SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the year ended **2006**

2. SEC Identification Number **CEO2536** 3. BIR TIN **003-828-269-V**

4. Exact name of registrant as specified in its charter **Aboitiz Equity Ventures, Inc.**

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

6. Industry Classification Code

7. **Gov. Manuel A. Cuenco Ave., Kasambagan, Cebu City** **6000**
Address of principal office Postal Code

8. **(032) 231-2580**
Issuer's telephone number, including area code

9. **NA**
Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common (as of December 31, 2006)	**4,952,087,683**
Total Debt (as of December 31, 2006)	**16,561,186,000**

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

Yes (✓) No ( )

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange **Common**

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code (SRC) and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports)

Yes (✓) No ( )

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

Yes (✓) No ( )

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in Annex "B").

For 2006, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 3,169,877,000 shares (for details please refer to the attached notes to financial statements and Schedule K of this report) while its average market price per share was ₱5.85.

Based on this data, total market value of registrant's voting stock not held by its affiliates and/or officers and employees was computed to be ₱ 18,543,780,450.00.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the registrant has filed all documents and reports required to be filed by Section 17 of the RSA subsequent to the distribution of securities under a plan confirmed by a court or the SEC.

Yes ( ) No (✓)

DOCUMENTS INCORPORATED BY REFERENCE

If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b);

(c) Any prospectus filed pursuant to SRC Rule 8.1-1.

PART 1 – BUSINESS AND GENERAL INFORMATION

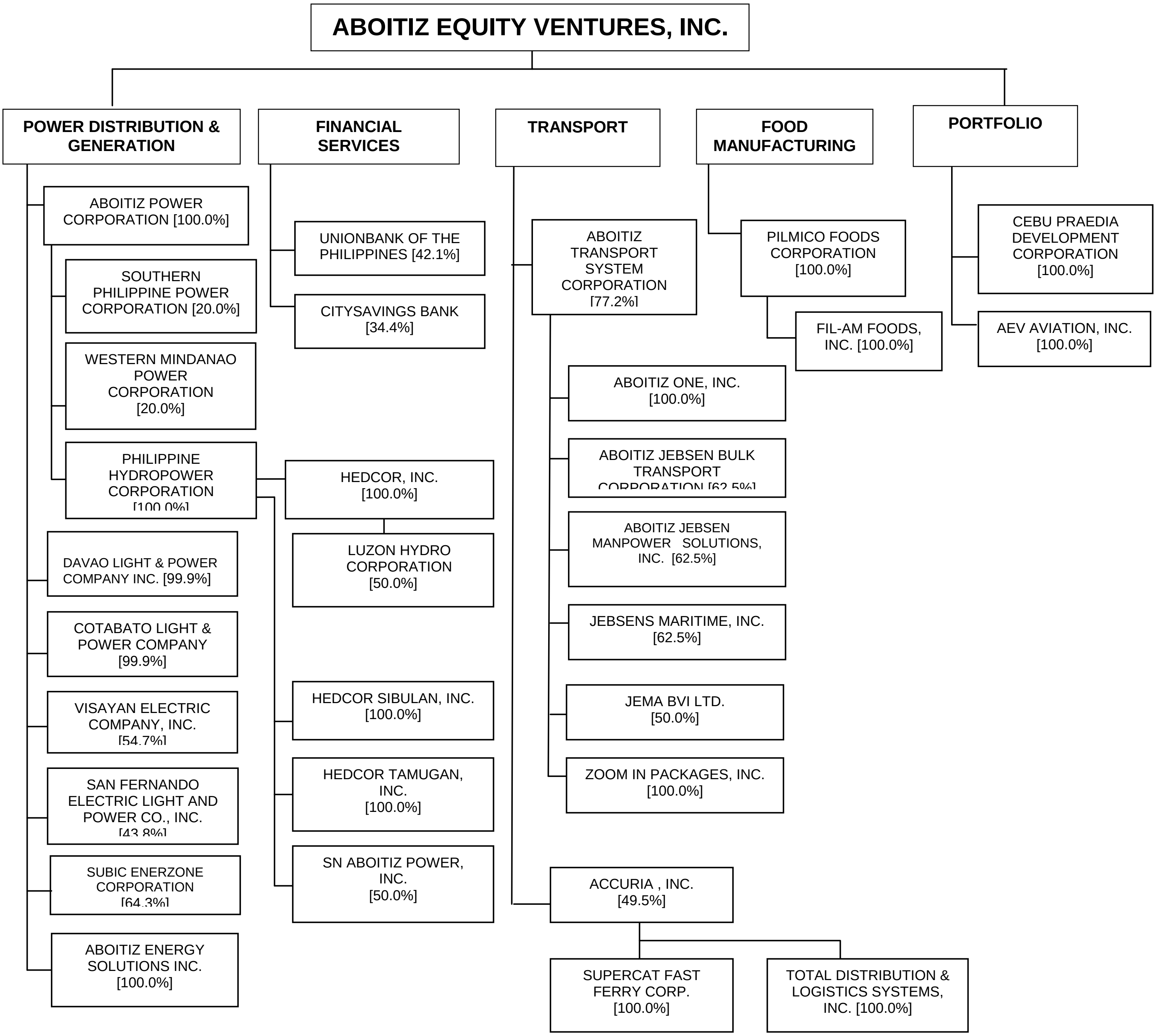
Item 1. Business

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.

