m.</b>
Place of meeting	:	<b>Grand Ballroom, Cebu City Marriott Hotel, Cebu Business Park, Cebu City</b>
Approximate mailing date of this statement	:	<b>27 April 2006</b>
Complete mailing address of the principal office of the registrant	:	<b>Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000 Philippines</b>

#### Item 2. Dissenter's Right of Appraisal

There are no matters or proposed actions included in the Agenda of the Meeting that may give rise to a possible exercise by stockholders of their appraisal rights. Generally, however, the stockholders of Aboitiz Equity Ventures, Inc. (AEV) have the right of appraisal in the following instances: (a) in case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and (c) in case of merger or consolidation.

Any stockholder who wishes to exercise his appraisal right must have voted against the proposed corporate action. He must also make a written demand on AEV within thirty (30) days after the date on which the vote was taken, for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of such appraisal right. If the proposed corporate action is implemented or effected, AEV shall pay to such stockholder, upon surrender of the certificate or certificates of stock representing his shares, the fair value thereof, as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If, within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and AEV cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by AEV, and the third by the two thus chosen. The findings of the majority of the appraiser shall be final, and their award shall be paid by AEV within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless AEV has unrestricted retained earnings in its books to cover such payment. Upon payment by AEV of the agreed or awarded price, the stockholder shall forthwith transfer his shares to AEV.

### **Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- (a.) No current director or officer of AEV, or nominee for election as director of AEV or any associate of any of the foregoing persons has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon in the stockholders' meeting, other than election to office.
- (b.) No director has informed AEV in writing that he intends to oppose any action to be taken by AEV at the meeting.

### **B. CONTROL AND COMPENSATION INFORMATION**

#### **Item 4. Voting Securities and Principal Holders Thereof**

##### **(a.) Class of Voting Shares as of 28 February 2007:**

<u>Class of Voting Shares</u>	<u>No. of Shares Entitled to Vote</u>
Common Shares	<b>5,694,599,621</b>

Every stockholder shall be entitled to one vote for each share of stock held as of the established record date.

##### **(b.) Record Date: 9 April 2007**

All stockholders of record as of 9 April 2007 are entitled to notice and to vote at AEV's Annual Stockholders' Meeting.

##### **(c.) Election of Directors and Cumulative Voting Rights**

With respect to the election of directors, a stockholder may vote such number of shares for as many persons as there are directors to be elected. He may also cumulate said shares and give one candidate as many votes as the number of directors to be elected, or distribute the shares on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by the stockholder shall not exceed the total number of shares owned by him as shown in the books of AEV multiplied by the whole number of directors to be elected.

Article 1 Section 5 of the amended By-Laws of AEV provides that voting upon all questions at all meetings of the stockholders shall be by shares of stock and not per capita. Likewise, Section 6 of the same Article states that stockholders may vote at all meetings either in person or by proxy duly given in writing and presented to the Secretary for inspection, validation and record at least seven (7) days prior to the opening of said meeting. A proxy bearing a signature that is not legally acknowledged shall not be recognized by the Secretary.

Section 1, Article II of the amended By-Laws provides that nominations for election of members of the Board of Directors by stockholders must be submitted in writing to the Board of Directors no later than five (5) working days prior to the date of the regular annual stockholders' meeting, except as may be provided by the Board of Directors in appropriate guidelines that it may promulgate from time to time in compliance with law.

No discretionary authority to cumulate votes is solicited.

##### **(d.) No proxy solicitation is being made.**

## (1) Security Ownership of Certain Record and Beneficial Owners and Management

### Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of 28 February 2007

Title of Class	Name/Address of Stockholder and Beneficial Owner	Relationship with AEV	Citizenship	No. of Shares and Nature of Ownership (Record or Beneficial)	Percent of Class
Common	<b>1. Aboitiz and Company, Inc.*</b> Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000	Stockholder	Filipino	2,476,022,415 (Record)	43.4801%
Common	<b>2. PCD Nominee Corp.</b>	Stockholder	Non-Filipino	925,054,701 (Record)	16.2444%
Common	<b>3. Ramon Aboitiz Foundation, Inc.**</b> 35 Lopez Jaena St., Cebu City 6000	Stockholder	Filipino	364,885,243 (Record)	6.4075%
Common	<b>4. PCD Nominee Corp.</b>	Stockholder	Filipino	289,869,688 (Record)	5.0902%

Aboitiz and Company, Inc. (ACO) is a corporation wholly owned by the Aboitiz family. No single stockholder, natural or juridical, owns five per centum (5%) or more of the shareholdings of ACO.

\*Mr. Jon Ramon Aboitiz, ACO President and Chief Executive Officer, will vote the shares of ACO in AEV in accordance with the directive of the ACO Board of Directors.

\*\*Mr. Roberto E. Aboitiz, President of the Ramon Aboitiz Foundation, Inc. (RAFI), will vote the shares of RAFI in AEV in accordance with the directive of the RAFI Board of Trustees.

## (2) Security Ownership of Management as of 28 February 2007 (Record and Beneficial)

Name of Beneficial Owner and Position	Title of Class	No. of Shares and Nature of Ownership (Record or Beneficial)	Citizenship	Percentage of Ownership
<b>Mr. Roberto E. Aboitiz</b> Chairman, Board of Directors	Common	975,000 - Record	Filipino	0.02%
		82,099,033 - Beneficial		1.44%
<b>Mr. Jon R. Aboitiz</b> President and Chief Executive Officer	Common	100 - Record	Filipino	0.00%
		91,876,977 - Beneficial		1.61%
<b>Mr. Enrique M. Aboitiz, Jr.</b> Director	Common	141,000 - Record	Filipino	0.00%
<b>Mr. Erramon I. Aboitiz</b> Director, Executive Vice President & Chief Operating Officer	Common	1,000 - Record	Filipino	0.00%
		51,779,484 - Beneficial		0.91%
<b>Mr. Justo A. Ortiz</b> Director	Common	1 - Record	Filipino	0.00%
<b>Mr. Roberto R. Romulo</b> Independent Director	Common	100 - Record	Filipino	0.00%
<b>Mr. Jose C. Vitug</b> Independent Director	Common	100 - Record	Filipino	0.00%
		72,020 - Beneficial		0.00%
<b>Mr. Stephen G. Paradies</b> Senior Vice President/CFO/Corporate Information Officer	Common	21,458,908 - Beneficial	Filipino	0.38%
<b>Mr. Juan Antonio E. Bernad</b> Senior Vice President - Electricity Regulatory Affairs	Common	730,351 - Record	Filipino	0.01%
<b>Mr. Xavier Jose Aboitiz</b> Senior Vice President - Human Resources	Common	1,998,236 - Record	Filipino	0.04%
		5,676,274 - Beneficial		0.10%
<b>Mr. Mikel A. Aboitiz</b> Senior Vice President/Chief Information Officer	Common	975,000 - Record	Filipino	0.02%
		78,595,677 - Beneficial		1.38%

<b>Mr. Luis Miguel Aboitiz</b> First Vice President	Common	19,382,133 - Record	Filipino	0.34%
<b>Ms. Melinda R. Bathan</b> Vice President - Controller	Common	12,829 - Record	Filipino	0.00%
<b>Ms. Narcisa S. Lim</b> Assistant Vice President - Human Resources	Common	2,520 - Record	Filipino	0.00%
<b>Ms. Delia Y. Maderazo</b> Assistant Vice President - iCSD	Common	22,600 - Record	Filipino	0.00%
<b>TOTAL</b>		<b>355,799,343</b>		<b>6.25%</b>

### (3) Voting Trust Holders of 5% or More of Common Equity

No person holds more than five per centum (5%) of AEV's common equity under a voting trust or similar agreement.

### (4) Changes in Control

There are no arrangements that may result in a change in control of AEV during the period covered by this report.

## Item 5. Directors and Executive Officers

### (a.) (1) Directors for 2006-2007

Below is a list of AEV's directors for 2006-2007 with their corresponding positions and offices held for the past five years. The directors assumed their directorship during AEV's annual stockholders' meeting in 2006, for a term of one year.

#### **ROBERTO E. ABOITIZ, Chairman of the Board**

Mr. Roberto E. Aboitiz, 57 years old, Filipino, has been a Director of AEV since 1994. He is concurrently a Director and Senior Vice President of Aboitiz and Company, Inc.; Chairman and Chief Executive Officer of Aboitiz Construction Group, Inc., FBMA Marine, Inc. and Aboitizland, Inc.; Chairman of the Board of Directors of Cebu Industrial Park Developers, Inc. and Cebu Industrial Park Services, Inc.; Director of City Savings Bank, Cotabato Light and Power Company, Davao Light and Power Co., Inc., Tsuneishi Heavy Industries (Cebu), Inc., Tsunetetsu (Cebu), Inc., K&A Metal Industries, Inc. and Visayan Electric Company, Inc. He graduated from Ateneo de Manila University with a Bachelor of Arts degree in Behavioral Science.

#### **JON RAMON ABOITIZ, Director and President/Chief Executive Officer**

Mr. Jon Ramon Aboitiz, 58 years old, Filipino, has served as Director and President/Chief Executive Officer of AEV since 1994. He is also Director and President/Chief Executive Officer of Aboitiz and Company, Inc.; Chairman and Chief Executive Officer of Davao Light and Power Co., Inc.; Chairman of the Board of Directors of Aboitiz Energy Solutions, Inc., Visayan Electric Company, Inc., Aboitiz Transport System Corporation, Aboitiz Power Corporation, Pilmico Foods Corporation, Philippine Hydropower Corporation, Aboitiz Jebsen Bulk Transport Corporation, Filscan Shipping, Inc., Jebsens Maritime, Inc., and General Charterer, Inc.; Vice Chairman of the Board of Directors of Union Bank of the Philippines; Director of San Fernando Electric Light and Power Company, Inc., Cotabato Light and Power Company, Cotabato Ice Plant, Inc.; Chairman of the Board of Trustees of Aboitiz Group Foundation, Inc. and Trustee of the Ramon Aboitiz Foundation, Inc. He graduated with a degree of Bachelor of Science in Commerce major in Management from the University of Santa Clara, California, U.S.A.

### **ERRAMON I. ABOITIZ, Director and Executive Vice President/Chief Operating Officer**

Mr. Erramon I. Aboitiz, 50 years old, Filipino, has been a Director and Executive Vice President/Chief Operating Officer of AEV since 1994. He is also a Director and Senior Vice President/Chief Financial Officer of Aboitiz and Company, Inc.; Chairman of the Board of Directors of City Savings Bank, Subic EnerZone Corporation, San Fernando Electric Light and Power Company, Luzon Hydro Corporation and Fil-Am Foods, Inc.; Chairman and Chief Executive Officer of Hedcor, Inc. (formerly, Benguet Hydropower Corporation); Director and President/Chief Executive Officer of Philippine Hydropower Corporation; Director and President of Aboitiz Power Corporation; Director and Executive Vice President of Davao Light and Power Co, Inc.; Director and Vice President of Pilmico Foods Corporation; Director of Aboitizland Inc., Union Bank of the Philippines, Visayan Electric Company, Inc., Southern Philippine Power Corp., Aboitiz Energy Solutions, Inc., and Cotabato Light and Power Company ; and President and Trustee of Aboitiz Group Foundation, Inc. He received a Bachelor of Science degree in Business Administration, major in Accounting and Finance from Gonzaga University, Spokane, U.S.A.

### **ENRIQUE M. ABOITIZ, JR., Director**

Mr. Enrique M. Aboitiz, Jr., 53 years old, Filipino, has served as Director of AEV since 1994. He is also Director and Senior Vice President of Aboitiz and Company, Inc; Director and President/Chief Executive Officer of Aboitiz Transport System Corporation, Director and President of Aboitiz Jebesen Bulk Transport Corporation; Director of Aboitiz One, Inc.

### **JUSTO A. ORTIZ, Director**

Mr. Justo A. Ortiz, 49 years old, Filipino, has served as Director of AEV since 1994. He is also Chairman and Chief Executive Officer of Union Bank of the Philippines. Prior to his stint in UBP, he was Managing Partner for Global Finance and Country Executive for Investment Banking at Citibank N.A. He graduated Magna Cum Laude with a degree in Economics from Ateneo de Manila University and completed his Masteral units in Business Administration in the same university.

### **ROBERTO R. ROMULO, Independent Director**

Mr. Roberto R. Romulo, 68 years old, Filipino, has served as Independent Director of AEV since 2002. He is Chairman of Philam Insurance Co., Inc. and InterPharma Investments, Ltd. (Zuellig Pharma) Inc, CIBI Information, Inc., Equicom Systems Management, Inc.; He is Executive Director of the International Board of Advisors of President Gloria Macapagal Arroyo; Adviser to the Public-Private Partnership Task Force on Globally Competitive Industries and Member of the National Competitiveness Council; Director of A. Soriano Corporation, Philippine Long Distance Telephone Co., Singapore Land Limited, and MIH Holdings Limited and Chairman and CEO of Romulo and Navarro, Inc. He graduated from Georgetown University in 1960 with a Bachelor of Arts in Political Science and completed his Bachelor of Laws degree in 1964 from Ateneo de Manila University.

### **JOSE C. VITUG, Independent Director**

Justice Jose C. Vitug (ret.), 72 years old, Filipino, has served as Independent Director of AEV since 2005. He is Professor Emeritus at the Philippine Judicial Academy, Supreme Court of the Philippines; Chairman of the Philippine Stock Exchange; Management Consultant/General Counsel of the Manila Electric Company; Consultant of Union Bank of the Philippines and the Committee on Revision of the Rules of Court and Committee on Legal Education and Bar Matters, Supreme Court of the Philippines. He is Chairman of the AUF Medical Center, SCCP Securities Clearing Corporation of the Philippines. He is the Dean of the AUF College of Law and Director of the Mission Communications Foundation, Inc. He finished his law degree, Cum Laude and obtained a Master of Laws and Master of National Security Administration degrees. He was a Fellow of the Commonwealth Judicial Education Institute, Dalhousie University, Halifax, Nova Scotia, Canada.

## **Nominations for Independent Directors and Procedure for Nomination**

The procedure for the nomination of independent directors is in AEV's "Guidelines for the Constitution of the Nomination Committee and the Nomination and Election of Independent Directors" (the "Guidelines"). These guidelines were approved by the AEV Board on February 10, 2003 and disclosed to all stockholders. Nominations for independent director were accepted starting January 1, 2007 as provided for in Section 2 of the Guidelines and the table for nominations was closed on February 15, 2007 as provided for in Section 3 of the Guidelines.

The Guidelines further require that the Nomination Committee shall meet to pre-screen all nominees, and shall submit a Final List of Candidates to the Corporate Secretary no later than February 22 so that such list will be included in the Corporation's Preliminary and Definitive Statements. Only nominees whose names appear on the Final List shall be eligible for election as independent directors. No other nominations shall be entertained after the Final List of Candidates has been prepared. The name of the person or group of persons who recommend the nomination of an independent director shall be identified in such report including any relationship with the nominee. All these procedures were complied with.

In approving the nominations for Independent Directors, the Nominations Committee considered the guidelines on the nominations of Independent Directors prescribed in SEC Memorandum Circular No. 16, Series of 2002 and the Guidelines.

In consonance with SEC Memorandum Circular No. 16, Series of 2002, no nominations for independent director shall be accepted at the floor during the stockholders' meeting at which such nominee is to be elected. However, independent directors shall be elected in the stockholders' meeting during which other members of the Board are to be elected.

Mr. Roberto R. Romulo and Ret. Justice Jose C. Vitug are the nominees for Independent Directors of AEV. They are neither officers nor employees of the Company or any of its affiliates, and do not have any relationship with the Company which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Attached as Annexes "C" are the Certifications of Independent Directors.

AEV stockholders Ms. Gemma Bojos and Ms. Jovy Tan have recommended Mr. Roberto R. Romulo and Justice Jose C. Vitug, respectively, as the Company's independent directors. Neither nominating stockholder has any relation to Mr. Romulo nor to Justice Vitug.

## **Nominees for Election as Members of the Board of Directors**

As conveyed to the Corporate Secretary, the following will also be nominated as members of the Board of Directors for the ensuing year (2007-2008):

**Jon Ramon Aboitiz**  
**Erramon I. Aboitiz**  
**Roberto E. Aboitiz**  
**Enrique M. Aboitiz, Jr.**

Pursuant to Sec. 1 (par. 2), Art. II of the Amended By-Laws of AEV, nominations for members of the Board of Directors must be submitted in writing to the Board of Directors at least five (5) working days before the regular annual stockholders' meeting on 21 May 2007, or not later than 14 May 2007.

All other information regarding the positions and offices held by the abovementioned nominees are integrated in Item 5 (a)(1) hereof.



## **Officers for 2006-2007**

Below is a list of AEV's officers for 2006-2007 with their corresponding positions and offices held for the past five years. The officers assumed their positions during AEV's annual organizational meeting in 2006, for a term of one year.

### **JUAN ANTONIO E. BERNAD, Senior Vice President-Electricity Regulatory Affairs**

Mr. Juan Antonio E. Bernad, 50 years old, Filipino, has been Senior Vice President-Electricity Regulatory Affairs of AEV since 2004. From 1995 to 2004, he was Senior Vice President and Chief Financial Officer of AEV. He is also Director and Executive Vice President/Chief Financial Officer-Electricity Regulatory Affairs of Aboitiz Power Corporation; Director and Senior Vice President/Chief Financial Officer of Davao Light and Power Co., Inc. and Cotabato Light and Power Company; Director of Union Bank of the Philippines; Chief Financial Officer of Visayan Electric Company, Inc.; Chairman of the Board of Trustees of ACO Retirement Fund and Trustee of Aboitiz Group Foundation, Inc. He graduated with a degree of Bachelor of Arts in Economics from Ateneo de Manila and took his Masters in Business Administration at The Wharton School, University of Pennsylvania, U.S.A.

