COVER SHEET

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S.E.C. Registration Number

A B O I T I Z E Q U I T Y V E N T U R E S , I N C .

(Company's Full Name)

A B O I T I Z C O R P O R A T E C E N T E R

G O V . M A N U E L C U E N C O A V E .

K A S A M B A G A N , C E B U C I T Y

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

LEAH I. GERALDEZ	(032) 231-2580 LOC 310
Contact Person	Company Telephone Number

Preliminary Information Statement

1 2 / 3 1	2 0 - I S	
Month *Day*	FORM TYPE	*Month* *Day*
Fiscal Year		Annual Meeting

Secondary License Type, if Applicable

S E C	
Dept. Requiring this Doc	Amended Articles Number/Section

	x	
Total No. of Stockholders	Domestic	Foreign

- -

To be accomplished by SEC Personnel concerned

File Number

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [**X**] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter **ABOITIZ EQUITY VENTURES, INC.**

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

4. SEC Identification Number **CEO2536**

5. BIR Tax Identification Code **003-828-269-V**

6. **Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City, Philippines**
   Address of principal office Postal Code **6000**

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

8. **27 February 2007, 4 o'clock p.m., Audio Visual Room, Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City, Philippines**
   Date, time and place of the meeting of security holders

9. Approximate date when the Information Statement is first to be sent or given to security holders **February 6, 2007**

10. In case of Proxy Solicitations: **NA**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the Revised Securities Act (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Stock Outstanding and Amount of Debt Outstanding
Authorized Capital Stock: (9,600,000,000 Common Shares, PV P1.00; 400,000,000 Preferred Shares, PV P1.00)	10,000,000,00
No. of Common Shares Outstanding As of 31 December 2006	**4,952,087,683**
Amount of Debt Outstanding as of 30 September, 2006	**16, 764,577,089**

12. **Are any or all of registrant's securities listed on a Stock Exchange?**

    Yes **X** No ____

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

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

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

Date of meeting	:	**27 February 2007**
Time of meeting	:	**4 o'clock p.m.**
Place of meeting	:	**Audio Visual Room Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City**
Approximate mailing date of this statement	:	**6 February 2006**
Complete mailing address of the principal office of the registrant	:	**Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000, Philippines**

Item 2. Dissenter's Right of Appraisal

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

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

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

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

(a.) No current director or officer of AEV, or nominee for election as director of AEV or any associate of any of the foregoing persons has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon in the stockholders' meeting, other than election to office.

(b.) No director has informed AEV in writing that he intends to oppose any action to be taken by AEV at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a.) Class of Voting Shares as of 31 December 2006:

Class of Voting Shares	No. of Shares Entitled to Vote
Common Shares	**4,952,087,683**

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

(b.) Record Date: **31 January 2007**

All stockholders of record as of 31 January 2007 are entitled to notice and to vote at AEV's Special Stockholders' Meeting.

(c.) Election of Directors and Cumulative Voting Rights

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

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

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

No discretionary authority to cumulate votes is solicited.

(d.) No proxy solicitation is being made.

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

Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of 31 December 2006

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)	48.53%
Common	**2. PCD Nominee Corp.**	Stockholder	Filipino	878,493,357 (Beneficial)	17.22%
Common	**3. Ramon Aboitiz Foundation, Inc.**** 35 Lopez Jaena St., Cebu City 6000	Stockholder	Filipino	364,885,243 (Record)	7.15%
Common	**4. PCD Nominee Corp.**	Stockholder	Non-Filipino	283,498,534 (Beneficial)	5.56%

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 31 December 2006 (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% 1.61%
Mr. Jon R. Aboitiz President and Chief Executive Officer	Common	100 - Record 91,876,977 - Beneficial	Filipino	0.00% 1.80%
Mr. Enrique M. Aboitiz, Jr. Director	Common	141,000 - Record	Filipino	0.00%
Mr. Erramon I. Aboitiz Director, Executive Vice President & Chief Operating Officer	Common	1,000 - Record 51,779,483 - Beneficial	Filipino	0.00% 1.01%
Mr. Justo A. Ortiz Director	Common	1 - Record	Filipino	0.00%
Mr. Roberto R. Romulo Independent Director	Common	100 - Record	Filipino	0.00%
Mr. Jose C. Vitug Independent Director	Common	100 - Record 72,020 - Beneficial	Filipino	0.00% 0.00%
Mr. Stephen G. Paradies Senior Vice President/CFO/Corporate Information Officer	Common	21,458,908 - Beneficial	Filipino	0.42%
Mr. Juan Antonio E. Bernad Senior Vice President - Electricity Regulatory Affairs	Common	730,351 - Record	Filipino	0.01%
Mr. Xavier Jose Aboitiz Senior Vice President - Human Resources	Common	1,998,236 - Record 5,676,274 - Beneficial	Filipino	0.03% 0.11%