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 & Power Company Inc., Aboitiz Transport System Corporation and subsidiaries, and Pilmico Foods Corporation and subsidiary.

POWER GENERATION AND DISTRIBUTION

This business is divided into two groups, namely:

1. **Power Generation** is composed of various companies under Aboitiz Power Corporation (APC), AEV's wholly-owned holding company for its power generation investments. These companies include Philippine Hydropower Corporation (PHC), HEDCOR, Inc. (HEDCOR), Luzon Hydro Corporation (LHC), SN Aboitiz Power, Inc. (SNAP), Hedcor Sibulan, Inc., Hedcor Tamugan, Inc., Southern Philippines Power Corporation (SPPC) and Western Mindanao Power Corporation (WMPC).

2. **Power Distribution** is composed of five electricity distribution companies namely: Davao Light & Power Company Inc. (DLPC), Cotabato Light and Power Company (CLPC), Visayan Electric Company, Inc. (VECO), San Fernando Electric Light and Power Co., Inc. (SFELAPCO) and Subic EnerZone Corporation (SEZC).

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

Aboitiz Power Corporation

APC was incorporated on February 13, 1998 as a holding company for all of AEV's power investments. To prepare for future growth, APC was repositioned as a holding company owning purely power generation assets in the third quarter of 2003 through a property dividend declaration that resulted to the transfer of control over the power distribution assets to AEV.

At present APC's holdings include the hydropower generation companies and investments in two diesel-fired power plants in Mindanao owned by 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). Pursuant to the planned IPO, the Board of Directors of AEV approved the assignment to APC of all of AEV's 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 IPO is consistent with the spirit of the Electric Power Industry Reform Act (EPIRA) for broader public ownership of electricity distribution and generation assets. The IPO will also enhance APC's position as a participant in the privatization of the assets of National Power Corporation (NPC) as well as in the development and acquisition of additional power projects.

Philippine Hydropower Corporation

PHC, a wholly owned subsidiary of APC, is the holding company for all of AEV's investments in hydropower generation. Its subsidiaries are HEDCOR (formerly Benguet Hydropower Corporation), Hedcor Sibulan, Inc. and Hedcor Tamugan, Inc. (formerly: Hydro Specialists Inc.). PHC beneficially owns 50% of SNAP and LHC.

In June 2005 the mini-hydro investments of PHC were consolidated into HEDCOR following the assignment to HEDCOR of the assets and liabilities of Hydro Electric Development Corporation (HEDC) and Northern Mini Hydro Corporation (NMHC), subsidiaries of PHC which used to own the mini-hydro assets of PHC, in exchange for shares of stock in HEDCOR, Inc.

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

HEDCOR, Inc.

HEDCOR 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 DLPC.

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 was constructed and is being operated 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 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 the Talomo power plant in Davao City, 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 APC, Alson's Consolidated Resources, Toyota Tsusho, and Electricity Generating Public Company Limited incorporated in 1996 to implement the Energy Conversion Agreement (ECA) with 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.

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 ECA with 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.

Davao Light and Power Company Inc.

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 was again extended by Congress for another 25 years in 2000 through Republic Act No. 8960. Its franchise area includes Davao City, and Panabo City and the municipalities of Carmen, Dujali, and Sto. Tomas in Davao del Norte, with a total combined population of about 1.2 million.

DLPC procures power from NPC, HEDCOR and its 53.8 MW Bajada standby diesel power plant which is capable of supplying 18% of the energy requirements in its franchise area.

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.

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 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 some parts 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 was 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.

Since its inception VECO has been engaged in the sale and distribution of electric light, heat and power. The original franchise given to VECO's predecessor, Visayan Electric Company, S.A., 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 also 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 conditionally 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 Co., Inc.

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.

Founded and incorporated in 1927, SFELAPCO is one of the first electric companies in Pampanga. 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 the end of 2006.

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

Subic EnerZone Corporation

SEZC is a consortium composed 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 the Subic Bay Metropolitan Authority (SBMA) formally awarded the contract to manage the power distribution system of the Freeport Zone to SEZC, the same day that it 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.

Union Bank of the Philippines

UBP 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 UBP 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 UBP 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 to 7th largest bank in terms of assets and loan portfolio and 9th largest in terms of deposits. It likewise ranked 7th largest in terms of branch network with 191 branches. As of 2006 UBP has 2,951 employees.

At present AEV beneficially holds approximately 42.14% of the bank. Other major shareholders of UBP are Insular Life Assurance Company, Ltd. and the Social Security System.

As a universal bank, UBP 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 focuses 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, 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 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 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.

To diversify from the cyclical nature of its existing products, Pilmico also entered the swine production and animal feeds business in 1997 through Fil-Am Foods, Inc. (Fil-Am), formerly 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 in the second half of that year started its swine operations.

In October 2002 Fil-Am became a wholly owned subsidiary of Pilmico following Pilmico's acquisition of its partners' equity. This strengthened 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. or WG&A, Inc.) and its subsidiaries; and (b) Accuria, Inc. (formerly Aboitiz Transport System, Inc.), a holding company for all transport-related businesses of AEV outside of ATSC like Supercat Fast Ferry Corporation (SFFC), one of the country's pioneering inter–island fastcraft (catamaran) ferry services operator.