### **STEPHEN G. PARADIES, Senior Vice President/Chief Financial Officer/Corporate Information Officer**

Mr. Stephen G. Paradies, 53 years old, Filipino, has been Senior Vice President/Chief Financial Officer/Corporate Information Officer of AEV since 2004. He was Compliance Officer of AEV until November 2005. From 2002 to 2004, he was Senior Vice President and Chief Audit Executive of AEV. He is also Senior Vice President for Finance of Aboitiz and Company, Inc.; Director of Union Bank of the Philippines, Union Properties, Inc., International Container Terminal Services, Inc., Pilmico Foods Corp. and Fil-Am Foods Corporation..; Director and Vice President of AEV Aviation, Inc.; Director and Vice President and Treasurer of Aboitiz Jebesen Bulk Transport Corp. and Vice Chairman of the Board of Directors of FBMA Marine, Inc. He obtained his Bachelor of Science in Business Management from Santa Clara University, California, U.S.A.

### **XAVIER J. ABOITIZ, Senior Vice President - Human Resources**

Mr. Xavier J. Aboitiz, 46 years old, Filipino, has been Senior Vice President for Human Resources of AEV since 2004. He is also Senior Vice President for Human Resources of Aboitiz & Company, Inc.; Management Committee member of Aboitiz Transport System, Corporation; Director of CSB Land Inc., Fil-Am Foods, Inc. and Pilmico Foods Corporation, and Trustee of Aboitiz Group Foundation Inc. Mr. Aboitiz has worked in various capacities in different companies under the Aboitiz Group of companies since 1983. He took up Business Administration – Finance at Gonzaga University, Spokane, U.S.A.

### **MIKEL A. ABOITIZ, Senior Vice President/Chief Information Officer**

Mr. Mikel A. Aboitiz, 52 years old, Filipino, has been Senior Vice President and Chief Information Officer of AEV since 2004. He is also Senior Vice President and Chief Information Officer of Aboitiz and Company, Inc.; Director and Senior Vice President/Treasurer of Aboitiz Construction Group, Inc.; Director and President/Chief Executive Officer of City Savings Bank; Director and Treasurer of Cebu Industrial Park Developers, Inc., and Cebu Industrial Park Services, Inc. and Director of Aboitiz Power Corporation, Aboitizland, Inc., Cotabato Light and Power Company, Davao Light and Power Co., Inc., FBMA Marine, Inc., Pilmico Foods Corp., K & A Metal Industries, Inc. and Tsuneishi Heavy Industries (Cebu), Inc. He has a Bachelor of Science degree in Business Administration from Gonzaga University, Spokane, U.S.A.

**LUIS MIGUEL O. ABOITIZ, First Vice President**

Mr. Luis Miguel O. Aboitiz, 42 years old, Filipino, has been Vice President of AEV since 1995 and promoted to First Vice President in 2004. He is also First Vice President of Aboitiz & Company, Inc.; Director and Vice President-Power Generation of Aboitiz Power Corporation; Director and Senior Vice President – Business Development of Hedcor, Inc. (formerly, Benguet Hydropower Corp.); Director and Vice President/Treasurer of Philippine Hydropower Corporation; Director of Davao Light and Power Company, Inc., Fil-Am Foods Inc., and Pilmico Foods Corporation. He graduated at Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering and took his Masters in Business Administration from the University of California at Berkeley, U.S.A.

**GABRIEL T. MAÑALAC, First Vice President-Treasury Services/Treasurer**

Mr. Gabriel T. Mañalac, 50 years old, Filipino, has been Vice President for Treasury Services/Treasurer of AEV since 1998 and was promoted to First Vice President for Treasury Services/Treasurer of AEV in 2004. He is also First Vice President for Treasury Services of Aboitiz and Company, Inc.; Vice President/Treasurer of Davao Light and Power Co., Inc. and Treasurer of Cotabato Light and Power Company. Mr. Mañalac graduated Cum Laude with a degree of Bachelor of Science in Finance and Bachelor of Arts in Economics from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance from the Asian Institute of Management and awarded Institute's Scholarship for Merit.

**M. JASMINE S. OPORTO, Corporate Secretary/Compliance Officer**

Ms. M. Jasmine S. Oporto, 47 years old, Filipino, has been Corporate Secretary of AEV since 2004 and Compliance Officer since November 2005. She is also General Counsel and First Vice President for Legal and Corporate Services of Aboitiz and Company, Inc.; Vice President for Legal Affairs of Davao Light and Power Co., Inc.; Corporate Secretary of Visayan Electric Company, Inc., and Luzon Hydro Corporation and Trustee of the ACO Retirement Fund. Prior to joining AEV, she worked in various capacities with the Hong Kong office of Kelley Drye & Warren, LLP, a New York-based law firm and the Singapore-based consulting firm Albi Consulting Pte. Ltd. She obtained her Bachelor of Laws from the University of the Philippines and is a member of both the Philippine and New York bars.

**BENJAMIN A. CARIASO, JR., Vice President-Project Development**

Mr. Benjamin A. Cariaso, Jr., 51 years old, Filipino, has been Vice President-Business Development of AEV since 1998. He is also Executive Vice President and Chief Operating Officer of Aboitiz Energy Solutions, Inc. and Director and Executive Vice President and Chief Operating Officer of Subic Enerzone Corporation. Mr. Cariaso is a graduate of Bachelor of Science in Industrial Engineering from the University of the Philippines and took up his Masters in Business Management in the same university.

**MELINDA RIVERA-BATHAN, Vice President/Controller**

Ms. Melinda R. Bathan, 46 years old, Filipino, has been Assistant Vice President and Controller of AEV since 1997 and was promoted to Vice President and Controller in 2004. She is also Vice President and Controller of Aboitiz and Company, Inc.; and Trustee of the ACO Retirement Fund. She graduated Summa Cum Laude from St. Theresa's College with a Bachelor of Science degree in Commerce, major in Accounting. She obtained her Masters in Management from the University of the Philippines with honors.

**CAROLINE BALLESTEROS, Assistant Vice President - Branding**

Ms. Caroline Ballesteros, 44 years old, Filipino, has been Assistant Vice President for Brand Management since August of 2005. Before joining the Corporation, she was Corporate Communications Officer – VISMIN at Etelecare Global Solutions, TV Host and News Anchor of ABS-CBN, Cebu Regional Station. She graduated Summa Cum Laude, Bachelor of

Science in Commerce, major in Accounting from the University of San Jose-Recoletos, Cebu City.

**STELLA OLIVE SUCALIT, Assistant Vice President - Corporate Finance**

Ms. Stella Sucalit, 44 years old, Filipino, has been Assistant Vice President for Corporate Finance of AEV since 2004. She has also been Assistant Vice President for Corporate Finance of Aboitiz and Company, Inc. since 2002. She obtained her Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines.

**NARCISA S. LIM, Assistant Vice President - Human Resources**

Ms. Nancy S. Lim, 43 years old, Filipino, has been Assistant Vice President for Human Resources of AEV since 2004. She has also been Assistant Vice President for Human Resources of Aboitiz and Company, Inc. since 2000 and Trustee of the ACO Retirement Fund. She holds a degree in International Studies from Maryknoll College.

**DELIA Y. MADERAZO, Assistant Vice President - iCSD**

Ms. Delia Y. Maderazo, 49 years old, Filipino, has been Assistant Vice President for iCSD of AEV since 2004. She has also been Assistant Vice President for iCSD of Aboitiz and Company, Inc. since 2000. She earned her degree in Bachelor of Science in Business Management and her Masters in Business Management from the University of the Philippines.

**LEAH I. GERALDEZ, Assistant Corporate Secretary**

Ms. Leah I. Geraldez, 37 years old, Filipino, has been the Assistant Corporate Secretary of AEV since 2006. She is also Assistant Corporate Secretary for Aboitiz Power Corporation; Corporate Secretary of Aboitiz and Company, Inc., and the Senior General Counsel for Corporate Secretarial and Compliance Services of ACO. She earned her Bachelor of Arts in Anthropology and Bachelor of Laws from the University of San Carlos. She is a member of the Philippine Bar.

**Period in which the Directors and Executive Officers Should Serve**

The directors and executive officers should serve for a period of one (1) year.

**Terms of Office of a Director**

Pursuant to the Company By-laws, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election and until his successor is duly elected unless he resigns, dies or removed prior to such election.

The seven (7) directors, who must be stockholders of AEV, are elected annually by the stockholders during the annual stockholders' meeting, where at least a majority of the outstanding capital stock should be present in person or by proxy. The Directors shall serve for a term of one (1) year and until the election and qualification of their successors.

Any vacancy in the Board of Directors other than by removal or expiration of term may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

**(2) Significant Employees**

AEV considers the contribution of every employee important to the fulfillment of its goals.

### (3) Family Relationships

Messrs. Jon Ramon Aboitiz and Roberto E. Aboitiz are brothers and are thus related to each other within the fourth civil degree of consanguinity.

Messrs. Erramon I. Aboitiz, Enrique M. Aboitiz, Jr. and Xavier Jose Aboitiz are brothers and thus, are also related to each other within the fourth civil degree of consanguinity. They are also related within the fourth civil degree of consanguinity to Mr. Stephen G. Paradies, who is their first cousin.

### (4) Involvement in Certain Legal Proceedings

To the knowledge and/or information of AEV, none of its nominees for election as directors, its present members of the Board of Directors or its executive officers, is presently or during the last five (5) years, been involved in any legal proceeding in any court or government agency in the Philippines or elsewhere which would put to question their ability and integrity to serve AEV and its stockholders. To the knowledge and/or information of AEV, the above-said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or by the laws of any other nation or country.

### (5) Certain Relationships and Related Transactions

The registrant and certain subsidiaries have management and other service contracts with Aboitiz & Company, Inc. (ACO) at fees based on agreed rates. Management and other service fees paid by the Group to ACO amounted to P56,576 and P206,130 in 2006 and 2005, respectively.

#### Parent Company

The parent and the ultimate parent of the Company is Aboitiz & Company, Inc.

#### (b.) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board of Directors since the date of AEV's last annual meeting because of a disagreement with AEV on matters relating to its operations, policies and practices.

### Item 6. Compensation of Directors and Executive Officers

Information as to the aggregate compensation paid or accrued to AEV's Chief Executive Officer and other highly compensated executive officers, as well as other directors and officers during the last two completed fiscal years and the ensuing fiscal year are as follows:

DIRECTORS & EXECUTIVE OFFICERS	PERIOD	SALARY	BONUS	OTHER COMPENSATION
<b>TOP FIVE HIGHLY-COMPENSATED EXECUTIVES:</b> JON RAMON A. ABOITIZ - Chief Executive Officer ERRAMON I. ABOITIZ - Chief Operating Officer ROBERTO E. ABOITIZ - Chairman of the Board STEPHEN G. PARADIES - Chief Financial Officer XAVIER JOSE ABOITIZ - Senior Vice President				
All above named officers as a group	Actual 2006	₱28,500,000.00	₱1,736,000.00	₱4,150,892.00
	Actual 2005	₱25,804,500.00	₱2,281,000.00	₱3,572,452.00
	Projected 2007	₱31,350,000.00	₱1,909,600.00	₱4,565,981.00

All other directors and officers as a group unnamed	Actual 2006	₱7,944,659.00	₱371,200.00	₱3,642,355.00
	Actual 2005	₱6,113,630.00	₱615,694.00	₱3,053,007.00
	Projected 2007	₱8,739,125.00	₱408,320.00	₱4,006,591.00

Except for the regular company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from AEV, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit-sharing.

There is no compensatory plan or arrangement between AEV and any executive in case of resignation or any other termination of employment or from a change in the management control of AEV.

#### **Item 7. Independent Public Accountant**

The accounting firm of Sycip, Gorres, Velayo & Company (SGV) has been AEV's Independent Public Accountant for the last thirteen (13) years. The same accounting firm is being nominated for re-election at the scheduled annual meeting of stockholders. Representatives of SGV will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed. SGV has accepted AEV's invitation to stand for re-election this year.

In accordance with SEC Memorandum Circular No. 8, Series of 2003 (Rotation of External Auditor), Mr. Jose Joel M. Sebastian was replaced as engagement partner starting fiscal year 2004 by Mr. Ladislao Z. Avila, Jr.

There was no event in the past thirteen (13) years where AEV and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

#### **Item 8. Compensation Plans**

No action is to be taken during the stockholders' meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

### **D. OTHER MATTERS**

#### **Item 15. Action with Respect to Reports**

1. Approval of the Minutes of the 2006 Annual Meeting of Stockholders and 2007 Special Meeting of Stockholders (with summary of the Minutes attached as Annex "A" and Annex "B")
2. Approval of the Annual Report of Management for the year ending 31 December 2006

#### **Item 16. Matters Not Required to be Submitted**

There is no act of management and the Board of Directors in the preceding year that needs the approval of the stockholders.

Ratification of acts of management and of the Board of Directors referred to in the Notice of the Annual Meeting refers only to acts done in the ordinary course of business and operation of AEV, which have been duly disclosed to the SEC and the PSE in accordance with law.

Ratification is being sought in the interest of transparency and as a matter of customary practice or procedure undertaken at every annual meeting of AEV stockholders.

A summary of the board resolutions approved during the period April 2006 to February 2007 is provided as follows:

#### **Special Board Meeting, April 5, 2006**

1. Approval of the 2005 audited Financial Statement Report
2. Authority to file a Motion to Withdraw Evidence in relation to Case No. 06-0057 – Reckless Imprudence Resulting to Homicide filed before Branch 90 of the Municipal Trial Court of Dasmariñas, Cavite

#### **Regular Board Meeting, May 15, 2006**

1. Authority to act as surety for the loan/credit accommodation granted by the Bank of the Philippine Islands (BPI) to Aboitiz Powersolutions, Inc. (now: Aboitiz Energy Solutions, Inc.)
2. Approval to grant temporary advances to Subic EnerZone Corp. (SEZC) in the amount of P11.6 Million
3. Approval to grant temporary advances to Aboitiz One, Inc. in the amount of P77.5 Million
4. Approval to grant temporary advances to Cotabato Light & Power Company (CLPC) in the amount of P55.5 Million
5. Approval to grant temporary advances to Pilmico Foods Corporation (PFC) in the amount of P436.4 Million
6. Approval to grant temporary advances to Aboitiz Transport System Corp. (ATSC) in the amount of P190 Million
7. Approval to grant temporary advances to CLPC in the amount of P5.3 Million
8. Approval to grant temporary advances to PFC in the amount of P65.3 Million
9. Approval to avail of temporary advances from APC in the amount of P76 Million
10. Approval to grant stockholder's advances to AEV Aviation in the amount of P26.5 Million
11. Authority to obtain loan and/or credit accommodation from a consortium of banks with Citicorp Capital Philippines Inc. as Issue Manager in the principal aggregate amount not exceeding P2 Billion
12. Authority to obtain loans and/or credit accommodations in the principal aggregate amount not exceeding US\$20 Million from the following banks:
  - a. ABN Amro Bank Inc.
  - b. ABN Amro Bank N.V. Manila Offshore Branch
  - c. Allied Banking Corporation
  - d. Australia and New Zealand Banking Group Limited
  - e. Banco De Oro Universal Bank
  - f. Bank of the Philippine Islands
  - g. Calyon Manila Offshore Branch
  - h. China Banking Corporation
  - i. Chinatrust (Phils.) Commercial Banking Corp.
  - j. Citibank N.A.
  - k. Deutsche Bank AG Manila Branch
  - l. Equitable PCI Bank
  - m. Fortis Bank S.A./N.V.
  - n. Hongkong and Shanghai Banking Corporation Limited
  - o. International Exchange Bank
  - p. ING Bank N.V.
  - q. Land Bank of the Philippines
  - r. Metropolitan Bank & Trust Company
  - s. Philippine National Bank
  - t. Rizal Commercial Banking Corporation
  - u. Security Bank Corporation

- v. Societe Generale
- w. Standard Chartered Bank
- x. Unin Bank of the Philippines
- y. UBS AG
- z. BNP Paribas, Singapore Branch
- aa. Bayerische Hypo-und Vereinsbank AG (HVB)

to cover the Bid Bond, Performance Bond, and Deferred Payment Security Bond and other obligations of the Corporation's 50%-owned subsidiary, SN Aboitiz Power, Inc., in connection with the privatization of PSALM's hydro assets and as may be required under the Bidding Terms of PSALM sale of hydro assets

2. Availment of institutional products of City Savings Bank
3. Availment of credit facilities with Marco Polo Plaza Cebu
4. Authority to execute and deliver a Performance Guarantee in favor of SN Power Holding Singapore Pte Ltd (SNP) and Manila-Oslo Renewable Enterprise, Inc. (MORE) to cover all the obligations of AEV's wholly-owned subsidiary Philippine Hydropower Corporation (PHC) under the Shareholders Agreement among ANP, MORE and PHC
5. Authority to execute and deliver an Equity Support Letter in favor of Statkraft Norfund Power Invest AS (SNPI) confirming AEV's commitment to provide AN Aboitiz Power, Inc. (SNAP) with equity support for the bidding and financing of the acquisition of one or more hydroelectric power generation facilities currently owned by the National Power Corporation of the Philippines
6. Availment of credit line with Cebu Pacific
7. Authority of Luis Miguel Aboitiz and Melissa Marie Aboitiz to apply for building permit for the renovation of the 2<sup>nd</sup> floor of the AEV building in Makati

#### **Regular Board Meeting, August 23, 2006**

1. Authority to guarantee the loan line/availments with Banco de Oro in favor of APC, CLPC, SEZC and HEDCOR, Inc.
2. Authority to avail of credit accommodations/facilities from Metrobank Head Office in the aggregate amount of P700 Million and US\$1 Million
3. Authority to guarantee the credit facilities of APC, CLPC, DLPC, HEDCOR, Inc. with Metrobank in the amount of P700 Million and US\$1 Million
4. Availment of institutional products of BPI Family Bank or any of its branches
5. Approval to obtain interest-free temporary advances from APC in the amount of P88 Million
6. Approval to obtain interest-free temporary advances from APC in the amount of P1.4 Million
7. Approval to grant interest-bearing temporary advances to ATSC in the amount of P150 Million
8. Approval to obtain interest-free temporary advances from APC in the amount of P58.435 Million
9. Authority to grant interest-bearing temporary advances to HEDCOR, Inc. in the amount of P90 Million
10. Authority to grant interest-free temporary advances to APC in the amount of P2 Million
11. Authority to grant interest-bearing temporary advances to PFC in the amount of P245.7 Million
12. Authority to grant interest-bearing temporary advances to Aboitiz & Co., Inc. (ACO) in the amount of P806.2 Million
13. Authority to grant interest-bearing temporary advances to ACO in the amount of P760.8 Million
14. Approval to execute an International Swaps and Derivatives Association (ISDA) Master Agreement with the following banks:
  - a. Citibank N.A
  - b. Standard Chartered Bank
  - c. Deutsche Bank AG
  - d. Bank of the Philippine Islands

- e. Hongkong and Shanghai Banking Corporation Limited
  - f. JPMorgan Chase Bank, NA, Manila Branch
15. Availment of credit facilities with Landmark Corporation
  16. Opening of account with UBS Securities Philippines, Inc.
  17. Opening of account with Macquarie Securities (Philippines), Inc.
  18. Opening of account with Deutsche Regis Partners, Inc.