Aboitiz Transport System Corporation (ATSC)

AEV's transport and logistics businesses are consolidated under ATSC. ATSC has holdings in companies engaged in domestic airfreight forwarding and cargo handling services, ship technical management, manpower recruitment and training for domestic and international markets. However, its primary business remains the operation of the country's largest inter-island passenger transport and cargo liner services.

ATSC is the result of the 1995 merger of the three biggest shipping companies in the Philippines at that time: William Lines of 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 groups for a total cash value of about P5.40 billion.

Through a shares swap agreement with Aboitiz and Company, Inc. (ACO) and other affiliates of ACO 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%). The shares swap was undertaken to consolidate all transport related businesses of the Aboitiz Group under ATSC, and in the process maximize efficiencies and streamline operations and backroom processes.

With the consolidation, ATSC's businesses can be grouped into the following:

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

ATSC links the major ports and principal cities of the Philippines through a route network of twenty ports of call all over the country. It has a fleet of twelve company owned and one chartered vessel with a combined Gross Registered Tonnage (GRT) of approximately 104,387 metric tons (MTs), total passenger capacity of approximately 21,857 passengers and aggregate cargo capacity of approximately 1,810 twenty-foot equivalent units (TEUs).

Full branch operations are maintained in Manila, Cebu, Iloilo, Cagayan de Oro, Davao, General Santos, Bacolod, Zamboanga, Dumaguete, Puerto Princesa, Iligan, Tagbilaran, Nasipit and Surigao, Dipolog, Cotabato. An extensive agency network covering Ormoc, Coron and Ozamis strategically supports these branches.

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 (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 (CPDC)

CPDC 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 located in Gov. Manuel Cuenco Avenue in Cebu City.

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.

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, except for Magat all power output of AEV's power generation companies are covered by long-term bilateral power purchase contracts with NPC or power distribution utilities. 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.

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 independent power producers (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.

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.

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.

Patents, Copyrights, Franchises/Government Approval

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.

Government Approval

a. HEDCOR is registered as a mini hydro electric power developer 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 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. Upon the request of ATSC, the BOI cancelled the registrations of Superferry 19 and Superferries 15, 16, 17 and 18 last October 18, 2006 and January 12, 2007 including all incentives granted thereunder. 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.

Effect of Existing or Probable Governmental Regulations

RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001 (EPIRA)", was enacted to liberalize and restructure the Philippine electric power industry. Since it was signed into law in 2001, it has made a broad impact on the electric power industry as a whole and AEV's power business in particular.

Privatization of NPC and Transco Assets

The EPIRA mandate to privatize the generation assets of NPC has provided AEV with an opportunity to increase its power generating capacity. It has bidded and will bid in the future for NPC generation assets that will be put into the market by the Power Sector Assets and Liabilities Management Corporation (PSALM). To date it has acquired two generation assets from PSALM – the Talomo hydropower plants in Davao City and the 360 MW Magat hydropower power complex.

The EPIRA also mandates the National Transmission Corporation (Transco) to segregate its subtransmission assets for disposal to qualified distribution utilities. In preparation for the implementation of the Open Access and Retail Competition provisions of the EPIRA, AEV's distribution utilities have entered into agreements with Transco to purchase subtransmission assets within their franchise areas The acquisition of subtransmission assets requires the approval of the Energy Regulatory Commission (ERC).

Wholesale Electricity Spot Market (WESM)

The EPIRA mandates the establishment of WESM to promote competition in power generation. The WESM is a venue for trading electircity where generators may sell power, and suppliers or wholesale consumers can purchase electricity where no bilateral contract exists between the two. The increased competition among generation companies under the WESM will not significantly affect AEV's generation companies in the short term because, except for the Magat hydroelectric plant, electricity generated by the generation companies are covered by bilateral contracts with NPC or distribution utilities.

The WESM also provides a venue for establishing merit order dispatch for generation companies. Since market and dispatch are fully integrated under the WESM, electricity generated by generation companies are required to be sold through the WESM whether or not they are covered by bilateral contracts. Settlement for bilateral contracts will however be done outside the market.

During the first five years of its establishment, distribution utilities are required to procure at least ten percent (10%) of their total demand from the WESM.

Retail Competition and Open Access

The Implementing Rules and Regulation of EPIRA defines Open Access as the system of allowing any qualified person the use of transmission, and/or distribution system and associated facilities subject to the payment of transmission and/or distribution wheeling rates duly approved by the ERC. Retail competition refers to the provision of electricity to a contestable market by suppliers through open access.

During the initial phase of Open Access, the implementation of which is subject to certain conditions, electricity end-users with a monthly average peak of at least one megawatt (1 MW) for the preceding twelve (12) months shall be deemed to be a Contestable Market. Two years thereafter, the threshold level for Contestable Market will be reduced to 750 kW, at which level, aggregators will be allowed to supply electricity to end-users whose aggregate monthly average peak demand within a contiguous area is at least 750 kW. Over time, ERC shall reduce the threshold level until it reaches the household demand level.

The electricity supply businesses of AEV's distribution utilities will face competition under the retail competition and open access system of the EPIRA. However, since they will be paid transmission and/or distribution wheeling fees by suppliers using their subtransmission assets, it is expected that the revenue from their respective distribution businesses will not be affected.

On the other hand, retail competition has provided new business opportunities for AEV's subsidiary AESI, which is now an ERC-registered aggregator and retail electricity supplier.