**Special Board Meeting, September 12, 2006**

1. Conversion of ATSC preferred shares into common shares

**Regular Board Meeting, November 16, 2006**

1. Authority to negotiate with BPI Capital Corporation in the principal amount of P3.3 Billion to re-finance AEV's preferred shares and 2007 amortizations
2. Authority to obtain loans and/or credit accommodations with Standard Chartered Bank in the principal aggregate amount not exceeding US\$25 Million to cover the Bid Bond, Performance Bond and Deferred Payment Security Bond of AEV's 50%-owned subsidiary, SN Aboitiz Power, Inc., in connection with the privatization of PSALM's sale of hydro assets
3. Authority to obtain loans and/or credit accommodations with Deutsche Bank AG in the principal aggregate amount not exceeding US\$25 Million to cover the Bid Bond, Performance Bond and Deferred Payment Security Bond of AEV's 50%-owned subsidiary, SN Aboitiz Power, Inc., in connection with the privatization of PSALM's sale of hydro assets
4. Authority to negotiate for loan/credit accommodations in the aggregate amount of US\$9 Million from The Hongkong and Shanghai Banking Corporation Limited
5. Appointment of UBP Trust as trustee, receiving bank and stock transfer and paying agent for the issuance of the new preferred shares
6. Ratification of the authority of management to appoint Securities Transfer Services, Inc. (STSI) as the new stock transfer agent of AEV's common shares effective November 20, 2006 and approval of the appointment of STSI as stock and transfer and paying agent of AEV's preferred shares after the redemption of the fixed rate preferred shares and issuance of new preferred shares
7. Authority to obtain temporary advances from APC in the amount of P56.6 Million
8. Authority to obtain temporary advances from APC in the amount of P18.850 Million
9. Authority to grant temporary advances to ACO in the amount of P891 Million
10. Authority to obtain temporary advances from APC in the amount of P232 Million
11. Authority to grant temporary advances to Fil Am Foods, Inc. (FFI) in the amount of P36.5 Million
12. Authority to grant temporary advances to CLPC in the amount of P22 Million
13. Authority to grant temporary advances to PFC in the amount of P553.8 Million
14. Authority to obtain temporary advances from APC in the amount of P732.6 Million
15. Approval for the settlement of the case of Elizabeth Siquian vs. UBP, UPI and AEV
16. Sale of motor vehicle
17. Authority of Mr. Mikel A. Aboitiz to represent and vote in the special stockholders' meeting of City Savings Bank
18. Redemption of preferred shares Series "B" and "C"
19. Payment of unpaid subscription in APC
20. Authorized signatories for Globelines E1 R2 services

**Special Board Meeting, December 15, 2006**

1. Availment of Megaworld Prop. & Holdings Inc. stock rights



### **Special Board Meeting, January 11, 2007**

1. Ratification of the plan of APC to undertake an initial public offering (IPO) of its shares by listing its common shares of stock with the PSE and the authority of AEV to assign all its rights, title and interests in the shares of stock in various power companies in exchange for common shares of stock in APC subject to the approval of the PSE, SEC and other required regulatory authorities
2. Appointment of UBS as financial advisor in connection with the planned IPO of APC
3. Approval of the policy of distributing at least one-third of the Corporation's previous year's earnings as cash dividends to its stockholders for the applicable year
4. Declaration of cash dividend of P0.20 per share to all stockholders of record as of February 9, 2007 and payable on February 23, 2007
5. Authority to obtain loans and/or credit accommodations from Standard Chartered Bank in the principal aggregate amount not exceeding US\$26.5 Million to cover the Bid Bond, Performance Bond and Deferred Payment Security Bond of SNAP in connection with the privatization of PSALM's hydro assets
6. Authority to avail of short-term financing for Magat Hydroelectric Project for either a USD or Peso financing up to the equivalent of US\$4 Billion from the various local and foreign banks
7. Assignment of the Management Contracts of DLPC and CLPC to APC effective January 1, 2007

### **Special Board Meeting, January 16, 2007**

1. Authority to subscribe, out of the proposed increase in the authorized capital stock of APC, three billion APC common shares at the subscription price of P1.00 per share or a total of P3 Billion
2. Holding of a special stockholders meeting on February 27, 2007 for the ratification by the stockholders of the consolidation and assignment of AEV's power shareholdings to APC
3. Authority of Mr. Alfonso Y. Aboitiz to represent AEV in the special stockholders' meeting of the Visayan Electric Co., Inc.
4. Authority of AEV to secure the credit line of HEDCOR, Inc. with the Metropolitan Bank and Trust Company in the aggregate amount of P205 Million

### **Regular Board Meeting, February 8, 2007**

1. To authorize ACO and its authorized officers, employees and representatives to apply and avail in behalf of AEV, of any products, services and facilities of the Bank of the Philippine Islands
2. Authority to enter into transactions and/or avail of institutional products of Robinsons Savings Bank
3. Guarantee of the loan of HEDCOR, Inc. with Security Bank Corporation in the amount of P250 Million
4. Authority to avail of loans/credit facilities with Equitable PCIBank up to the principal amount of P1.880 Billion
5. Authority to enter into and avail of institutional products of JP Morgan Chase Bank
6. Authority to act as surety for the obligations incurred or maybe incurred by APC and CLPC with China Banking Corporation
7. Authority to grant loan to SNAP for the Magat Hydropower project
8. Sale of motor vehicle to Mr. Jojoff Escobal
9. Sale of motor vehicles

### **Item 19. Voting Procedures**

#### **(a) Vote Required for Election**

Article 1 Section 4 of the AEV By-Laws states that a quorum for any meeting of stockholders shall consist of the majority of the outstanding capital stock of AEV, and that a majority of

such quorum shall decide any question in the meeting except those matters in which the Corporation Code requires a greater proportion of affirmative votes.

Regarding the election of members to the Board of Directors, nominees who receive the highest number of votes shall be declared elected pursuant to Section 24 of the Corporation Code of the Philippines. Likewise, the nominee for AEV's external auditor who receives the highest number of votes shall be declared elected.

**(b) The Method by which the Votes will be Counted**

In the election of directors, the top seven (7) nominees with the most number of votes shall be declared elected. If the number of nominees does not exceed the number of directors to be elected, all the shares present or represented at the meeting will be cast in favor of the nominees. If the number of nominees exceeds the number of directors to be elected, voting will be done by ballots.

In the election of directors, the stockholder may choose to do any of the following:

- (a) Vote such number of shares for as many person(s) as there are directors to be elected;
- (b) Cumulate such shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares;
- (c) Distribute his shares on the same principle as option (b) among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected.

The method of counting the votes of shareholders shall be in accordance with the general provisions of the Corporation Code of the Philippines. The counting of votes shall be done by representatives from Sycip, Gorres, Velayo and Associates as External Auditors and the Office of the Corporate Secretary, all of whom shall serve as members of the Election Committee.

Other than the nominees' election as directors, no director, executive officer, nominee or associate of the nominees has any substantial interest, direct or indirect by security holdings or otherwise, in any way of the matters to be taken upon during the meeting. AEV has not received any information that an officer, director or stockholder intends to oppose any action to be taken at the Annual Stockholders' Meeting.

AEV's Annual Report in SEC Form 17-A will be given free of charge to AEV stockholders upon written request. Please write to:

Investor Relations Office  
Aboitiz Equity Ventures, Inc.  
Aboitiz Corporate Center  
Gov. Manuel A. Cuenco Avenue,  
Kasambagan Cebu City

Attention: Ms. Ma. Theresa Sederiosa

This Information Statement and the Annual Report in SEC Form 17-A will also be posted at AEV's website: [www.aboitiz.com](http://www.aboitiz.com).

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Cebu on March 30, 2007.

**ABOITIZ EQUITY VENTURES, INC.**

By:

  
**M. JASMINE S. OPORTO**  
*Corporate Secretary*

## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### (1) Business Development

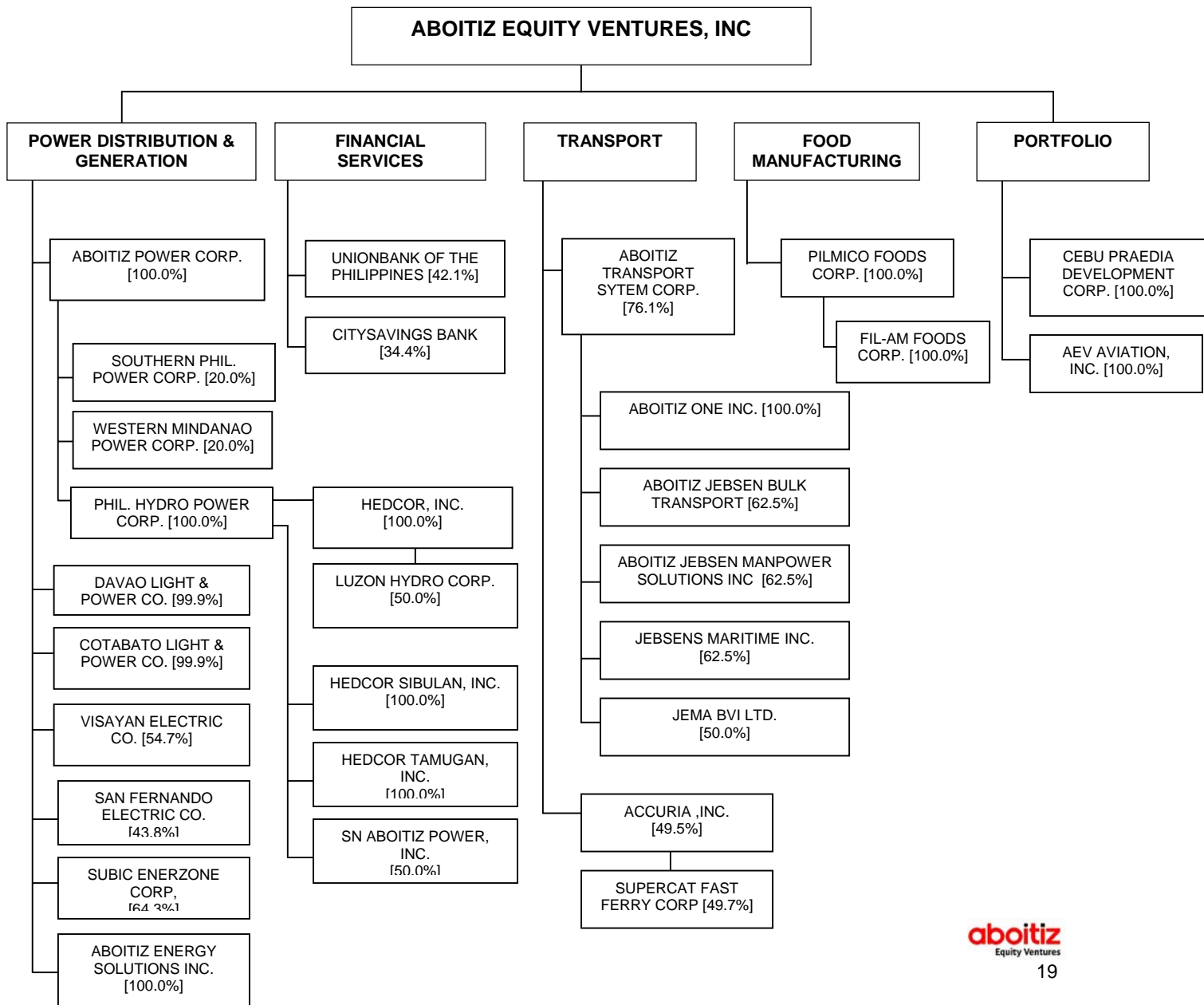
The registrant, Aboitiz Equity Ventures, Inc. (AEV), is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. Incorporated on September 11, 1989, the company was originally known as Cebu Pan Asian Holdings, Inc. Its name was changed to Aboitiz Equity Ventures, Inc. on December 29, 1993, and its ownership was opened to the general public through an Initial Public Offering (IPO) of its stocks in 1994.

#### (2) Business of Issuer

##### (i) Products

AEV’s core businesses, conducted through its various subsidiaries and affiliates, can be grouped into five main categories as follows: (a) power distribution and generation, (b) financial services, (c) food manufacturing, (d) transport, and (e) portfolio investments (parent company/others).

The companies under these categories are as follows:



Based on SEC's parameters of what constitutes a significant subsidiary under Item XX of Annex "B" (SRC Rule 12), the following are AEV's significant subsidiaries: Aboitiz Power Corporation and subsidiaries, Davao Light and Power Company, Inc., Aboitiz Transport System Corporation and subsidiaries, and Pilmico Foods Corporation and subsidiary.

**(ii) Sales**

Comparative amounts of revenue, profitability and identifiable assets are as follows:

	<b>2005</b>	<b>2006</b>
Gross Income	26,923	
Operating Income	2,142	
Total Assets	38,269	

**Note:** Values in the above table are in Million Pesos.

The operations of AEV and its subsidiaries are based solely in the Philippines. With the acquisition by ATSC of the other transport businesses of the Aboitiz Group, a portion of AEV's 2005 consolidated revenues was generated from the international operations of certain subsidiaries.

Comparative amounts of revenue contribution by business grouping are as follows:

	<b>2005</b>		<b>2006</b>	
Power Distribution & Generation	8,106	30%		
Food Manufacturing	7,037	26%		
Transport	11,657	43%		
Portfolio	398	1%		
<b>Total Revenue</b>	<b>27,198</b>			
Less: Eliminations	275			
<b>Net Revenue</b>	<b>26,923</b>			

**Note:** Values for the above table are in Million Pesos. Percentages refer to the business group's share in net revenue for a given year. The financial services group is not included in the table since UBP and CSB are not consolidated companies, and therefore, their revenues do not form part of "Net Revenues" reflected in the consolidated income statement. Instead, the financial services sector's contribution to registrant's net income is reported under the account "Share in Net Earnings of Associates". For additional details on the income contribution of all business segments/groups to AEV, please refer to Business Segment Information of the Notes to the Consolidated Financial Statement.

**(iii) Distribution Methods of the Products or Services**

**POWER GENERATION AND DISTRIBUTION**

This business is divided into two groups, namely:

- Power Generation, is composed of various companies under Aboitiz Power Corporation (APC), AEV's wholly owned holding company for power generation investments. These include Philippine Hydropower Corporation, a 100% owned holding company for its hydropower businesses, which are HEDCOR Inc., Luzon Hydro Corp. and SN Aboitiz Power, Inc. Southern Philippines Power Corporation (SPPC) and Western Mindanao Power Corporation (WMPC) are bunker-fired plants partly owned by APC.
- Power Distribution, which is composed of five electricity distribution companies namely: Davao Light and Power Company, Inc. (DLPC), Cotabato Light and Power Company (CLPC), Visayan Electric Company, Inc. (VECO), San Fernando Electric Light and Power Company (SFELAPCO) and Subic Enerzone Corporation (SEZC).

The operations and businesses of these companies are briefly described below:

## **Aboitiz Power Corporation (APC)**

APC was incorporated on February 13, 1998 as a holding company for AEV's power investments. To prepare for future growth however, APC was repositioned on the third quarter of 2003 as a holding company owning purely power generation assets. Distribution assets were divested through a property dividend declaration which transferred direct control over the power distribution companies to AEV. APC divested its stockholdings in the various distribution companies with an aggregate carrying value of P3.18 billion.

At present, APC's holdings include the companies of the hydropower generation group, and investments in two diesel-fired power plants in Mindanao, SPPC and WMPC.

APC opened the year 2007 by announcing its intention to become a public company through an initial public offering (IPO) of its shares through the Philippine Stock Exchange, Inc. (PSE), subject however to the approval of PSE, Securities and Exchange Commission (SEC) and all other regulatory authorities. Pursuant to the planned IPO, the Board of Directors of AEV approved the assignment of all its rights and interests in the different power distribution utilities at their historical acquisition costs in exchange for the issuance in its favor of common shares in APC valued at par. The said transfer is still pending before the SEC.

The planned public offering is consistent with the spirit of the Electric Power Industry Reform Act (EPIRA) for broader public ownership of electricity distribution and generation assets. The offering will also enhance APC's position as a participant in the privatization of NAPOCOR assets as well as in the development and acquisition of additional power projects.

## **Philippine Hydropower Corporation (PHC)**

PHC, a wholly owned subsidiary of APC, is the holding company for all investments in hydropower generation. Its subsidiaries are HEDCOR, Inc. (formerly: Benguet Hydropower Corporation) which has a 50% stake in Luzon Hydro Corp. (LHC), Hydro Electric Development Corp. (HEDC), Northern Mini Hydro Corp. (NMHC), Hedcor Sibulan, Inc. and Hedcor Tamugan, inc. (formerly: Hydro Specialist Inc.). PHC beneficially owns 50% of SN Aboitiz Power, Inc. (SNAP).

In June of 2005 the mini-hydro investments of PHC were consolidated into HEDCOR, Inc. following a de facto merger with HEDC and NMHC.

In December 2006, HEDC and NMHC declared property dividends to its stockholders in the form of HEDCOR, Inc. common shares increasing PHC's direct ownership in HEDCOR.

## **HEDCOR, Inc. (HEDCOR)**

HEDCOR, formerly known as Benguet Hydropower Corporation, owns, operates and/or manages 15 mini-hydro plants of the run-of-river type with a combined capacity of 39.5 MW. It also holds a 50% stake in the 70 MW Bakun AC plant of LHC.

In 2004, 2005 and 2006, HEDCOR's mini-hydroelectric plants generated a total of 132.0 GWh, 146.0 GWh and 158.0 GWh of electricity, respectively.

In February 2007 HEDCOR participated and won, together with PHC, Hedcor Sibulan, Inc. and Hedcor Tamugan, Inc. (collectively the Hedcor Consortium), the competitive bidding for a supply of 400,000,000 kWh per year of new capacity starting August 2009 to Davao Light and Power Company Inc. (DLPC). The Hedcor Consortium's bid price was P4.0856 per kWh. The award of the 12-year power supply contract is subject to the approval of the Energy Regulation Commission (ERC).

### **Luzon Hydro Corporation (LHC)**

LHC, HEDCOR's joint venture company with Pacific Hydro Pty Ltd of Australia, operates and manages the 70-mW Bakun AC hydro project located in Bakun, Benguet. The project is a run-of-river power plant, which taps the flow of the neighboring Bakun River to provide the plant with its generating power. The US\$150 million project is under the government's build-operate-transfer scheme. The Bakun AC plant went onstream in October 2000 and is rated to generate 217 gWh of power annually. Energy produced by the plant is delivered and taken up by NPC and dispersed to its Luzon Power Grid.

### **SN Aboitiz Power, Inc. (SNAP)**

SNAP is the joint venture between APC, through subsidiary PHC, and SN Power Invest AS of Norway (SN Power).

On December 14, 2006 SNAP submitted the highest bid (US\$530 million) to Power Sector Assets and Liabilities Management Corporation (PSALM) for the 360 mW Magat Hydroelectric Power Plant Complex located in the border of Isabela and Ifugao provinces. On January 9, 2007 PSALM issued the Notice of Award to SNAP, officially declaring the joint venture as the winning bid for Magat. After Talomo, the facility is the second hydroelectric power asset acquired by APC from the government.

The Magat facility will add a significant amount of hydroelectric capacity to APC's portfolio of power generation assets. Over the near term, the Magat facility is expected to participate in the Wholesale Electricity Spot Market (WESM) for the Luzon Grid and dispatch electricity based on the rules and regulations governing the WESM. SNAP is also considering entering into bilateral contracts with power distribution utilities.

### **Hedcor Sibulan, Inc.**

Hedcor Sibulan is the project company for the Sibulan hydropower project, two cascading hydropower plants with a total capacity of 42.5 megawatts and a projected energy generation of 210 million kilowatt-hours annually. The plants will utilize the waters of the Sibulan and Baroring Rivers in Davao del Sur. The project is estimated to cost P4.85 billion, making it one of AEV's largest investments to date.

Hedcor Sibulan is a member of the consortium that won the bid to supply 400,000,000 kWh per year to DLPC. Under the 12-year power supply agreement, all the power generated by the Sibulan hydropower plants will be purchased by DLPC.

### **Hedcor Tamugan, Inc.**

Hedcor Tamugan, formerly known as Hydro Specialists, Inc., is the project company for the 30.5 mW Tamugan-Suawan hydropower project. The project consists of two distinct run-of-river mini-hydro plants located immediately outside the boundaries of Davao City.

Hedcor Tamugan is a member of the consortium that won the bid to supply 400,000,000 kWh per year to DLPC. Under the 12-year power supply agreement, all the power generated by the Tamugan-Suawan hydropower plants will be purchased by DLPC.

### **Southern Philippines Power Corporation (SPPC)**

SPPC is a partnership among Alson's Consolidated Resources, Toyota Tsusho, and Electricity Generating Public Company Limited incorporated in 1996 to implement the Energy Conversion Agreement ("ECA") with National Power Corporation ("NPC") covering the General Santos 55 mW Bunker-C Fired Diesel Power Station. Under the ECA, which has an 18-year term running all the way up to May 2016, SPPC converts fuel supplied by NPC into electricity for exclusive delivery to the Mindanao grid.

Located in Alabel, Sarangani which is just outside Gen. Santos City, the SPPC power station is equipped with 5 units of Wärtsilä 18V38 diesel generating sets each with a net capacity of 10 mW and one unit of Wärtsilä 18V32 with a net capacity of 6.4 mW. Aside from providing much needed capacity to the Southwestern Mindanao Area, SPPC also performs the role of voltage regulator for Gen. Santos City ensuring the availability, reliability, and quality of power supply in the area. The SPPC power station is among the most efficient diesel plants in the country, continuously meeting its performance guarantees to NPC.

### **Western Mindanao Power Corporation (WMPC)**

Like SPPC, WMPC is a partnership of APC, Alson's Consolidated Resources, Toyota Tsusho and Electricity Generating Public Company Limited, incorporated in 1996 to implement the Energy Conversion Agreement ("ECA") with National Power Corporation ("NPC") covering the Zamboanga 100 mW Bunker-C Fired Power Station. Under the ECA, which has an 18-year term running all the way up to December 2015, WMPC converts fuel supplied by NPC into electricity for exclusive delivery to the Mindanao grid.

Located in Sangali, Zamboanga City, the WMPC power station is equipped with ten (10) units of Wärtsilä 18V38 diesel generating sets each with a net capacity of 10 mW. Aside from providing much needed capacity to the Zamboanga Peninsula, WMPC also performs the role of voltage regulator for Zamboanga City ensuring the availability, reliability, and quality of power supply in the area. The WMPC power station is among the most efficient diesel plants in the country, continuously meeting its performance guarantees to NPC.

### **Davao Light and Power Company, Inc. (DLPC)**

Acquired by Aboitiz and Company, Inc. in 1947, DLPC is the third largest privately-owned electric utility in the country. Incorporated on October 29, 1929. DLPC was first granted a 50-year distribution franchise in the same year by the precursor of the National Electrification Administration (NEA). DLPC's franchise was extended for 25 years in 1980 by the National Electrification Commission and again extended by Congress for another 25 years in 2000 through Republic Act No. 8960. Its franchise area includes Davao City, and Davao del Norte's Panabo City, and the municipalities of Carmen, Dujali, and Sto. Tomas with a total combined population of about 1.2 million.

DLPC buys power from NPC and HEDCOR and also uses its Bajada standby diesel power plant. It charges end-users the cost of distributing generated power.

The company has a 150 mVA ERA substation in Bajada drawing power at 138 kV. DLPC also draws power from Transco's 138 kV New Lo-on Substation. It is in the process of energizing its new 50 mVA 138 kV Don Ramon substation in Bunawan. Its standby 53.8 mW diesel plant is capable of supplying 18% of the energy requirements in its franchise area.

The company has a fully functional automated mapping and facilities management (AM/FM) system, developed in-house by DLPC's programmers. It allows DLPC to track down field assets, determine a customer's electricity utilization and detects malfunctions or abnormal usage such as illegal tapping. Through its Supervisory Control and Data Acquisition (SCADA) system, DLPC engineers are able to monitor the company's electric distribution assets via remote control.

As of 2006 DLPC's manpower complement was 379, serving 238,612 residential, commercial, industrial, and flat rate customers at a peak load of 238 megawatts (MW). It has one of the lowest systems losses in the industry at 8.89%, lower than the government mandated cap of 9.50% set for private electric utilities.

### **Cotabato Light and Power Company (CLPC)**

CLPC was incorporated on April 23, 1938. Originally granted a 50-year distribution franchise by the precursor of the National Electrification Administration (NEA) Its franchise was



extended by the Energy Regulatory Board in 1990 for another 25 years from June 17, 1989, or until 2014.

Like DLPC CLPC buys power from NPC and has its own 9.9 mW diesel generating station. It charges end-users the cost of distributing power.

CLPC's franchise area covers the city of Cotabato, and a part of the municipalities of Datu Odin Sinsuat (formerly Dinaig) and Sultan Kudarat, both in Maguindanao. As of 2006 it has a manpower complement of 83 full-time and a number of contractual employees serving a total of 26,911 residential, commercial, industrial, and flat rate customers. Systems loss for the period was at 10.85% and peak load at 22 mW.

Although a relatively small utility, CLPC's linkage with DLPC allows it to immediately benefit from the latter's system developments. CLPC also has a working AM/FM system and SCADA system in place. The company shares the economies of bulk materials purchasing with DLPC and enjoys many other technological advantages of DLPC's engineering team without duplication of overhead.

### **Visayan Electric Company, Inc. (VECO)**

Since its inception VECO has been engaged in the sale and distribution of electric light, heat and power. The original franchise of VECO as a corporate entity covered only the then Municipality of Cebu, but on December 8, 1928, it was granted a 50-year legislative franchise under R.A. No. 3499, to install, operate, and maintain an electric light, heat and power system not only in the Municipality of Cebu but extending to the Municipalities of Talisay, Minglanilla, Naga, San Fernando, Mandaue, Consolacion, Liloan and Compostela, all in the Province of Cebu.

On June 17, 1961 Republic Act No. 3234 was enacted authorizing the sale, transfer and conveyance of the franchise and all properties and rights of Visayan Electric Company, S.A. to the new corporate entity, the Visayan Electric Company, Inc. On June 17, 1972, VECO's franchise was extended by virtue of Republic Act No. 6454 for another period of 25 years upon the expiration of its original franchise in 1978. On December 8, 2003, the National Electrification Commission (NEC) in its Case No. 2000-08 renewed VECO's franchise for another 25 years. On September 24, 2005, VECO, the second largest private electric utility in the Philippines, was granted under Republic Act No. 9339 a renewal of its legislative franchise to distribute electric light and power in the cities of Cebu, Mandaue and Talisay and the municipalities of Liloan, Consolacion, Minglanilla, Naga and San Fernando in Cebu Province. The franchise is for a term of twenty-five (25) years and will expire in 2030.

VECO's service coverage is about 672 square kilometers with an estimated population of 1.5 million as of 2005 with a total demand of 309.8 MW and consumption of 1,683.57 Gwhrs.

VECO currently has 385 full-time employees serving 282,634 residential, commercial, industrial, and flat rate customers. Its systems loss as of the end of 2006 stood at 9.82%, while load demand for the same period peaked at 308 MW.

### **San Fernando Electric Light and Power Company (SFELAPCO)**

SFELAPCO is the seventh largest privately-owned electricity distributor in the country and AEV's first power distribution investment in Luzon. Its average systems loss is much lower than the ERC-mandated cap of 9.5% pegged for private electric utilities.

A medium-sized electric distribution utility, SFELAPCO is one of the first electric companies in Pampanga. It was founded and incorporated in 1927. It has a 50-year renewable franchise which was last extended by Congress in January 23, 1961 through R.A. No. 3207.

SFELAPCO provides the energy needs of the City of San Fernando and the Municipality of Floridablanca, both in Pampanga. Its franchise area covers 204 square kilometers and has a

population of around 365,427. It has approximately 65,566 customers and distributed 365,661 mWh of electricity as of the end of 2006.

SFELAPCO procures energy from NPC and from HEDCOR. SFELAPCO has a fully functional automated mapping and facilities management (AM/FM) system.

### **Subic EnerZone Corporation (SEZC)**

SEZC is a consortium of DLPC, AEV and Mirant Philippines, SFELAPCO and Pampanga Sugar Development Company, Incorporated (PASUDECO) that manages the power distribution system within the Subic Bay Freeport Zone. In May 2003, it won the competitive bid to provide power distribution services to the Freeport Zone for a period of 25 years. On October 25, 2003, it was formally awarded the contract to manage the power distribution system by the Subic Bay Metropolitan Authority (SBMA), the same day that SEZC officially took over the operations of the power distribution system.

As of 2006, the company serves 2,464 residential, commercial and industrial customers with a workforce of 40 full-time and contractual employees. Its systems loss stood at 4.26%, while load demand for the same period peaked at over 34 mW.

### **FINANCIAL SERVICES**

AEV's financial services group is composed of two companies: (1) Union Bank of the Philippines (UBP), a leading universal bank in the country, and (2) City Savings Bank (CSB), a thrift bank based in Cebu City in the Visayas.

#### **Union Bank of the Philippines (UBP)**

UnionBank was founded in August 1968 as a savings bank, and was granted its commercial banking license by the Central Bank of the Philippines in 1982. In July 1992, UnionBank received its license to operate as a universal bank. In 1994, it successfully acquired and merged with the International Corporate Bank, widening its business scope and presence in the Philippines. That same year, UnionBank embarked on a comprehensive corporate restructuring program through investments in technology, creation of new products and the development of on-line banking capabilities, all of which have become the bank's competitive strengths.

As part of its growth strategy, UBP acquired the International Exchange Bank (iBank) in June 2006 for close to P14 billion.

Its acquisition and merger of iBank catapulted UBP to being the 7<sup>th</sup> largest bank in terms of assets and loan portfolio and 9<sup>th</sup> largest in terms of deposits. It likewise ranked 7<sup>th</sup> largest in terms of branch network with 191 branches. As of 2006 UBP has 2,951 employees.

At present AEV beneficially holds approximately 42.01% of the bank. Other major shareholders of UnionBank are Insular Life Assurance Company, Ltd. and the Social Security System.

As a universal bank, UnionBank provides a broad range of services to corporate and individual clients such as depository, loan facilities, international banking, cash management, money market, trust, treasury services and online banking products.

UBP caters primarily to the middle market. Recognizing that larger domestic and foreign banks in the Philippines compete aggressively for the direct lending business of top corporate clients, UBP focuses on transactional products that do not require significant commitment of funding. However, to augment its relatively small branch network, the bank has employed a nationwide direct sales force responsible for referring customers to business managers of the branches. This innovative strategy has been successful in significantly expanding UBP's retail customer base, composed mainly of the A, B and upper C income classes.

UBP focused on cash management services and solutions for corporate clients. With its extensive technical capabilities, it has found a niche for providing a whole range of receivables and payables management products and services for both local and multinational corporate clients. UBP has begun to tap into the market of small and medium-sized companies by offering corporate solutions previously available only to large corporations.

### **City Savings Bank (CSB)**

City Savings Bank (CSB), a thrift bank, was incorporated on December 9, 1965 and was originally known as Cebu City Savings and Loan Association. It was the first of its kind to be organized under the "Savings and Loan Association Act", otherwise known as Republic Act 3779.

After over 40 years of operation, CSB now has a paid-up capital of almost P200 million with total resources of over P1 billion, a significant lead from the P875 thousand at the close of its first year of operation. As of 2006 CSB counts on the strong patronage of 58,948 depositors with a deposit base of about P2 billion, and 48,806 borrowers with a total loan portfolio of P1.7 billion. It is acknowledged to have one of the strongest balance sheets in the industry.

CSB's various products include salary loans, home mortgage loans, home improvement loans as well as small business loans. The bank also offers very competitive rates for savings products with minimum deposits as low as P100.

CSB has a total of 15 branches and extension offices located all over the Visayas and Mindanao. It has four full branches and one extension office in the province of Cebu. Other branches and extension offices are located in the cities of Ormoc, Calbayog, Tacloban, Iloilo, Bacolod, Tanjay, Davao, Tagbilaran, Ubay. It recently opened branches in Cagayan de Oro and Roxas. CSB's branch expansion is expected to continue in 2007.