Business Separation and Unbundling Plan

All electric power industry participants are required under the EPIRA to identify and undertake structural and functional unbundling of their different business activities into power generation, transmission, distribution, supply including collection and metering, and related businesses. To date, all of AEV's distribution utilities have already filed their respective Business Separation and Unbundling Plans which are currently being reviewed by the ERC.

Unbundling of Rates

To promote transparency, the EPIRA also requires electric power industry participants to identify and separate individual charge for providing specific electric service to any end-user for generation, transmission, distribution and supply. Except for SEZC whose application is still pending with the ERC, all of AEV's distribution utilities have effectively unbundled their rates with final approval from the ERC. If approved by the ERC, SEZC's rates unbundling can only be implemented in October 2008 due to a moratorium of rates increase within the first five years of operation provided for in its Distribution Management Services Agreement with Subic Bay Metropolitan Authority signed last May 15, 2003.

Performance-Based Regulation

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 10, 2004. 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 PBR also employs a penalty/reward mechanism depending on a utility's actual performance.

On April 11, 2006 the ERC issued Resolution 16 Series of 2006 which made mandatory the entry into PBR of all private distribution utilities. The DWRG provided for five entry groups for private distribution utilities to the PBR.

CLPC is set to enter the PBR at entry point group B. Reset period of the said group is from April 1, 2007 to September 30, 2008 while its second regulatory period is from October 1, 2008 to September 30, 2012.

VECO is set to enter the PBR at entry point group C. Reset period of the said group is from January 1, 2008 to June 30, 2009 while its second regulatory period is from July 1, 2009 to June 30, 2013.

DLPC, SFELAPCO and SEZC are set to enter the PBR at entry point group D. Reset period of the said group is from April 1, 2009 to September 30, 2010 while its second regulatory period is from October 1, 2010 to September 30, 2014.

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.

Compliance with Environmental Laws

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 the compliance with 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.

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.

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 affect AEV'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 consistently determined 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.

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 power 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, 2006 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.

Sales

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

	2006	**2005**	**2004 As restated***
Gross Income	26,711	26,923	22,411
Operating Income	2,328	2,142	1,811
Total Assets	40,844	38,269	36,592

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

The operations of AEV and its subsidiaries are based largely in the Philippines. With the acquisition by ATSC of the other transport businesses of the Aboitiz Group, a portion of AEV's 2006 consolidated revenues was generated from the international operations of certain subsidiaries.

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

	2006		**2005**		**2004 As restated***	
Power Distribution & Generation	8,763	32%	8,106	30%	6,583	29%
Food Manufacturing	7,439	27%	7,037	26%	6,169	28%
Transport	10,571	38%	11,657	43%	9,682	43%
Portfolio	816	3%	398	1%	67	0%
Total Revenue	**27,590**		**27,198**		**22,501**	
Less: Eliminations	879		275		90	
Net Revenue	**26,711**		**26,923**		**22,411**	

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.

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

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 were valued at ₱ 9.675 billion as compared to ₱11.425 billion for 2005. Breakdown is as follows:

	2006	2005	2004 As restated *
Power, Plant & Equipment	1,895,390	1,862,739	1,844,215
Transmission & Distribution Equipment	2,383,326	2,227,676	1,723,792
Machinery & Equipment	1,615,981	1,429,515	1,355,610
Distribution Transformer & Substation Equipment	1,258,685	1,105,424	943,533
Buildings, Warehouses & Improvements	1,385,039	1,212,126	1,016,974
Office Furniture, Fixtures & Equipment	884,278	756,852	603,682
Transportation Equipment	850,921	740,786	711,653
Land	161,471	152,161	157,783
Leasehold Improvements	329,638	305,961	200,831
Miscellaneous Equipment			23,656
Ships in Operation and Improvements	5,247,753	9,086,746	8,905,904
Containers	1,767,486	1,976,605	1,991,901
Handling Equipment	1,177,470	1,237,855	1,086,471
Flight Equipment	171,672	165,527	
Others	31,853	44,888	
Less: Accumulated Depreciation	9,953,433	11,108,726	9,598,441
Ships under Refurbishment and Construction	467,796	228,997	79,156
TOTAL	₱9,675,326	₱11,425,132	₱11,046,720

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, Bengue, 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 19, 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 ₱57.618 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 2006 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

As of March 31, 2007, AEV has 12,115 shareholders. Common shares outstanding as of same date were 5,694,599,621 shares.

2. The top 20 stockholders of AEV as of March 31, 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	860,386,819	0	860,386,819	15.11%
3	Ramon Aboitiz Foundation, Inc.	Filipino	306,907,904	0	306,907,904	5.39%
4	PCD Nominee Corporation	Filipino	291,926,471	0	291,926,471	5.13%
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	Carcovich, Teresita or John	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	Aboitiz Equity Ventures, Inc. Retirement Fund	Filipino	34,079,274	0	34,079,274	0.60%
19	Triabo Development Corp.	Filipino	31,932,639	0	31,932,639	0.56%
20	Armoza Management & Dev. Corp.	Filipino	28,766,061	0	28,766,061	0.51%
	SUBTOTAL		**4,851,404,732**		**4,851,404,732**	**85.20%**
	Other Stockholders		843,194,889	212,600,000	1,055,794,889	14.80%
	TOTAL SHARES		**5,694,599,621**	**212,600,000**	**5,907,199,621**	
	NET ISSUED AND OUTSTANDING SHARES		**5,694,599,621**	**212,600,000**	**5,907,199,621**	**100.00%**

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-year (Series "E") and seven - year (Series "F") redeemable preferred shares at the offer price of ₱10.00 per share or for a total offering price of ₱1,500,000,000.00. 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. AEV paid the amount of P7,500,000.00 as underwriting commission net of taxes for the issuance of the preferred shares.

On December 6, 2006, AEV exercised its early redemption option over its series "B" and "C" preferred shares at 105% of the face value plus accrued interest and simultaneously issued new Series "E" and "F" preferred shares, part of the proceeds of which was used to finance the preferred shares redeemed. The Series "E" and "F" preferred shares were issued to qualified buyers only pursuant to Sec. 10.1 (l) of the Securities Regulation Code. Below is the list of subscribers to Series "E" and "F" preferred shares:

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

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 goodwill impairment cost, if any. Goodwill is the difference between the purchase price of investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates 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 Impairment Cost

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 2006, 2005 and 2004 are as follows:

	DEC 31/2006	**DEC 31/2005**	**DEC 31/2004 As restated ***
EQUITY IN NET EARNINGS OF INVESTEES	**2,114,710**	2,155,342	1,532,131
EBITDA	**6,994,795**	6,527,059	5,859,589
CASH FLOW GENERATED:			
Net cash provided by operating activities	**3,115,646**	4,024,345	1,607,220
Net cash provided by (used in) investing activities	**2,578,536**	(845,753)	(851,554)
Net cash used in financing activities	**(2,109,140)**	(2,995,368)	320,928
Net Increase in Cash & Cash Equivalents	**3,585,041**	183,224	1,098,330
Cash & Cash Equivalent, Beginning	**4,622,676**	4,567,791	3,469,461
Cash & Cash Equivalent, End	**8,009,957**	4,622,676	4,567,791
CURRENT RATIO	**2.07**	1.29	1.31
DEBT-TO-EQUITY RATIO	**0.72**	0.84	1.06

All the key performance indicators were well within expected levels during year under review. The slight decrease in equity earnings was anticipated due to the projected drop in earnings of LHC this year mainly as a result of lower revenues brought about by the decline in capacity fee rates as stipulated in its contract with NPC. While gross margins hit the projected year-end improvement, the one-time gains generated from the sale of various assets further boosted the growth in consolidated EBITDA.

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

Year ended December 31, 2006

Results of Operations

AEV ended 2006 with a P3.754 billion net income attributable to its equity holders, a 19% increase from 2005. This translates to an earnings per share (EPS) of P0.76. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 8% reaching P7.04 billion.

The power group again contributed the largest chunk to AEV's income with 56% of total contribution despite a projected slow start in 2006. Growth in electricity consumption remained flat throughout the year. The year's highlight for the power group was the successful bid for the 360 MW Magat hydropower plant in December 2006. The acquisition will more than double the generation capacity of APC's hydropower assets.

The banking group's contribution to AEV's income in 2006 increased by 6.7% to P1.1 billion, representing 28% of the total income contribution from the company's various business segments. Furthermore, the banking group's asset base was pushed up by the acquisition by UBP of iBank as well as by the organic growth of its business.
Pilmico posted a 33.6% increase in income contribution to AEV, turning in P510 million in 2006. This represents 13% of the total income of AEV's business segments.

In 2006 the transport group contributed P142 million to AEV's bottom line, an increase of 313% over last year and constituting 3.5% of AEV's consolidated income. Despite a decline in freight and passenger volumes, ATSC was able to book a profit for the year and reduce its interest-bearing debt by P1.2 billion.

Material Changes in Line Items of Registrant's Income Statement

Consolidated net income attributable to equity holders increased by 19% for the year due to the following:

Consolidated net income attributable to equity holders increased by 19% for the year due to the following:

The overall improvement in consolidated operating income was further boosted by a 6.5% increase in interest income, coupled with a 9% reduction in interest expense. Higher cash balances at parent level and decrease in average debt level and interest rates accounted for this improvement. Provision for income tax increased by 5% as a result of the higher taxable income reported by the group.

Material Changes in Registrant's Resources, Liabilities and Shareholders Equity

Resources
Compared to year-end 2005 levels, consolidated assets increased by 7%, from P38.3 billion to P40.8 billion in 2006 for the following reasons:

- *Cash & Cash Equivalents* went up by 73% (P8.01 billion against P4.62 billion) mainly due to the higher fund holdings generated from the remaining proceeds of the long-term loans availed of by the parent company in 2006 and to the higher cash dividends received from associates.

- *Trade and Other Receivables* went up by 9% (P3.66 billion against P3.37 billion) largely due to higher trade receivables which correspondingly rose in consonance with the growth in revenues of the group and the increase in non-trade receivables of ATSC in relation to the sale of its investment in DIPSSCOR.

- *Inventories* grew by 23% (P1.69 billion against P1.38B) due to higher wheat inventory carried by Pilmico at the end of 2006.

- *Other Current Assets* increased by 19% (P1.08 billion against P905M) substantially due to build-up of unutilized prepaid taxes at parent company level.

- *Noncurrent asset classified as held for sale* is a new account opened in 2006 to lodge the P659 million sale of SuperFerry 17 which has a delivery date in the second quarter of 2007 per Memorandum of Agreement (MOA) dated November 13, 2006.