### **FOOD MANUFACTURING**

AEV's food manufacturing group is presently made up of Pilmico Foods Corporation (Pilmico) and its subsidiary Fil-Am Foods, Inc.

In the last quarter of 2006, Pilmico divested its holdings in Pilmico-Mauri Foods Corporation, a former joint venture with Associated British Foods Plc engaged in the manufacture of yeast and specialty baking products.

#### **Pilmico Foods Corporation (Pilmico)**

Pilmico is one of the country's largest manufacturers of flour and is ranked among the top three domestic flour producers in terms of sales.

Incorporated on August 8, 1958, Pilmico started out as a joint venture among the Aboitiz Group, the Lu Do Group, the Soriano Group and the Pillsbury Group of the United States. The Lu Do, Soriano and Pillsbury Groups eventually sold off their individual holdings to AEV.

Pilmico is primarily engaged in the manufacture of wheat flour and wheat by-products. As a flour miller, the company brings into the market a variety of brands such as "Sun Moon Star", "Sunshine", "Glowing Sun", "Kutitap", "Gold Star" and "Megastar". Aside from these basic all-purpose baking flour brands, Pilmico also offers a high-end cake flour under the "Wooden Spoon" brand. It imports both soft and hard wheat, the main raw materials for its products, from the United States and Canada.

Pilmico products are distributed nationwide through external distributors and dealers located in major cities like Manila, Davao, Iloilo, Bacolod, Iligan and Cebu. These distributors handle sales to bakeries, restaurant chains, hotels, and other large end-users.

## **Fil-Am Foods, Inc. (Fil-Am)**

To diversify from the cyclical nature of its existing products, Pilmico also entered the swine production and animal feeds business in 1997. Fil-Am Foods, Inc. (Fil-Am) was a joint venture with Tyson International Holding Company, a subsidiary of Tyson Foods, Inc., and PM Nutrition Company, Inc., an affiliate of Purina Mills, Inc. In January 1999, Fil-Am began commercial operations of its feed milling plant and started its swine operations in the second half of that year.

In October 2002, Fil-Am became a wholly owned subsidiary of Pilmico following Pilmico's acquisition of its partners' equity. This strengthened and further diversified Pilmico's focus and core competence in the feed milling industry. Fil-Am's products are sold under the "Farmer's Edge" brand.

## **TRANSPORT**

AEV's transport business is made up of two groups: (a) Aboitiz Transport System Corporation (formerly William, Gothong and Aboitiz, Inc.) and its subsidiaries; and (b) Accuria, Inc. (formerly Aboitiz Transport System, Inc.), which includes all transport-related business of AEV outside of ATSC (e.g., Supercat Fast Ferry Corporation)

### **Aboitiz Transport System Corporation (formerly William, Gothong and Aboitiz, Inc.)**

AEV's transport and logistics business is consolidated under Aboitiz Transport Systems Corp. (ATSC). This includes holdings in companies engaged in domestic air freight forwarding and cargo handling services, ship technical management, manpower recruitment and training for domestic and international markets. However, ATSC's primary business remains the operation of the country's largest passenger and cargo shipping transport.

ATSC, is the result of the 1995 merger of the three biggest shipping companies in the Philippines at that time: William Lines owned by the Chiongbian family, Carlos A. Gothong Lines of the Gothong family, and Aboitiz Shipping Corporation. In September 2002, the three major owners of ATSC, then known as WG&A, Inc., finalized an agreement for the Aboitiz Group to buy out the Chiongbian and Gothong (C&G) groups for a total cash value of about P5.40 billion.

Through a shares swap agreement during the first half of 2005, ATSC increased its holdings in Aboitiz One Inc. (100%), Aboitiz Jebsen Bulk Transport Corp. (62.5%), Aboitiz Jebsen Manpower Solutions (62.5%), Jebsen Maritime Inc. (62.5%), and Jebsen Management Ltd (50.0%). This was done to bring about the Group's plan of enhancing operational and funding efficiencies in its various transport related businesses by consolidating these under ATSC.

With the consolidation, ATSC's business as of year-end 2005 can be grouped into the following areas:

1. Airfreight forwarding and courier delivery services (Aboitiz One);
2. Manpower recruitment and training, ship management, ship crewing (Aboitiz Jebsen); and
3. Inter-island passenger transport and cargo liner services.

For its main passenger and cargo shipping operations ATSC has a route network of 23 ports of call in the Philippines. Furthermore it has a fleet of 14 operating vessels consisting of eight (8) SuperFerries, one (1) ATSC Ferry, three (3) Cebu Ferries and one (1) chartered general cargo, vessels. ATSC links the major ports and principal cities of the Philippines.

Full branch operations are maintained in Manila, Cebu, Iloilo, Cagayan de Oro, Davao, General Santos, Bacolod, Zamboanga, Dumaguete, Puerto Princesa, Tacloban, Iligan, Tagbilaran, Nasipit and Surigao. These branches are strategically supported by an extensive agency network covering Ormoc, Dumaguete, Coron, Roxas, Cotabato, Dipolog, Ozamis and Jagna.

### **Accuria, Inc. (Formerly: Aboitiz Transport System, Inc.)**

Aboitiz Transport System Inc., the group's holding company for its transport businesses, changed its name to Accuria, Inc. (ACI), on February 12, 2004. It has also sold off its 28.5% holdings in Aboitiz Transport System Corp. (formerly, WG&A), the country's largest inter-island passenger and ferry operator, to AEV in November, 2002.

Currently, ACI's business includes the operations of Supercat Fast Ferry Corporation (SFFC), one of the country's pioneering inter-island fastcraft (catamaran) ferry services operator.

### **PORTFOLIO INVESTMENTS (PARENT COMPANY/OTHERS)**

AEV's portfolio investments include holdings in real estate through Cebu Praedia Development Corporation and aviation through AEV Aviation, Inc.

#### **AEV Aviation Inc. (AAI)**

AEV Aviation, Inc. (AAI) holds AEV's aviation assets, including the corporate aircraft and accompanying support facilities. Incorporated on October 9, 1990, it was originally known as Spin Realty Corp. It was reorganized in late 1998 when the newly acquired AEV corporate aircraft was placed under its holdings.

To date, AAI has four (4) employees composed of one (1) pilot-in-command, two (2) co-pilots, and one (1) flight engineer. Their task is to provide air transport for AEV's corporate officers within the Philippine archipelago.

#### **Cebu Praedia Development Corporation**

Cebu Praedia Development Corporation is the holding company for AEV's real estate business. It was incorporated on October 17, 1997, but began operations only in December 1999. To date, its major property holdings include the commercial building block located at 110 Legazpi Street, Makati City, that serves as the office of AEV and its subsidiaries and associates in Metro Manila, and AEV's corporate headquarters at the commercial lot and building located in Gov. Manuel Cuenco Avenue in Cebu City.

#### **(iv) New Product/Services**

AEV and its subsidiaries do not have any publicly announced new product or service to date.

#### **Participation in Bankruptcy, Receivership or Similar Proceedings**

Neither AEV nor any of its subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

Note: Further description of the development of AEV's business and its significant subsidiaries in the past two years can be found in Item 6, Management's Discussion and Analysis of this information statement.

#### **(v) Competition**

On the parent company level, AEV has no direct competitor. However, for reference purposes, other holding and management companies listed in the Philippine Stock Exchange can be used for comparison.

On the subsidiary level, competition may be described as follows:

## **POWER DISTRIBUTION AND GENERATION**

AEV's power distribution companies (DLPC, CLPC, VECO, SFELAPCO, SEZC) have operating franchises from the government. These franchises give the distribution companies exclusive right to distribute electricity in the areas covered by such franchises. As such, the companies do not have any competitors within their franchise areas.

On the other hand, all power output of AEV's power generation companies are covered by long-term bilateral power purchase contracts with NPC. As such, the companies are not subject to direct competition. The contracts for WMPC and SPPC are the result of winning competitive bids to supply power to NPC.

## **FINANCIAL SERVICES**

As one of the Philippines' top universal banks, Union Bank of the Philippines (UBP) competes with other major domestic and foreign banks operating in the country. These competitors include, among others, the Metropolitan Bank and Trust Company, Bank of the Philippine Islands, Equitable PCI Bank, Allied Banking Corporation, Security Bank Corporation, and Citibank, N.A.

CSB competes with other similar thrift banks operating in Cebu and the neighboring islands of Bohol and Leyte like the First Consolidated Bank of Bohol. CSB also competes with rural banks offering the same products and services it offers and private lending institutions with accreditation from the Department of Education (DepEd) on Automatic Salary Deduction Scheme (APDS) operating within CSB's areas of operation.

## **TRANSPORT**

ATSC competes primarily with four other major inter-island shipping companies, namely: Sulpicio Lines Inc., Negros Navigation, Lorenzo Shipping Corporation, and Solid Lines Corp. It has maintained its leadership in the shipping industry despite heavy competition.

## **FOOD MANUFACTURING**

There is a relatively high degree of competition in the domestic flour milling industry. However, because of freight and distribution costs within the Philippine archipelago, flour companies have a competitive advantage in the areas proximate to their milling plants. Pilmico's flourmill is located in Iligan City in Northern Mindanao. The only other flour miller operating in Mindanao is Universal Robina, which has a plant in Davao.

### **(vi) Purchase of Raw Materials and Supplies**

As a holding company, AEV's primary business is not dependent on the availability of certain raw materials or supplies. Acquisition and/or purchases of raw material requirements are done at the subsidiary level.

At the subsidiary level, AEV's power distribution companies source their electricity from both the NPC and IPPs. High voltage electricity received is distributed through the companies' transformers and power lines at suitable voltage for customers' use.

AEV's food subsidiaries import wheat, soybean meal, and other grains mostly from various suppliers in the United States and Canada.

Transport subsidiaries obtain materials, parts and supplies from local suppliers at competitive rates. Fuel and lubricants are purchased from a major fuel provider.

### **(vii) Customers**

As a holding company providing management services, AEV's principal customers are its subsidiaries and associates.

Except for its power generation companies, AEV's subsidiaries have a wide and diverse customer base. As such, the loss of any one customer will have no material adverse impact on its subsidiaries.

Although dependent on one customer (NPC), the power generation companies have bilateral contracts with NPC, supported by NPC's credit, which in turn is backed by the Philippine government.

### **(viii) Transactions With and/or Dependence on Related Parties**

As a holding company, AEV derives its income mainly from its investments in its various subsidiaries and associates. In the ordinary course of business, AEV enters into loan agreements and guarantees or makes advances to fund the capital requirements of its various subsidiaries and associates.

AEV has not undertaken any transaction in which any director or executive officer is involved or has direct or indirect material interest.

### **(ix) Patents, Copyrights, Franchises**

As a holding company, AEV does not own or possess patents, copyrights, franchises or other similar rights. However, the businesses of AEV's utility subsidiaries – power and transport – are dependent on government franchises granted them. AEV's power distribution subsidiaries either have congressional franchises or certificate/s of public convenience issued by the Energy Regulatory Commission or its predecessor. ATSC for its part is accredited by the Maritime Industry Authority (MARINA) as a domestic shipping enterprise/entity. The MARINA accreditation is a prerequisite for the granting of franchises for individual vessels' operations. ATSC vessels have been issued Certificates of Public Convenience/Provisional Authorities to operate in specified routes.

AEV's food subsidiary Pilmico owns the trademarks for its various flour products such as "Wooden Spoon", "Sun Moon Star", "Sunshine", "Glowing Sun", "Kutitap", and "Megastar". PMFC owns the trademarks "Diamond" and "Baked Right" while Fil-Am owns "Farmer's Edge".

These subsidiaries always strive to maintain a track record of quality services and comply with government regulations to justify and ensure renewal of such franchises or accreditations.

### **(x) Government Approval**

- a. HEDCOR is a registered as mini hydro electric power developers with the Department of Energy under Republic Act (RA) 7156, entitled "Mini Hydro Electric Power Incentive Act". By virtue of such registration, HEDCOR is entitled to certain incentives, among which are the special privilege tax at the rate of 2% on power sales, tax and duty free importation of machinery, equipment and materials; tax credit on domestic capital equipment, and income tax holiday. Such incentives expired in 2000, except for the four (4) power plants located in Davao City. The plants were acquired from the Power Sector Assets and Liabilities Management Corporation and which started commercial operations on January 19, 2005. Income tax holiday of the four plants started on September 28, 2005. Moreover, under RA 9337, otherwise known as the New Expanded Value Added Tax Act, sales of generated power by generation companies are zero-rated.

- b. ATSC is registered with the BOI under the Omnibus Investment Code of 1987 as a new operator of inter-island shipping through its Superferries 15, 16, 17 and 18 vessels on a pioneer status starting February 13, 2003, Superferry 19 starting December 29, 2004, and Superferry 12 starting May 4, 2005. Such registration entitles ATSC to income tax holiday for a period of three to six years from the date of registration amounting to ₱22,856 and ₱48,523 (in thousands) in 2006 and 2005, respectively. Last October 18, 2006 and January 12, 2007 the BOI cancelled ATSC's registrations of Superferry 19 and Superferries 15, 16, 17 and 18 with BOI including all incentives granted under Certificate of Registration Nos. 2004-142 and 2003-020 respectively. ATSC requested the cancellation of the said registrations due to the change in activity of Superferry 19 which is now being chartered overseas and the sale of Superferries 17 and 18.
- c. Fil-Am is registered with the BOI for its feedmill expansion under the Omnibus Investments Code of 1987. On May 21, 2004 the BOI granted a three-year income tax holiday on the income derived from the expansion of Fil-Am's registered capacity.

#### **(xi) Effect of Existing or Probable Governmental Regulations**

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. RA No. 9136 provides for the privatization of NPC and the restructuring of the electric power industry. The Joint Congressional Power Commission approved the IRR on February 27, 2002.

RA No. 9136 and the IRR impact the industry as a whole and the Company in particular. Other provisions of RA No. 9136 and the IRR are: (a) distribution utilities, such as the Company's power distribution subsidiaries, will provide open and nondiscriminatory access to its distribution systems within three years from the effectivity of the Act, subject to certain conditions precedent; (b) distributors shall be allowed to recover stranded contract costs, subject to review and verification by the ERC for fairness and reasonableness; (c) NPC and distributors shall have filed their proposed unbundled charges within six months from the Act's effectivity; (d) distributors shall file a Business Separation Unbundling Plan (BSUP) with the ERC by December 26, 2002; (e) residential users shall get a ₱0.30 per kwh reduction in power rates to be provided by NPC and passed on by distributors starting August 2001; (f) the power to grant electric distribution franchises shall be vested solely in Congress, thereby repealing or amending Section 43 of Presidential Decree 269 (The National Electrification Decree); (g) NPC shall segregate its subtransmission assets for disposal to qualified distributors within two years from the effectivity of the Act; (h) NPC shall file with the ERC within six months from the effectivity of the Act the transition supply contracts (TSCs) negotiated with distributors; and (i) distribution companies may engage in related business, provided up to 50% of the income from the related business shall be used to lower wheeling charges. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

Following the enactment of EPIRA in June 2001, the implementation of its various provisions continued in 2005.

#### *Distribution Wheeling Rate Guidelines*

In accordance with the authority given to the ERC by Sec. 43 of EPIRA to "adopt alternative forms of internationally-accepted rate-setting methodology", the ERC approved the Distribution Wheeling Rate Guidelines (DWRG) last December 20, 2004. The DWRG took effect on January 29, 2005.

DWRG embodies a new rate-fixing scheme more commonly known as performance-based ratemaking (PBR). Under the current return on rate base (RORB) methodology, utility tariffs are based on historical costs plus a reasonable rate of return. On the other hand, the PBR scheme sets tariffs according to forecasts of performance and capital and operating



expenditures. The DWRG also employs a penalty/reward mechanism depending on a utility's actual performance.

The DWRG stipulates that the ERC must publish a Regulatory Reset Issues Paper for the regulatory reset process, which the ERC released for public comments last September 30, 2005. Participating utilities were required to submit to the ERC -- information on historical network and customer service performance by March 31, 2006 and file a rate application by August 31, 2006. After hearings and regulatory evaluation, the new PBR-based tariffs should be implemented by July 2007.

#### *Wholesale Electricity Spot Market*

In 2005 the Philippine Electricity Market Corporation, or PEMCO, finalized its preparations for the commercial operations of the wholesale electricity spot market, or WESM, as envisioned by Sec. 30 of EPIRA.

To test the WESM's hardware and software systems, the PEMCO began a Trial Operations Program last April 2005. The WESM system was also certified by PA Consulting as being "substantially compliant" with the WESM rules and the associated market manuals and system operations procedures. For its governance structure, the PEMCO Board is selecting members to the committees that will assist it in overseeing the operation of the WESM. These committees include the Market Surveillance Committee, Dispute Resolution Administrator, Rules Change Committee, Technical Committee, and the PEM Auditor.

Presently, the PEMCO and the Department of Energy (DOE) is seeking regulatory approval of key market rules, particularly, the market's price determination methodology (PDM), the setting of market fees, and the administered price.

#### *Preparations for Retail Competition*

The ERC has laid down the framework for the eventual introduction of retail competition and open access, in accordance with Sec. 31 of EPIRA. Known as the "seven pillars", the framework is a set of regulations intended to encourage and govern competition in the retail supply market.

The seven have been promulgated, the Business Separation Guidelines, the Retail Electricity Supplier Licensing Guidelines, the Distribution Service and Open Access Rules, the Code of Conduct for Retail Market Participants, the proposed Supplier of Last Resort, or SoLR, Guidelines, the Uniform Business Practices, and a revised Competition Rules and Complaints Procedures.

#### *Removal of cross-subsidies*

The companies reflected in the bills of end-users the final step in TransCo's intra-grid subsidy removal process. Under the rules, this had already been complied with by TransCo.

## **(xii) Research and Developmental Activities**

AEV and its subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by its subsidiaries and affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

## **(xiii) Compliance with Environmental Laws**

As a holding company engaged in management services, AEV does not engage in significant activities that require compliance with environmental laws. However, its transport subsidiary ATSC, follows the regulations embodied in the 1973 International Convention for the Prevention of Pollution from Ships as modified by the protocol of 1978 (MARPOL 73/78). The said convention has various technical measures intended to control oil spillage and other forms of marine pollution.

Producing clean and renewable energy is a cornerstone of AEV's power generation business. Its power generation subsidiaries operate run-of-river hydroelectric power plants that produce minimal, if any, ecological disturbance.

Since the start of operations, Luzon Hydro Corporation has produced a total of 1,100 gWh of clean energy, sparing the environment the equivalent discharge of 605,000 tons of carbon dioxide had a coal-fired plant produced the same energy. It has saved the country from importing 1,833,700 barrels of oil.

Hedcor, Inc. has generated 2,569 gigawatt-hours of clean energy since 1985. This has prevented the release of about 265 million kilograms of carbon dioxide into the atmosphere if the same amount of energy were produced making use of coal. It has also generated foreign exchange savings worth P11.8 billion if the same amount of energy were sourced from imported oil products.

Its other subsidiaries always procure Environmental Compliance Certificates and comply with environmental regulations, especially for its plants and factories.

In the normal course of business, AEV's subsidiaries incur costs and expenses relating to compliance with the government's stringent environmental laws. However, these costs and expenses cannot be segregated or itemized as these are embedded in, and are part and parcel of the companies' overall system to be compliant with both industry standards and the government's regulatory requirements.

## **(xiv) Employees**

On the parent company level, AEV has a total of 32 employees as of the end of fiscal year 2006, composed of executive, administrative, and clerical staff. There is no existing collective bargaining agreement covering AEV employees.

## **(xv) Major Risk/s Involved in the Business of AEV and its Significant Subsidiaries**

Through prudent management and investment decisions, AEV constantly strives to minimize the risks it might encounter in the businesses in which it is involved. However, certain risks are inherent to specific industries that are not within the direct control of AEV or its investee companies. Of note are the following:

Power Industry Regulations. For the distribution sector, the phasing in of the performance based regulation (PBR) by the Energy Regulatory Commission to determine power rates will impact the Group's distribution utilities. In the present rate-making environment, the ERC allows a maximum 12% return on rate base (RORB) before tax. Under PBR, utilities will be allowed an after-tax return based on a weighted average cost of capital (WACC), which

should be consistent across the industry. Rate adjustments will be allowed throughout every 4-year regulatory period to take into account inflation.

*Exchange Rate Fluctuations / Volatility in Price of Fuel*. Certain investee companies, specifically PILMICO and ATSC, are engaged in businesses whose raw material requirements and purchases are paid for in U.S. dollars. An untoward depreciation of the Philippine peso vis-à-vis the U.S. dollar could have an adverse effect on these investee companies' operating costs. Conversely, an appreciation of the local currency against the dollar would potentially be beneficial to these investee companies and subsequently to AEV. Furthermore, a significant proportion of ATSC's total cost is made up of its fuel needs. An increase in the price of imported bunker or diesel fuel will directly translate into an increase in the operating cost of its vessels.

*Power Industry Regulations*. The price of distributing electricity is not determined by the market but rather dictated and/or regulated by the government. Returns of these utilities are capped - i.e. a fixed rate of return is set by the government's regulatory agency (ERC), based on the utility's invested capital. However, between July 2005 and July 2008, the regulator will be phasing in a performance based regulatory framework that caps prices rather than earnings. It also allows for changes due to inflation, additional investments and other parameters to be evaluated periodically. This should allow more efficient utilities higher earnings relative to less efficient industry participants. Future operating results of AEV's distribution utilities (DLPC, CLPC, VECO, SFELAPCO and SEZC) might be affected. Given the significant revenue flows these subsidiaries contribute to AEV, any adverse conditions affecting them, will likewise have a negative impact on the Company. On the other hand, the shift to a performance-based framework is expected to improve the earnings of these efficiently-run subsidiaries.

*Consolidation in the Local Banking Industry*. Unless it can adequately increase/raise its resource base and capitalization to compete with the newly merged industry players, or otherwise pursue a selective growth strategy, banks such as AEV's investee, UBP, might be marginalized out of the banking sector.

*Political and Economic Factors*. AEV is a holding company that, through its investee companies, is engaged in power generation and distribution, banking and financial services, transportation, and food production, among other business activities. The results of operations of the investee companies have historically been influenced to a certain extent by the political and economic situation in the Philippines. In the past, the country experienced periods of slow or negative economic growth. Any future political or economic instability may have an adverse effect on the business and results of operations of the Company or its investee companies.

*Environmental Compliance*. AEV or its investee companies are required to comply with environmental regulations governing the operation of its projects, including the transport, storage and disposal of fuel as well as air, water and noise emissions. The adoption of new laws or regulations, or changes in the interpretation or application of existing laws or regulations, could require AEV or its investee companies to make additional material expenditures on environmental compliance. AEV's ability to operate the projects in a cost-effective manner could be materially adversely affected.

AEV or its investee companies have taken necessary steps to ensure full compliance with all existing DENR standards with regard to emissions and waste disposal. In the event of any increased costs due to the adoption of new laws or regulations, or changes in the interpretation or application of existing laws or regulations, AEV's projects are afforded varying rights under the power purchase agreements to negotiate for adjustments in the tariff

for the projects. With respect to those projects that sell power based on NPC's grid rate, changes in environmental law will also impact NPC's cost of production. These costs production should ultimately be reflected through an adjustment in NPC's tariff.

Except for the items discussed above, there were no trends, events or uncertainties as of December 31, 2005 that could pose as significant risks to AEV's various businesses and/or are expected to adversely impact on the operating performance of its investee companies.

### Working Capital

For 2006, AEV derived its working capital mainly from the steady cash flow generated and contributed by its subsidiaries and associates.

### Item 2. Properties

The office space occupied by AEV belongs to a wholly-owned subsidiary. As a holding company, AEV does not utilize significant amounts of office space.

On a consolidated basis, the 2006 total property, plant and equipment of AEV was valued at [ ] billion compared to ₱11.203 billion pesos for 2005. Breakdown is as follows:

	2005	2006
Power, Plant & Equipment	1,862,739	
Transmission & Distribution Equipment	2,005	
Machinery & Equipment	1,358,707	
Distribution Transformer & Substation Equipment	1,105,424	
Buildings, Warehouses & Improvements	1,212,126	
Office Furniture, Fixtures & Equipment	756,853	
Transportation Equipment	740,787	
Land	152,162	
Leasehold Improvements	305,961	
Miscellaneous Equipment	424,564	
Ships in Operation and Improvements	9,086,746	
Containers	1,976,605	
Handling Equipment	1,237,855	
Less: Accumulated Depreciation	11,108,728	
Ships under Refurbishment and Construction	85,656	
<b>TOTAL</b>	<b>11,203,404</b>	

**Note:** Values for the above table are in Thousand pesos.

Locations of principal properties and equipment of AEV's subsidiaries are as follows:

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
Cotabato Light and Power Co.	Industrial land, buildings/plants eqpt. & machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light and Power Co., Inc.	Industrial land, buildings/plants eqpt. & machineries	P. Reyes Street, Davao City; Bajada, Davao City	In use for operations
Pilmico Foods Corp.	Industrial land, buildings/plants eqpt. & machineries	Kiwalan Cove, Iligan City	In use for operations
HEDCOR, Inc.	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet; Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet, Bakun, Benguet	In use for operations

Aboitiz Transport System Corp.	Passenger & Cargo Ships in Operation, (Cargo) Containers	In Transit	In use for operations
	Cargo Handling Equipment	Eva Macapagal Super Terminal, Manila South Harbor; Cebu International Port	In use for operations
Fil-Am Foods Corp.	Industrial land, building/plant equipment & machineries	Barangay Sto. Domingo II, Capas, Tarlac	In use for operations

### Item 3. Legal Proceedings

#### Material Pending Legal Proceedings

##### Davao Light and Power Company, Inc. (DLPC)'s case

On December 7, 1990, certain customers of AEV subsidiary DLPC filed a letter-petition for recovery before the Energy Regulatory Board (ERB), claiming that with the Supreme Court's decision to reduce the sound appraisal value of DLPC's properties, the Davao utility exceeded the 12% return on rate base. The ERB's order dated June 4, 1998, had limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The Court of Appeals (CA), in Case Number CAGR-SP 50771, promulgated a decision dated February 23, 2001 that reversed the order of the ERB, expanding the computation coverage period from January 19, 1984 to September 18, 1989.

The Supreme Court, First Division, in a Decision promulgated on November 30, 2006 in G.R. No. 150253, reversed the decision of the Court of Appeals and reinstated the order of the ERB, confining the computation coverage period from January 19, 1984 to December 14, 1984. The ERC is ordered to proceed with the refund proceedings instituted by respondents with reasonable dispatch consistent with the Decision.

Respondent, Antonio Diaz, filed a Motion for Reconsideration dated January 30, 2007 with the Supreme Court. DLPC has filed an Opposition thereto.

##### Luzon Hydro Corporation (LHC) Arbitration

LHC is in a dispute with a contractor over the delay in the completion of LHC's power station. Under the turnkey contract between LHC and the contractor, the latter shall pay liquidated damages for each day of delay on the following day without the need of a demand from LHC. Without prejudice to any other method of recovery, LHC may deduct the amount of such damages from any monies due or to become due to the contractor and/or by drawing on the irrevocable and confirmed standby US\$18-million letters of credit. .

In 2001, due to the delay in the completion of the power station, LHC withdrew the letters of credit which the contractor has constituted as security to LHC as contained in the turnkey contract.

In November 2000, LHC and the contractor elevated their claims and counterclaims to an Arbitration Tribunal operating under the Rules of International Chamber of Commerce sitting in Australia (ICC International Australian Case No. 11264/TE/MW).

The Arbitration Tribunal delivered the final award on August 9, 2005.

LHC was successful in certain claims concerning the design and construction of the lined and unlined tunnel. However, the Arbitration Tribunal also found that the contractor was entitled to certain money claims and a refund of the liquidating damages that LHC had drawn from the contractor's letters of credit.

LHC has recognized the provisions for arbitration for the full financial effects of the final award delivered by the Arbitration Tribunal for the claims and counterclaims filed by the contractor and LHC.

LHC believes that the accounting entries made for the full financial effects of the final award do not reflect its admission of any obligation under the award and that the ultimate amounts of liabilities to be paid or settled, if any, depend upon the final outcome of other court cases that would affect enforcement of said final award.

The Court of Appeals promulgated a Decision dated November 29, 2006 in CA GR No. 94318. The Decision grants LHC's petition and dismisses TPI's petition to enforce the final award in the Regional Trial Court-Makati Branch 132 with prejudice on the grounds of forum shopping on the part of TPI and the nullity of the final award.

TPI has filed a Petition for Review dated January 18, 2007 with the Supreme Court docketed as G.R. No. 175663 on questions of law, specifically misapplication by the Court of Appeals (in CA GR No. 94318) of the Rules of Court, Republic Act 9285, the New York Convention, and Model Law. LHC is preparing its Comment to the Petition for Review.

#### Use of Tax Credit Certificates (TCC)

Pilmico, Pilmico-Mauri and VECO were assessed by the Bureau of Internal Revenue (BIR) to pay the total amount of P57.618 million, including fines and penalties for value added taxes for the first quarter of 2003 and April 2003. The assessments arose from the use of alleged invalid TCC purchased by the companies and subsequently applied to taxes due.

These protested assessments are now in the Court of Tax Appeals for presentation of evidence by the parties. Considering the mandatory participation by the Bureau of Internal Revenue insofar as the standard verification procedures are concerned in the purchase of TCCs, Management and its legal counsel stand by their position that the companies had acquired and applied the TCC in good faith and for value, and therefore, the assessments have no legal basis. Management and its legal counsel is also banking on the fact that a Tax Debit Memo was subsequently issued by the BIR after undertaking a verification and review of the TCCs pursuant to the rules and procedures existing at the time of utilization.

Aside from the abovementioned cases, the subsidiaries have been exposed to certain legal cases, as part of the inherent risks in the normal course of business. Nonetheless, based on their overall assessment, Management and its legal counsel are of the opinion that losses arising from these cases, if any, will not have a material adverse impact on the 2005 consolidated financial statements.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item 5. Market for Issuer's Common Equity and Related Stockholder Matters**

(1) AEV's common shares are traded on the Philippine Stock Exchange.

The high and low stock prices of AEV's common shares for each quarter within the past two years and first quarter of 2007 were as follows:

	2007		2006		2005	
	High	Low	High	Low	High	Low
First Quarter	9.70	7.10	5.30	4.75	5.40	3.20
Second Quarter			6.90	5.00	5.30	4.30
Third Quarter			5.50	4.85	5.20	4.40
Fourth Quarter			7.10	5.10	5.20	4.70

AEV has 12,115 shareholders as of 28 February 2007. Common shares outstanding as of same date were 5,694,599,621 shares.

(2) The top twenty stockholders of AEV as of 28 February 2007 are as follows:

	STOCKHOLDERS	NATIONALITY	COMMON SHARES	PREFERRED SHARES	TOTAL SHARES	PERCENTAGE
1	Aboitiz & Company, Inc.	Filipino	2,476,022,415	0	2,476,022,415	43.48%
2	PCD Nominee Corporation	Other Alien	925,054,701	0	925,054,701	16.24%
3	Ramon Aboitiz Foundation, Inc.	Filipino	364,885,243	0	364,885,243	6.41%
4	PCD Nominee Corporation	Filipino	289,869,688	0	289,869,688	5.09%
5	Sanfil Management Corporation	Filipino	116,790,211	0	116,790,211	2.05%
6	Lekeitio & Company, Inc.	Filipino	91,876,977	0	91,876,977	1.61%
7	Tricanaya Development Corporation	Filipino	82,099,033	0	82,099,033	1.44%
8	INXS Holdings Corporation	Filipino	78,595,677	0	78,595,677	1.38%
9	Midcita Management & Dev. Corp.	Filipino	62,176,225	0	62,176,225	1.10%
10	Chanton Management & Dev. Corp.	Filipino	62,118,484	0	62,118,484	1.09%
11	Teresita or John Carcovich	Filipino	57,764,020	0	57,764,020	1.01%
12	Dolores S. Aboitiz Foundation, Inc.	Filipino	53,010,620	0	53,010,620	0.93%
13	Bauhinia Management, Inc.	Filipino	51,779,484	0	51,779,484	0.91%
14	Windemere Management & Dev. Corp.	Filipino	47,666,352	0	47,666,352	0.84%
15	Donya-1 Management Corp.	Filipino	43,136,359	0	43,136,359	0.76%
16	Morefund Management & Dev. Corp.	Filipino	40,000,000	0	40,000,000	0.70%
17	Anso Management Corporation	Filipino	34,369,707	0	34,369,707	0.60%
18	Triabo Development Corporation	Filipino	31,932,639	0	31,932,639	0.56%
19	Armoza Management & Development Corp.	Filipino	28,766,061	0	28,766,061	0.51%
20	Emetasi Holdings, Inc.	Filipino	27,093,985	0	27,093,985	0.48%
	<b>SUBTOTAL</b>		<b>4,965,007,881</b>		<b>4,865,007,881</b>	<b>87.19%</b>
	Other Stockholders		729,591,740	150,000,000	879,591,740	12.81%
	<b>TOTAL SHARES</b>		<b>5,694,599,621</b>	<b>150,000,000</b>	<b>5,844,599,621</b>	
	<b>NET ISSUED AND OUTSTANDING SHARES</b>		<b>5,694,599,621</b>	<b>150,000,000</b>	<b>5,844,599,621</b>	<b>100.00%</b>

3) The cash dividends declared by AEV to common stockholders from fiscal year 2005 to the first quarter of 2007 are shown in the table below:

	2007	2006	2005
Amount of Dividend Per Share	₱0.20	₱0.15	₱0.12
Total Amount of Cash Dividend Declared	₱1,138,919,924.20	₱735,955,302.45	₱596,601,895.08

In a special meeting held January 11, 2007 the Board of Directors of AEV approved the policy of distributing at least one-third of its previous year's earnings as cash dividends to its stockholders for subsequent years.

4.) On November 28, 2006, AEV signed an Issue Management and Underwriting Agreement with BPI Capital Corporation (BPI Capital) as Issue Manager for the issuance of 150,000,000 cumulative, non-voting, non-participating, non-convertible, five (5) and seven (7)-year redeemable preferred shares at the offer price of ₱10.00 per share or for a total offering price of ₱1,500,000,000.00. The preferred shares were sold for cash on December 6, 2006. BPI Capital was the Lead Underwriter, PCI Capital Corporation, Co-Lead Underwriter and First Metro Investment Corporation, BDO Capital & Investment Corporation, Multinational Investment Bancorporation, Citicorp Capital Philippines, Inc. and Union Bank of the Philippines are the Underwriters for the offer. The Corporation paid the amount of ₱7,500,000.00 as underwriting commission net of taxes for the issuance of the preferred shares.