- *Deferred Income Tax Assets (DTA)* increased by 63% (P516 million against P317 million) mainly due to the P180 million unrealized foreign exchange losses recorded in 2006, which correspondingly required the set up of additional DTA. The higher income tax rates used in computing DTA also contributed to the increase.

The above increases were partially offset by the decreases in Property, Plant & Equipment and AFS Investments as a result of the various sales made by the AEV, ATSC & Pilmico in 2006.

Liabilities

Consolidated bank and long-term liabilities slightly decreased by 4% compared to 2005 year-end level, mainly due to prepayment of debt. ATSC alone was able to reduce its total liabilities by P1.4 billion. In spite of the poor operating results during the current period, ATSC generated positive cash flow, which was used to pay off its obligations. Likewise, the other subsidiaries paid their loan amortization dues using internally generated funds. This decline in subsidiaries' debt was partially offset by the P1.2 billion increase in AEV's long-term liabilities as it took advantage of the attractive interest rates offered by the market and availed of additional debt to financially prepare for new power acquisitions in 2007.

Customers' deposits grew by 11% due to the increase in the power distribution group's customer base and adjustments in required amounts of deposits to comply with the Magna Carta for Residential Electricity Consumers and the Distribution Service and Open Access Rules (DSOAR).

The 18% increase in pension liability is attributable to the lower discounting rates used in computing the present value of accrued pension benefits payable of the group.

Equity

Equity attributable to equity holders of the parent increased by 14%, from P20.1 billion in 2005 to P23.1 billion in 2006, substantially due to the growth in retained earnings and the sale of AEV’s treasury shares. This increase was partially offset by the decrease in the Group's share in unrealized valuation losses on AFS investments, underwriting accounts of its banking associate and in cumulative translation adjustments of its power generating associates.

In 2006 the Group continued to deliver an impressive operating performance, generating P3.75 billion in net income, which resulted in a 21% over-all increase in retained earnings, despite the P736 million cash dividend distribution.

Share in unrealized gains on AFS investments and underwriting accounts declined by 68%. The drop in the market prices of these financial instruments as of December 2006 resulted to an P83 million share in valuation losses, partially reversing the P122 million share in gains as of year end 2005.

The 71% decline in share in cumulative translation adjustments of associates was due to the further appreciation of the Philippine Peso in December 2006, from P53.062 as of December 31, 2005 to P49.045 as of end of current year. The power generating associates, which adopt the US dollar functional currency financial reporting, recorded substantial foreign exchange adjustments in generating their December 2006 financial statements under the peso presentation currency. These foreign exchange adjustments are booked under Cumulative Translation Adjustments account.

The 8% decrease in current liabilities resulting from payment of short-term borrowings and loan amortization dues, coupled with a 47% increase in current assets, accounted for the improvement in current ratio, from 1.29:1 as of year-end 2005 to 2.07:1 as of December 2006. Likewise, net debt-to-equity decreased from 0.38:1 as of December 2005 to 0.17:1 as of December 2006 while debt-to-equity ratio stood at 0.72:1.

Material Changes in Liquidity and Cash Reserves of Registrant

Consolidated cash generated from operating activities decreased by 23%, from P4.02 billion in 2005 to P3.12 billion in 2006. As compared to last year, more funds were used to purchase inventory and settle trade payables and taxes, while receivables increased.

Net cash generated from investing activities jumped 405%, mainly due to higher cash dividends received from associates and sale of various assets.

Net cash used in financing activities dropped by 30% as debt repayment was lower in 2006 compared to last year.

For 2006 net cash inflows were higher than cash outflows, resulting to a 73% increase in cash and cash equivalents, from P4.62 billion in December 2005 to P8.01B in December 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 P1.811billion, 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 substantial 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.

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 2007 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)

APC formed a joint venture with SN Power of Norway, and was successful in its bid for NPC's 360 MW Magat hydroelectric facility in Isabela province. The plant will be turned over at the end of April 2007, after which the joint venture company, SN Aboitiz Power Inc. (SNAP), will take over management of the facility. SNAP also intends to bid for other hydropower assets which the NPC, through PSALM, intends to dispose of in 2007, including 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 three 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 20007, with the higher disposable income available to the consumer.

Financial Services

Union Bank (UBP) should complete the full integration of its iBank 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$100 million 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 be delivered 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 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.

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. Financial Statements

The consolidated financial statements of AEV are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Information on Independent Accountant and other Related Matters

(A) 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)	₱286,000.00	₱275,000.00
Audit-Related Fees	-	-
Tax Fees	-	-
Consultancy Fees (Incurred by Group)	-	₱2,816,000.00
Total	**286,000.00**	**₱3,091,000.00**

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.

(B) 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 – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

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 Jebsen 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 "A-1" and "A-2" are the Certifications of Qualification of the nominees for 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 Jebsen 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.; Senior Vice President-Power Generation Group 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 hi 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 and First Vice President/Treasurer of Aboitiz Power Corporation. 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, First Vice President – Legal/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., Director and Executive Vice President and Chief Operating Officer of Subic Enerzone Corporation and Vice President for Business Development of Aboitiz Power 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.

Significant Employees

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

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.

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.

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 10. Executive Compensation

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
TOP FIVE HIGHLY-COMPENSATED EXECUTIVES: 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 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 31, 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	**1. Aboitiz and Company, Inc.*** Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000	Stockholder	Filipino	2,476,022,415 (Record)	43.48%
Common	**2. PCD Nominee Corporation**	Stockholder	Non-Filipino	860,386,819 (Record)	15.11%
Common	**3. Ramon Aboitiz Foundation, Inc.**** 35 Lopez Jaena St., Cebu City 6000	Stockholder	Filipino	306,907,904 (Record)	5.39%
Common	**4. PCD Nominee Corporation**	Stockholder	Filipino	291,926,471 (Record)	5.13%

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 March 31, 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
Mr. Roberto E. Aboitiz Chairman, Board of Directors	Common	975,000 – Record 82,099,033 – Beneficial	Filipino	0.02% 1.44%
Mr. Jon R. Aboitiz President and Chief Executive Officer	"	100 – Record 91,876,977 – Beneficial	"	0.00% 1.61%
Mr. Enrique M. Aboitiz, Jr. Director	"	141,000 – Record	"	0.00%
Mr. Erramon I. Aboitiz Director, Executive Vice President & Chief Operating Officer	"	1,000 – Record 51,779,484 – Beneficial	"	0.00% 0.91%
Mr. Justo A. Ortiz Director	"	1 – Record	"	0.00%
Mr. Roberto R. Romulo Independent Director	"	100 – Record	"	0.00%
Mr. Jose C. Vitug Independent Director	"	100 – Record 72,020 – Beneficial	"	0.00% 0.00%
Mr. Stephen G. Paradies Senior Vice President/CFO/Corporate Information Officer	"	21,458,908 – Beneficial	"	0.38%
Mr. Juan Antonio E. Bernad Senior Vice President - Electricity Regulatory Affairs	"	730,351 – Record	"	0.01%
Mr. Xavier Jose Aboitiz Senior Vice President - Human Resources	"	1,998,236 – Beneficial 5,676,274 – Record	"	0.04% 0.10%

Mr. Mikel A. Aboitiz Senior Vice President/Chief Information Officer	"	975,000 – Beneficial 78,595,677 – Record	"	0.02% 1.38%
Mr. Luis Miguel Aboitiz First Vice President	"	19,382,133 – Beneficial	"	0.34%
Ms. Melinda R. Bathan Vice President - Controller	"	12,829 - Record	"	0.00%
Ms. Narcisa S. Lim Assistant Vice President - Human Resources	"	2,520 – Record	"	0.00%
Ms. Delia Y. Maderazo Assistant Vice President - iCSD	"	22,600 – Record	"	0.00%
TOTAL		**355,799,343**		**6.25%**

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.

Item 12. Certain Relationships and Related Transactions

AEV 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 P72.571 and P221,429 (in thousands) in 2006 and 2005, respectively.

Parent Company

The parent and the ultimate parent of the AEV is ACO.

Item 13. Corporate Governance

AEV has a Manual of Corporate Governance (the Manual) and Code of Ethics and Business Conduct (the Code) to guide the attainment of its corporate goals and strategies. To ensure compliance, copies of the Manual and the Code were disseminated to the Board of Directors, management and employees of AEV. Company-wide orientations on the Manual and the Code were conducted as well.

AEV has in place a performance evaluation system for corporate governance. The Compliance Officer regularly monitors and evaluates compliance by the Board of Directors, management and employees with the Manual. Together with the Human Resources Department, the Compliance Officer also ensures the implementation of AEV's rule against conflict of interests and the misuse of inside and proprietary information throughout the organization.

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management as well as in monitoring and evaluating management performance in meeting such corporate goals. The different Board committees, namely, the Audit, Compensation, Nomination and Investor Relations, which report regularly to the Board, are crucial to maintaining Board oversight in key management areas.

There are no major deviations from the Manual as of the date of this report.

The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and responsive to the needs of the organization.

PART IV – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits. Please refer to the accompanying Index to Exhibits
The exhibits are filed as a separate section of this report.

(b) Reports on SEC Form 17-C

Reports filed by the AEV on SEC Form 17-C from April 2006 to April 2007 are as follows:

Date	Disclosure Details
2006	
May 5, 2006	Purchase of at least 67% and up to 100% of the voting shares of The International Exchange Bank
May 11, 2006	First quarter income for 2006
May 15, 2006	Election of the board of directors and external auditor for the year 2006-2007
May 15, 2006	Election of officers for the year 2006-2007
August 1, 2006	Second quarter earnings for 2006
September 19, 2006	Sale of eighteen million (18,000,000) treasury shares
September 21, 2006	Sale of twenty five million seven hundred nineteen thousand (25,719,000) treasury shares
September 27, 2006	Sale of two million (2,000,000) treasury shares
October 16, 2006	Appointment of Securities Transfer Services Inc. as the new stock transfer agent effective November 20, 2006 replacing Union Bank of the Philippines
November 6, 2006	Third quarter earnings for 2006
November 17, 2006	Use of new stock certificates with the new company logo effective November 20, 2006
November 28, 2006	Stock Purchase Agreement between Pilmico with ABF Overseas Limited for the sale of Pilmico's stake in Pilmico-Mauri Foods Corporation
November 28, 2006	Issuance of one hundred fifty million (150,000,000) preferred shares
December 14, 2006	Bid for the 360-megawatt Magat Hydroelectric Power Plant Complex in Isabela by SNAP, a joint venture between APC and SN Power of Norway
2007	
January 9, 2006	Notice of Award issued by the Power Sector Assets and Liabilities Management Corporation to the consortium between APC and Norway's SN Power, SN Aboitiz Power, Inc. as the winning bidder for the 360-megawatt Magat Hydroelectric Power Plant
January 11, 2007	Matters approved by the Board: a. Initial public offering (IPO) and listing on the Philippine Stock Exchange (PSE) of the shares of stock of APC subject to the approval of the PSE, Securities and Exchange Commission (SEC) and all other required regulatory authorities b. Consolidation of all of AEV's power assets consisting of shares of stock in various power companies