The shares were issued to qualified buyers only pursuant to Sec. 10.1 (I) of the Securities Regulation Code. The proceeds of the preferred shares issuance will be used to refinance the outstanding preferred shares of AEV and to finance its various power projects as well as that of its subsidiaries and affiliates.

Subscriber's Name	Purchaser Qualification	Shares Purchased	% to Total Preferred Shares Issued
Union Bank of the Philippines	Qualified Buyer	5,000,000	3.33%
First Metro Investment Corporation	Qualified Buyer	6,400,000	4.27%
Metrobank Trust Banking as Trustee	Qualified Buyer	600,000	0.40%
Metrobank Trust Banking as Investment Manager for Private Education Retirement Annuity	Qualified Buyer	500,000	0.33%
Pioneer Life, Inc.	Qualified Buyer	300,000	0.20%
Multinational Investment Bancorporation	Qualified Buyer	4,700,000	3.13%
Equitable PCI Bank Trust as Trustee for Various Accounts	Qualified Buyer	7,500,000	5%
UCPB Trust Banking Division FAO Various Trust Accounts	Qualified Buyer	1,000,000	0.67%
Perla Compania de Seguros, Inc.	Qualified Buyer	200,000	0.13%
Cibeles Insurance Corporation	Qualified Buyer	300,000	0.20%
Mapfre Insular Insurance Corporation	Qualified Buyer	5,000,000	3.33%
SM Prime Holdings, Inc.	Qualified Buyer	10,000,000	6.67%
The Insular Life Assurance Co., Ltd.	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Investment Manager for PERAA	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Trustee for Various Trust Accounts	Qualified Buyer	21,400,000	14.27%
BPI AMTG as Trustee for Various Trust Accounts	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Investment Manager for Ayala Fixed Income Fund, Inc.	Qualified Buyer	4,100,000	2.73%
BPI AMTG as Investment Manager for Ayala Fixed Income Fund, Inc.	Qualified Buyer	18,000,000	12.00%



PCI Capital Corporation	Qualified Buyer	7,000,000	4.67%
Knights of Columbus Fraternal Association of the Philippines	Qualified Buyer	3,000,000	2%
Beneficial PNB Life Insurance Co., Inc.	Qualified Buyer	3,000,000	2%
PCI Capital Corporation	Qualified Buyer	2,000,000	1.33%
Equitable PCI Bank Trust Banking	Qualified Buyer	15,000,000	10%
BDO Capital & Investment Corp.	Qualified Buyer	5,000,000	3.33%
	TOTALS	150,000,000	100%

## Item 6. Management's Discussion and Analysis or Plan of Action

### Year ended December 31, 2006

### Year ended December 31, 2005

This is the first time that AEV's consolidated financial statements have been prepared in full compliance with the new and revised Philippine Financial Reporting Standards (PFRS). The 2004 comparative financial figures are restated not only to comply with the requirement of the Transport Group reorganization, but also to retroactively apply these new accounting standards, except those relating to financial instruments.

PAS 32 (Financial Instruments: Disclosure and Presentation) and PAS 39 (Financial Instruments: Recognition and Measurement) are the standards that were implemented starting January 2005 only. Thus, in the restated 2004 financial statements, the presentation of these financial instruments is still based on the old GAAP. In AEV's 2005 consolidated financial statements, redeemable preferred shares are reported under Liabilities in 2005, but reflected under Equity in the 2004 comparative report. Likewise, the corresponding preferred dividends paid are treated as part of Interest Expense in 2005 but as a reduction of Retained Earnings in 2004. For proper comparison, these preferred shares and dividends are consistently treated as debt and interest expense, respectively, in both years, in the following financial discussion and comparative analysis of accounts and in computing the financial ratios indicated in this report.

### **Results of Operations**

AEV posted a 29% increase in net income attributable to its equity holders, from ₱ 2.453 billion in 2004 to ₱ 3.159 billion in 2005. .

The power group again provided the bulk of the income contribution with ₱ 2.123 billion or 61% of the total contributions, followed by the banking group that turned in ₱ 930 million (27%), food manufacturing with ₱ 382 million (11%), and the transport group with ₱ 34 million. AEV's portfolio investments provided the remaining ₱ 12 million.

Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA for the whole year of 2005 went up by 11% to ₱ 6.527 billion from ₱ 5.860 billion in 2004.

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

The 29% increase in AEV's net income attributable to its equity holders for 2005 was the result of the following:

- Operating Income increased by 18% to P2.142 billion from P1.811 billion, which was mainly due to higher revenues generated by all subsidiaries. The power group registered increases in gigawatt-hour sales for both generation and distribution subsidiaries, while the food group increased its volume sales in its flour, feeds and swine businesses.

In 2005, transport subsidiary ATSC acquired, through a share-swap deal, other transport-related businesses of the Aboitiz Group. This acquisition was accounted for under the pooling-of-interests method, which required the consolidation of the 2004 financial data of these newly-acquired subsidiaries into ATSC's restated 2004 financial statements. In 2005, total revenues reached P11.6 billion, 21% higher from 2004. This jump in sales was largely due to the consolidation of about P1.9 billion of freight revenues of JEMA BVI Ltd. (JMBVI) and subsidiaries, one of the newly-acquired companies. The JMBVI group was not included in the 2004 consolidation as it was acquired only in 2005.

For the whole AEV Group, while consolidated revenues increased by 20.1%, cost and expenses correspondingly rose by 20.3%, resulting in an 18% hike in operating income. Except for the transport group, all subsidiaries registered higher margins in 2005. ATSC's 2005 operating income fell 77% compared to the previous year due to further increases in fuel costs and other major expense, which could not be recovered in time through rate increases.

- Share in Net Earnings of Associates, which represents the income contribution of minority-owned power companies and the financial services group, increased by 41% to P2.155 billion, substantially boosting AEV's net income. All of the associates performed well and turned over higher profits in 2005.
- Interest Income increased by 13%, from P217 million to P245 million in 2005, due to higher fund holdings at parent level.
- Interest Expense slightly increased by 2% to P1.257 billion from P1.235 billion in 2004 due to higher average debt level in 2005. The 2004 interest figure is inclusive of the P91 million preferred dividend payments.
- Other Income decreased by 51% (from P821 million to P401 million) largely due to the lower non-operating income generated by ATSC. In 2005, the company sold two vessels, earning a profit of P 98 million which was lower than the P 209 million gain from the sale of three vessels and other fixed assets in 2004. In addition, ATSC also reported in 2004 a P 209 million insurance recovery proceeds on its SuperFerry 14 which burned down while on voyage.
- Provision for Income Tax decreased by 12%, from P531 million in 2004 to P468 million in 2005, mainly due to the lower income tax provision of the transport group. Aside from reporting a lower consolidated income tax expense in 2005, ATSC, the parent company, also recorded a P36 million deferred tax benefit on the net operating loss carryover (NOLCO) it generated during the year.

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

#### **Resources**

Compared to year-end 2004 levels, consolidated assets increased by 4.5%, from P36.592 billion to P38.243 billion. This increase was due to the following:

- Investments and Advances grew by 9%, from P13.248 billion to P14.505 billion, as a result of the following movements in the carrying value of equitized investments in 2005:
  1. The recording of the P2.155 billion share of the net earnings of associates (increased carrying value);
  2. The receipt of P734 million cash dividends from the majority of these associates (decreased carrying value); and
  3. The recognition of AEV's share amounting to P440 million in the various provisions recorded by UBP, a 42%-owned associate (decreased carrying value). In 2005, UBP revalued its financial assets based on the provisions of the new standard (PAS 39). The company recorded approximately P1 billion of additional allowance on impairment losses on its loans and receivables and of market-to-market adjustments of its forwards. These provisions were charged against Retained Earnings. Correspondingly, AEV booked its share of UBP's adjustments as a reduction of Investments and Retained Earnings.
- Available-for-Sale Investments and Other Assets increased by 62%, from P554 million to P895 million, as additional prepaid costs were incurred during the year. The P40 million improvement in the market prices of these AFS investments in 2005 also contributed to the increase.
- Pension Asset increased by 30%, from P35 million to P45 million, as certain subsidiaries provided substantially more funding into their employees' retirement funds.
- Deferred Income Tax Assets increased by 30%, from P245 million to P317 million, mainly due to the net operating loss carry over of ATSC, which ended up in a taxable loss position in 2005. This NOLCO and the higher provisions for doubtful accounts and probable losses required the set up of additional deferred income tax benefits with Deferred Income Tax Assets as the contra-account.

The above increases were offset by the following decreases:

- Trade and Other Receivables went down by 7%, from P 3.610 billion to P 3.368 billion, largely as a result of the collection by ATSC of its non-trade receivables and advances to a contractor upon completion of a chassis fabrication contract.
- Investment Property decreased by 6%, from P418 million to P382 million, because of the depreciation allowance recorded during the year.

### **Liabilities**

Consolidated liabilities decreased by 7%, from P18.222 billion in 2004 to P16.963 billion. This decrease was mainly due to the partial prepayment by the parent company of its long-term debt and settlement by subsidiaries of their scheduled loan amortizations. The P18.222 billion debt figure in 2004 considers the P1.884 billion redeemable preferred shares as part of liabilities.

Short-term bank loans also dropped by 34% as subsidiaries prepaid these in 2005 using internally generated funds. On the other hand, accounts payable and other current liabilities were higher by 17% primarily due to the increase in trade payables, a substantial portion of which belonged to JMBVI and subsidiaries. This newly acquired group was consolidated only starting 2005.

Customer deposits increased by 11% due to the additional customers of the power distribution group. Pension liability was also 47% higher in 2005 as certain subsidiaries did not accelerate funding of past service liability.

The 34% decrease in income tax payable could be attributed to the taxable loss position of ATSC in 2005. Deferred income tax liability was P56 million lower in 2005 due to the reversal of the previous year's deferral set up on unrealized foreign exchange gains. The appreciation of the Philippine Peso as of yearend 2005 generated substantial unrealized foreign exchange loss on the dollar holdings of the parent company. This loss wiped off all the accumulated gains of the previous years.

### **Equity**

Equity attributable to equity holders of the parent company increased by 17% to P20.128 billion from P17.212 billion in 2004. The P 17.212 billion equity balance in 2004 was computed net of the P1.885 billion redeemable preferred shares.

The Group was able to sustain its remarkable operating performance, contributing to Retained Earnings another P3.159 billion in net income. This substantial income more than offset the negative impact brought about by the implementation of the new accounting standards in 2005. Shifting to these new standards resulted in the recording of an additional P461 million Retained Earnings charges mainly representing AEV's share of UBP's valuation losses. Even with these adjustments and the P597 million cash dividend distribution, Retained Earnings still registered an impressive growth of 17%.

Additional Paid-In Capital (APIC) increased by 53%, from P786 million to P1.201 billion in 2005. The 2004 APIC figure was computed net of the P1.680 premium on preferred shares. The increase was primarily attributable to the P320 million gain on sale of AEV shares owned by certain subsidiaries. The gain was recorded as an increase in APIC at the consolidation level. This sale correspondingly decreased Treasury Stock by 8%.

Share in unrealized gain on AFS instruments improved by P506 million, reversing the P383 million loss in 2004, to a P 122 million gain in 2005. This represents AEV 's share in UBP's unrealized gain on its AFS assets. The adoption of PAS 39 resulted in the recognition of substantial market-to-market gains in shifting to the effective interest method in computing amortized cost and the fair value method.

Share in cumulative transaction adjustments (CTA) declined by 29% in 2005. These translation adjustments were recorded in the books of hydropower generating associates LHC, WMPC and SPPC, which had shifted to the functional currency financial reporting method in 2005. The appreciation of the Philippine peso against the US dollar as of year-end 2005 resulted in the decrease of this CTA account. AEV then recorded its share of this decrease in 2005.

### **Financial Ratios**

The increase in accounts payable resulted to the decline in current ratio from 1.31:1.00 as of yearend 2004 to 1.29:1.00 as of December 2005. Due to the repayment of debt in 2005, both net debt-to-equity and debt-to-equity ratios improved from 0.55:1.00 as of December 2004 to 0.38:1.00 as of December 2005 and from 1.06:1.00 to 0.84:1.00, respectively.

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

Consolidated cash generated from operating activities increased by 84%, from P1.607 billion in 2004 to P2.961 billion in 2005. This remarkable improvement was primarily a result of higher revenues coupled with well-controlled operating costs, intensified receivable collection, properly managed payables, and lower interest payments, which was partially offset by higher income tax payments.

Net cash used in investing activities in 2005 amounted to P710 million, a 17% decrease from previous year's P852 million. The lower fund usage level was brought about by the decrease in capital expenditures in 2005. In 2004, ATSC allocated more funds for the purchase of new vessels, though this partially financed by the proceeds from sale of old vessels and other assets. Furthermore, at the AEV parent level, cash dividends received from associates and interest income earned on money market placements were higher in 2005.

Net cash used in financing activities increased by P2.389 billion as more funds were used to pay down debt and to distribute higher dividends to common stockholders in 2005.

In 2005, net cash inflows were slightly higher than cash outflows, resulting to a 1% increase in cash and cash equivalents, from P4.567 billion in December 2004 to P 4.623 billion in December 2005.

### **Key Performance Indicators**

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

1. **Equity in Net Earnings (Losses) of Investees.** This represents the Group's share in the undistributed earnings or losses of its investees for each reporting period after the acquisition of said investments, net of amortization of goodwill, if any. Goodwill is the difference between purchase price of investment and investor's share in the value of the net assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates the profitability of the investments and the investees' contribution to the Group's net income.

Computation: Investee's Net Income (Loss) X Investor's Percentage Ownership less Goodwill Amortization

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** EBITDA is calculated as net income before minority interest, net interest expense, income tax expense, amortization and depreciation. 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.
3. **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 funds. This aids management in identifying the impact on cash flow when the Group's activities are either in a state of growth or decline, and in evaluating management's efforts to control the impact.
4. **Current Ratio.** This is a measurement of liquidity, calculated by dividing total current assets by the 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.** This 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.

Key Performance Indicators for 2005 and 2004 are as follows:

	<b>2005</b>	<b>2004</b> As restated *
EQUITY IN NET EARNINGS OF INVESTEES	<b>2,155,342</b>	1,532,131
EBITDA	<b>6,527,059</b>	5,859,589
CASH FLOW GENERATED:		
Net cash provided by operating activities	<b>2,960,865</b>	1,607,220

Net cash used in investing activities	<b>(709,598)</b>	(851,554)
Net cash used in financing activities	<b>(2,068,043)</b>	320,928
Net Increase (Decrease) in Cash & Cash Equivalents	<b>54,886</b>	1,098,330
Cash & Cash Equivalent, Beginning	<b>4,567,791</b>	3,469,461
Cash & Cash Equivalent, End	<b>4,622,676</b>	4,567,791
CURRENT RATIO	<b>1.29</b>	1.31
DEBT-TO-EQUITY RATIO	<b>0.84</b>	1.06

\* Figures were restated as a result of the full adoption of PFRS and the reorganization of the Transport Group

For full year 2005, all of the key performance indicators were well within expected levels. The increase in equity earnings was anticipated due to the projected improvement in earnings of all the associates, despite the negative impact of the adoption of the new accounting standards.

With higher margins targeted by the majority of the operating subsidiaries and associates, consolidated EBITDA was expected to increase in 2005 compared to the previous year. In 2005, the EBITDA increase was largely driven by higher revenues, combined with properly managed operating costs and expenses.

At the parent level, cash and cash equivalents accumulated in 2004 from the proceeds of the new preferred issuance in December 2004, were expected to decrease due to the planned prepayment of the more expensive long-term debt in 2005. Despite the large debt payments made in 2005, consolidated cash still registered an increase at yearend primarily due to the higher cash inflows generated from operations.

The group has consistently managed its cash flows and operations effectively. Thus, as in the previous years, financial ratios were anticipated to remain robust in 2005.

***Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties which may have Material Impact on Registrant***

While there are some areas of concern regarding the country's overall business situation, AEV is optimistic that 2006 will bring more opportunities for further growth to the Group. This view is based on a number of industry specific developments that will affect how well AEV's investee companies perform in the current year. These developments are as follows:

**Power Industry (Generation Sector)**

Aboitiz Power Corp. (APC) formed a joint venture with SN Power of Norway, and was successful in its bid for NPC's 360MW hydroelectric facility in Isabela province. The plant will be turned over at the end of April 2007, after which the JV, SN Aboitiz Power Inc. (SNAP) will take over management of the facility. This joint venture company also intends to bid for other hydropower assets which the NPC, through PSALM, intends to dispose of in 2007, which include the Ambuklao and Binga hydroelectric power complex.

**Power Industry (Distribution Sector)**

All of the distribution utilities are expected to carry on their solid performance from 2006. Specifically, DLPC will continue to lead the Group in income contribution and operating efficiency. It is also anticipated that VECO, with the system and operating changes it has established over the past couple of years, will generate a larger portion of the Group's income

in the coming year. SFELAPCO will continue to enjoy sales and volume growth from its acquisition in 2004 of an additional distribution franchise and service area (i.e. from Manson Corp. covering the area of Floridablanca in Pampanga). After experiencing very minimal electricity demand growth in 2006, we expect this to rise in 2007, with the higher disposable income available to the consumer.