	c. Declaration of cash dividend in the amount of twenty centavos (P0.20) per share to all stockholders of record as of February 9, 2007
January 16, 2007	Matters approved by the Board: a. Issuance to AEV, out of the proposed increase in capital stock of APC from five billion (P5,000,000,000.00) pesos to seventeen billion (P17,000,000,000.00) pesos, common shares in APC in exchange for the shares of stock held by AEV in various power companies b. Assignment of all rights and interests of AEV in the shares of stock of the various power companies in exchange for the issuance of APC common shares c. Calling of special stockholders' meeting on February 27, 2007 to seek stockholders ratification of the transfer of AEV's investments in power companies to APC
January 22, 2007	Undertaking of a marketed placement of up to seven hundred forty three million (743,000,000) of AEV's treasury shares for domestic and international investors
January 29, 2007	Placement of AEV's entire treasury shares holdings representing seven hundred forty two million five hundred eleven thousand nine hundred thirty eight (742,511,938) shares at a price of P8.20 per share
January 30, 2007	Re-allocation of more shares locally increasing the shares sold onshore from 8% to 11.2% as advised by ATR Kim-Eng Capital Partners, Inc., the Domestic Lead Manager and International Placing Agent
February 8, 2007	Setting of April 9, 2007 as record date for stockholders entitled to vote at the Annual Stockholders' Meeting to be held on May 21, 2007 at 4:00 p.m. at the Grand Ballroom of Cebu City Mariott Hotel, Cebu Business Park, Cebu City
February 15, 2007	Notification by HEDCOR, Inc. of the selection of its consortium with PHC, Hedcor Sibulan, Inc. and Hedcor Tamugan, Inc. (the Hedcor Consortium) as the Preferred Bidder for the 12-year supply contract for a total of 400,000,000 kwhrs to Davao Light and Power Co., Inc.
February 17, 2007	Memorandum of Agreement entered into by APC with Taiwan Cogeneration International Corporation to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone
February 22, 2007	Submission by the Nomination Committee of the final list of candidates qualified to be AEV's independent directors, namely: Mr. Roberto R. Romulo and Justice Jose C. Vitug (ret.)
February 23, 2007	Issuance by DLPC of a Notice of Award in favor of the Hedcor Consortium for the supply of 400,000,000 kWh per year of New Capacity starting August 2009 to DLPC
February 27, 2007	Approval of the assignment by AEV of all its beneficial interests in various power distribution companies, namely: DLPC, CLPC, VECO, SFELAPCO, SEZC, Hijos de F. Escaño, PEVI and AESI valued at their total historical acquisition cost of P2,889,320,292.00 to APC as partial payment for its subscription of three billion common shares of APC
February 28, 2007	Unaudited income for 2006
March 8, 2007	Resetting of date of stockholders' briefing to May 23, 2007 at 3:00 p.m. instead of May 24, 2007

April 12, 2007	Subscription of additional four hundred million (400,000,000) common shares of APC at the subscription price of P10.00 per share
April 20, 2007	Acquisition by APC of fifty million (50,000,000) common shares representing 50% of the outstanding capital stock of East Asia Utilities Corporation
April 25, 2007	Filing by APC of preliminary registration statement for the registration of seven billion two hundred million (7,200,000,000) common shares with the SEC
April 26, 2007	Turnover by PSALM of the possession and control of the 360 MW Magat hydroelectric power plant to SNAP
April 26, 2007	Offering of new common shares by UBP, AEV's affiliate at P59 per share

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, AEV has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cebu on April 27, 2007.

By:

(Original Signed)
JON RAMON ABOITIZ
Principal Executive Officer

(Original Signed)
MELINDA R. BATHAN
Controller/Principal Accounting Officer

(Original Signed)
ERRAMON I. ABOITIZ
Principal Operating Officer

(Original Signed)
M. JASMINE S. OPORTO
Corporate Secretary

(Original Signed)
STEPHEN G. PARADIES
Principal Financial Officer

SUBSCRIBED AND SWORN to before me on April 27, 2007. Affiants who are personally known to me exhibited to me their Community Tax Certificates, as follows:

NAMES	COMMUNITY TAX CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
JON RAMON ABOITIZ	04053992	Jan. 25, 2007	Cebu City
ERRAMON I. ABOITIZ	04051842	Jan. 26, 2007	Cebu City
STEPHEN G. PARADIES	04051915	Jan. 27, 2007	Cebu City
MELINDA R. BATHAN	15368692	Feb. 23, 2007	Cebu City
M. JASMINE S. OPORTO	15340321	Feb. 8, 2007	Cebu City

Doc. No. 88;
Page No. 19;
Book No. 04;
Series of 2007.

(Original Signed)
CATHERINE R. ATAY
Notary Public
Until December 31, 2008
IBP Lifetime Membership No. 694333
PTR No. 6333734/CEBU CITY/1.05.07
Roll No. 50002