### **Financial Services**

Union Bank (UBP) should complete the full integration of its I-Bank acquisition by the first semester of 2007. This should result in large cost reductions primarily in information technology and in manpower costs. Also, the rationalization of branches should result in additional cost savings. UBP intends to grow its lending business, as we see the beginning of a new credit cycle. A primary offering is planned by UBP to raise about US\$100mn in new capital, to better position the bank for any further consolidation in the industry, and to strengthen its balance sheet in preparation for the Basel II accord, to be implemented in 2007.

City Savings is forecast to continue its very robust growth in its loan portfolio, as it plans to open up several new full service branches within the year.

### **Food Manufacturing**

With the high prices being experienced in the global commodity markets, particularly in wheat, corn, soya and other raw materials used by Pilmico, profit margins may decline. But with its strategy in being the low-cost producer in the industry, Pilmico is well-positioned to weather the current market conditions. Raw material price increases can be passed on to a major extent, as has been experienced in recent years. The feed and swine business continue to grow significantly, and expansion in both of these businesses is ongoing.

### **Transport**

ATSC faced many challenges in 2006, mainly from the high price of fuel, and from aggressive price competition from low-cost air carriers. But fuel prices have started to come down, and its fuel bill should decline considerably in 2007. The company also sold two of its Superferries in December 2006. The first was delivered in December 2006, and the second is expected to deliver in April 2007. The proceeds from the sale will reduce the company's debt considerably, and consequently, interest expense will decline sharply. Some of the remaining Superferries will also be reconfigured to take on more freight and less passengers. This move will help the fleet achieve higher load factors throughout the year. Although fleet capacity will be reduced with the sale of 2 vessels, achieving higher load factors will mitigate the decline in overall capacity.

All these initiatives are expected to improve the company's freight and passage businesses. These will then translate to a bigger market share of the industry and better margins for ATSC.

Except for the developments disclosed in some other portion of this report and the audited financial statements, there are, as of December 31, 2006, 2005 and 2004, 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.

### **Material Off-Balance Sheet Transactions, Arrangements, Obligations, and Other Relationships**

No material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons were created as of December 31, 2006, 2005 and 2004.

There were also no events that would trigger substantial direct or contingent financial obligations or cause any default or acceleration of an existing obligation.

### **Item 7. Information on Independent Accountant and other Related Matters**

#### **External Audit Fees and Services**

The external audit and consultancy fees for the years 2006 and 2005 were as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Audit Fees (Incurred by Registrant)	P286,000.00	P275,000.00
Audit-Related Fees	-	-
Tax Fees	-	-
Consultancy Fees (Incurred by Group)	--	P2,816,000.00-
<b>Total</b>	<b>286,000.00</b>	<b>P3,091,000.00</b>

In 2005, the financial consulting team of SGV & Co. was commissioned to train the Group in the implementation of the new and revised accounting standards which took effect during the same year. For this separate engagement, the Group spent approximately P2.8 million.

As a policy, the Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope and frequency before the audit is conducted.

Audit services of external auditors for the years 2006 and 2005 were pre-approved by the Audit Committee. The Committee had also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

### **Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

SGV & Co. has been AEV's Independent Public Accountant for the last 13 years. The same accounting firm is being nominated for re-election at the scheduled annual meeting of stockholders. Representatives of SGV & Co. will be present during the annual meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions if needed. SGV & Co. has accepted AEV's invitation to stand for re-election this year.

In accordance with SEC Memorandum Circular No. 8, Series of 2003 (Rotation of External Auditor), Mr. Jose Joel M. Sebastian, who served as engagement partner for the examination of AEV's financial statements for a period of five (5) years, was replaced by another partner, Mr. Ladislao Z. Avila, Jr., starting fiscal year 2004.

There was no event in the past 13 years where AEV and SGV & Co. or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.



## **PART III – CORPORATE GOVERNANCE**

### **a. Evaluation System**

AEV is committed to the high standards of corporate governance set by the Code of Corporate Governance issued by the Securities and Exchange Commission (SEC), which is also embodied in AEV's Manual of Corporate Governance (the "Manual") and its Code of Ethics and Business Conduct ("Code of Conduct").

AEV measures compliance with its Manual against the leading practices and principles on good corporate governance contained in the Corporate Governance Self-Rating Form (CG-SRF) of the SEC.

The Compliance Officer of AEV coordinates with the board and management committees in monitoring compliance with the Manual. He/she determines violations and recommends penalties for such violations, and identifies, monitors and controls compliance risks.

The different board and management committees also perform oversight functions over compliance with the Manual and other corporate policies of AEV.

The Board of Directors conducts a regular review of the Manual to assess its relevance to AEV's needs and to evaluate it against the leading practices and principles on good corporate governance.

The Company has an established standard performance evaluation form for Corporate Governance. Copies of its Evaluation Table for Compliance with the Manual of Corporate Governance and its Corporate Governance Self-Rating Form are attached to the annual report.

### **b. Measures Undertaken to Comply with the Adopted Leading Practices on Good Corporate Governance**

Aside from rating itself against the Corporate Governance Self-Rating Form issued by the SEC, AEV also submits governance reports required by SEC and the Philippine Stock Exchange (PSE) to determine compliance with the Code of Corporate Governance, its own manual and the existing rules and regulations enforced by SEC and PSE. On its own, AEV also studies and drafts specific guidelines to further implement the principles enshrined in its manual. It also sends its officers to corporate governance seminars.

AEV conducts orientations on its manual and Code of Ethics and Business Conduct for all its employees, especially on the topics of conflict of interest, the misuse of inside and proprietary information, and stockholders' rights.

### **c. Deviation from the Manual of Corporate Governance**

Compliance with SEC's Code of Corporate Governance, as well as all relevant SEC circulars on corporate governance has been monitored.

AEV, its directors, officers and employees complied with all the leading practices and principles on good corporate governance as embodied in AEV's manual.

AEV also implemented a performance self-rating assessment and performance evaluation system to determine and measure compliance with its Manual. A performance evaluation was carried out internally.

There were no major deviations from the adopted manual.

**d. Plan to Improve Corporate Governance**

AEV hopes to regularly benchmark against the corporate governance practices of other companies when this information becomes available. It shall encourage its Compliance Officer or his/her representatives to attend trainings on how to adequately measure compliance with good corporate governance practices.

## NOTICE AND AGENDA OF THE MEETING

**ABOITIZ EQUITY VENTURES, INC.**  
Aboitiz Corporate Center,  
Gov. Manuel A. Cuenco Avenue  
Kasambagan, Cebu City 6000, Philippines

### NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

NOTICE is hereby given that the Annual Meeting of Stockholders of **ABOITIZ EQUITY VENTURES, INC.**, will be held on 21 May 2007 at 4:00 p.m. at the Grand Ballroom of Cebu City Marriott Hotel, Cebu Business Park, Cebu City.

The Agenda of the meeting is as follows:

1. Call to Order
2. Proof of Notice of Meeting
3. Determination of Quorum
4. Reading and Approval of the Minutes of the Previous Stockholders' Meeting of 15 May 2006 and Special Stockholders' Meeting of February 27, 2007
5. Presentation of the President's Report
6. Approval of Annual Report and Financial Statements
7. Ratification of the Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management up to 21 May 2007
8. Election of External Auditors
9. Election of Board of Directors
10. Other Business
11. Adjournment

Only stockholders of record at the close of business on April 9, 2007 are entitled to notice and to vote at this meeting. Registration will start at 2:00 p.m. and will end at 4:00 p.m. Kindly present any proof of identification, such as driver's license, passport, company I.D. or SSS/GSIS I.D. Aside from personal identification, representatives of corporate stockholders and other entities should also present a duly sworn secretary's certificate or a similar document showing his or her authority to represent the corporation or entity.

Should you be unable to attend the meeting, you may want to execute a proxy in favor of a representative. In accordance with the amended By-Laws of the Corporation, proxies must be presented to the Secretary for inspection, validation and record at least seven (7) days prior to the opening of the stockholders' meeting. We enclose a proxy form for your convenience.

For those unable to attend the Stockholders' Meeting in Cebu, a Stockholders' Briefing will be conducted in Manila on May 23, 2007 at 3:00 p.m. at Rizal Ballroom A, Makati Shangri-la Hotel, Makati City.

For the Board of Directors.

**M. JASMINE S. OPORTO**  
Corporate Secretary

## **ANNEX “A”**

### **SUMMARY OF THE MINUTES OF THE 2006 AEV ANNUAL STOCKHOLDERS’ MEETING**

The meeting was called to order on May 15, 2006 at 4:00 p.m. by the President/Chief Executive Officer and Chairman of the meeting, Jon R. Aboitiz.

The Corporate Secretary certified that Notices for the meeting were duly sent out to all stockholders of record as of March 31, 2006, and that such Notice was also published in several national and Cebu newspapers of general circulation. The Secretary also certified that a quorum was present as of 3:50 p.m., representing 85.94% of the total shares outstanding and entitled to vote, or more than 2/3 of such total shares.

The reading of the minutes of the previous stockholders’ meeting was dispensed with but such minutes were duly approved.

The body passed the following resolutions:

1. Approval of the Corporation’s Annual Report and Audited Financial Statements as of December 31, 2005;
2. Ratification of all acts, resolutions, agreements, contracts and investments of the Board of Directors, management and corporate officers for the year 2005, as well as all other acts up to May 15, 2006;
3. Appointment of Sycip, Gorres, Velayo & Co. as External Auditor of the Corporation for the year 2006-2007;
4. Election of Roberto Aboitiz, Jon Aboitiz, Erramon Aboitiz, Enrique Aboitiz Jr., Justo Ortiz, Roberto R. Romulo and Jose C. Vitug as directors of the Corporation. Mr. Romulo and Justice Vitug (ret.) are the Corporation’s independent directors.

After the approval of such Resolutions, the meeting was duly adjourned.

## **ANNEX “B”**

### **SUMMARY OF THE MINUTES OF THE AEV SPECIAL STOCKHOLDERS’ MEETING HELD ON FEBRUARY 27, 2007**

The meeting was called to order on February 27, 2007 at 4:00 p.m. by the President/Chief Executive Officer and Chairman of the meeting, Jon R. Aboitiz.

The Corporate Secretary certified that Notices for the meeting were duly sent out to all stockholders of record as of February 6, 2007, and that such Notice was also published in several national and Cebu newspapers of general circulation. The Secretary also certified that a quorum was present as of 3:50 p.m., representing 75% of the total shares outstanding and entitled to vote, or more than 2/3 of such total shares.

The reading of the minutes of the previous stockholders’ meeting was deferred for submission and approval during the annual stockholders’ meeting to be held on May 21, 2007.

The Chief Financial Officer, Stephen G. Paradies, presented to the stockholders the planned initial public offering of Aboitiz Power Corporation. An open forum followed after the presentation.

Thereafter, the body passed the following resolution:

1. Approval and Ratification of the transfer of all of the Corporation’s beneficial interests in various distribution companies valued at their historical acquisition cost of Two Billion Eight Hundred Eighty Nine Million Three Hundred Twenty Thousand Two Hundred Ninety two as partial payment for Three Billion common shares of APC

After the approval of such Resolution, the meeting was duly adjourned.

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **JOSE C. VITUG**, Filipino, of legal age and a resident of **No. 373 Matienza Street, San. Miguel, Manila**, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of the -
  - a) Philippine Stock Exchange.
  - b) Aboltiz Equity Ventures (AEV), Inc..
2. I am affiliated with the following companies or organizations:

Company / Organization	Position / Relationship	Period of Service
Philippine Judicial Acedemy	Consultant, Professorial Lecturer	Two-year Appointment
Supreme Court	Member, Committees on Rules and on Legal Education and Bar Matters	Indefinite
Angeles University Foundation	Dean, College of Law	Indefinite
Manila Electric Company	Management Consultant	Contractual (One year)

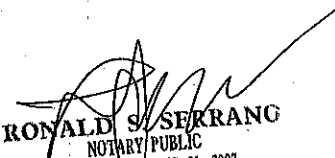
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philippine Stock Exchange and AEV, Inc., as so provided in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. No conflict of interest exists between my being a director of Philippine Stock Exchange and AEV, Inc. and my other affiliations as defined and stated in AEV, Inc.'s Guidelines.
5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
6. I shall inform the corporate secretary of Philippine Stock Echange and AEV, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this 15<sup>th</sup> day of March, at Pasig City.

  
JOSE C. VITUG

SUBSCRIBED AND SWORN to before me this <sup>15<sup>th</sup> MAR 2007</sup> day of March at Pasig City, affiant personally appeared before me and exhibited to me his Community Tax Certificate No. CCI2005 00011986, issued at Manila on 2 February 2006.

Doc. No. 476 ;  
Page No. 27 ;  
Book No. 1 ;  
Series of 2007 ;

  
RONALD S. SERRANG  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2007  
PTR NO. 3105945  
ISSUED ON MAY 11, 2006 AT PASIG CITY

**CERTIFICATION OF INDEPENDENT DIRECTORS**

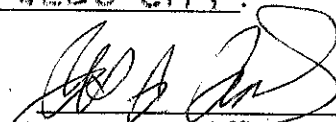
I, **ROBERTO R. ROMULO**, Filipino, of legal age and a resident of 9-C Urdaneta Apartments 6735 Ayala Avenue, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an independent director of Aboitiz Equity Ventures, Inc. (AEV).
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
	- PLS. SEE ATTACHED -	


3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of AEV, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. No conflict of interest exists between my being a director of AEV and my other affiliations as defined and stated in AEV's Guidelines.
5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
6. I shall inform the corporate secretary of AEV of any changes in the abovementioned information within five days from its occurrence.

Done, this MAR 20 day of March, 2007 at CEBU CITY.

  
 \_\_\_\_\_  
 Affiant

SUBSCRIBED AND SWORN to before me this MAR 20 day of 2007  
 at CEBU CITY, affiant personally appeared before me and  
 exhibited to me his/her Community Tax Certificate No. 20428612  
 issued at MAKATI CITY on JANUARY 18, 2007.

Doc. No. 1425 ;  
 Page No. 86 ;  
 Book No. 3 ;  
 Series of 2007.

  
**CATHERINE REGINA ALAY**  
 NOTARY PUBLIC  
 UNTIL DECEMBER 31, 2008  
 IBP LIFE LINE MEMBERSHIP No. 604333  
 PTR No. 6333734/CEBU CITY/1.05.07  
 ROLL No. 50002

## BIO-DATA OF ROBERTO R. ROMULO as 14 March 2007

### 1. Current positions

#### a. Philippines

Chairman	Philam Insurance Company, Inc. (2001-present)
Chairman	Interpharma Investments, Ltd. (1995-present)
Chairman	ABAC (APEC Business Advisory Council) Philippines (1996-present)
Chairman	CIBI Information, Inc. (2000-present)
Chairman	Equicom Systems Management, Inc. (ESM) (1995-present)
Chairman	Carlos P. Romulo for Peace and Development, Inc. (1996-present)
Chairman	Foundation for Information Technology Education and Development (FIT-ED) (1997-present)
Chairman	Philippine Foundation for Global Concerns, Inc. (PFGC) (1996-present)
Chairman	Philippine Global Image Foundation (PGIF) (2002-present)
Chairman & CEO	Romulo and Navarro, Inc. (1997-present)
Chairman	Asia Europe Foundation of the Philippines
Chairman	ASE (Asia Europe) 2000, Inc. (2004-present)
Advisory Board	Philippine Long Distance Telephone Co. (2001-present)
Board member	Aboitiz Equity Ventures (AEV) (2001-present)
Board member	A. Soriano Corporation (1998-present)

#### b. Foreign Boards:

Board member	United Industrial Corporation Limited (Singapore) (2003-present)
Board member	Singapore Land Limited (2003-present)
Board member	MIH Holdings Limited B.V. (British Virgin Islands) (2000-present)
	MIH (Mauritius) Limited – (Dec 2006 – present)
Member	Board of Counselors, Kissinger McLarty Associates (Jan 2007-present)

#### 2. Other positions:

Member	National Competitiveness Council (E.O. 571)
Adviser	Public-Private Partnership Task Force on Globally Competitive Industries (E.O. 372)
Executive Director	International Board of Advisors of President Arroyo

#### 3. Previous positions:

Managing Director	IBM Thailand, Bangladesh and Burma (1980-1983)
President	IBM Philippines (1983-1989)
Philippine Ambassador to Belgium, Luxembourg and Commission of the European Communities	(1989-1992)
Secretary	Department of Foreign Affairs (1992-1995)
Chairman	Philippine Long Distance Telephone Co. (1995-1998)
Vice-Chairman	San Miguel International (1995-1998)
Board member	San Miguel Corporation (1995-1998)



Chairman	Equitable Card Network (1995-2005)
Chairman	PECC International (1997-1999)
Chairman	Pacific Economic Cooperation Council (PECC) Philippines (1997-2005)
Chairman	e-ASEAN Task Force (1999-2002)
Chairman	Digital Philippines Foundation ( 2000-2005)
Special Envoy	to Vietnam and Thailand (2001)
Board Member	Equitable Savings Bank (March 2002-2005)
Board Member	Equitable-PCI Bank (April 2002-2005)
Board Member	PCI Leasing (April 2002-2005)
Chairman	Public-Private Sector Task Force on Iraq (E.O. 194) (2003-2004)

**4. Education**

1960-1964	Bachelor of Laws Ateneo Law School (Philippines)
1956-1960	A.B Political Science Georgetown University ( Washington DC)
1950-1956	Georgetown Preparatory School (Maryland, USA)