Mr. Mikel A. Aboitiz Senior Vice President/Chief Information Officer	Common	975,000 - Record 75,595,677 - Beneficial	Filipino	0.02% 1.54%
Mr. Luis Miguel Aboitiz First Vice President	Common	19,382,133 - Record	Filipino	0.38%
Ms. Melinda R. Bathan Vice President – Controller	Common	12,829 - Record	Filipino	0.00%
Ms. Narcisa S. Lim Assistant Vice President - Human Resources	Common	2,520 - Record	Filipino	0.00%
Ms. Delia Y. Maderazo Assistant Vice President - iCSD	Common	22,600 - Record	Filipino	0.00%
TOTAL		**355,799,343**		**6.95%**

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

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

(4) Changes in Control

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

Item 5. Directors and Executive Officers

Not Applicable

Item 6. Compensation of Directors and Executive Officers

Not Applicable

Item 7. Independent Public Accountant

Not Applicable

Item 8. Compensation Plans

Not Applicable

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization of Securities Other than for Exchange

Not Applicable

Item 10. Modification or Exchange of Securities

Not Applicable

Item 11. Financial and Other Information

Not Applicable

Item 12. Mergers, Consolidation, Acquisitions and Similar

Not Applicable

Item 13. Acquisition or Disposition of Property

In the special meeting last January 11, 2007 the Board of Directors of AEV moved for the consolidation of all of AEV's power assets which consist of shares of stock in the following companies:

INVESTEE	# SHARES OWNED AS OF DEC 31/2006	DIRECT % OWNERSHIP AS OF DEC 31/2006	HISTORICAL ACQUISITION COST FOR PERIOD ENDED DEC 31/2006
Aboitiz Energy Solutions, Inc.	3,000,000	100.00%	21,000,000.00
Cotabato Light & Power Co., Inc.	150,689,118	99.91%	213,924,380.18
Davao Light & Power Company	299,729,524	99.91%	737,532,472.84
San Fernando Electric Light & Power Co., Inc.	540,809	20.29%	180,863,801.05
Pampanga Equity Ventures, Inc.	12,996,191	42.84%	209,465,105.44
Visayan Electric Company, Inc.	3,291,677	43.03%	651,469,183.81
Hijos de F. Escaño, Inc.	13,340	46.66%	857,196,685.97
Subic Enerzone Corp.	2,000,000	20.00%	20,000,000.00
TOTAL			**2,891,451,629.29**

in preparation for the Initial Public Offering and listing in the Philippine Stock Exchange of the shares of stock of Aboitiz Power Corporation (APC), a wholly owned holding subsidiary for AEV's power investments, with principal office address at the Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City.

Pursuant to the Subscription Agreement and Deed of Assignment entered into by and between AEV and APC last January 20, 2007, AEV will subscribe to three billion common APC shares out of the proposed Twelve Billion Pesos (P12,000,000,000.00) increase in the authorized capital stock of APC. AEV will assign all its rights and interests in the shares of stock of the aforementioned corporations to APC as partial payment of the subscription. The said shares of stock will be transferred by AEV to APC at their historical costs in exchange for APC shares valued at par.

Said assignment and exchange shall be subject to the approval of the PSE, SEC, the Bureau of Internal Revenue and all other required regulatory authorities.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

Not Applicable

Item 16. Matters Not Required to be Submitted

Not Applicable

Item 19. Voting Procedures

(a) Vote Required for Election

Article 1 Section 4 of the AEV By-Laws states that a quorum for any meeting of stockholders shall consist of the majority of the outstanding capital stock of AEV, and that a majority of such quorum shall decide any question in the meeting except those matters in which the Corporation Code requires a greater proportion of affirmative votes.

Although the transaction to be submitted for consideration of the stockholders does not fall under Section 40 of the Corporation Code, which refers to sale, lease, exchange, mortgage, pledge or any disposal of all or substantially all corporate property and assets requiring the vote of at least two-thirds (2/3) of the outstanding capital stock, the Board of Directors of AEV, for purposes of transparency, nonetheless decided to submit the proposal to transfer AEV's investments to APC to the stockholders for ratification.

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

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

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

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

Attention: Ms. Ma. Theresa Sederiosa

By:

M. JASMINE S. OPORTO
Corporate Secretary

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

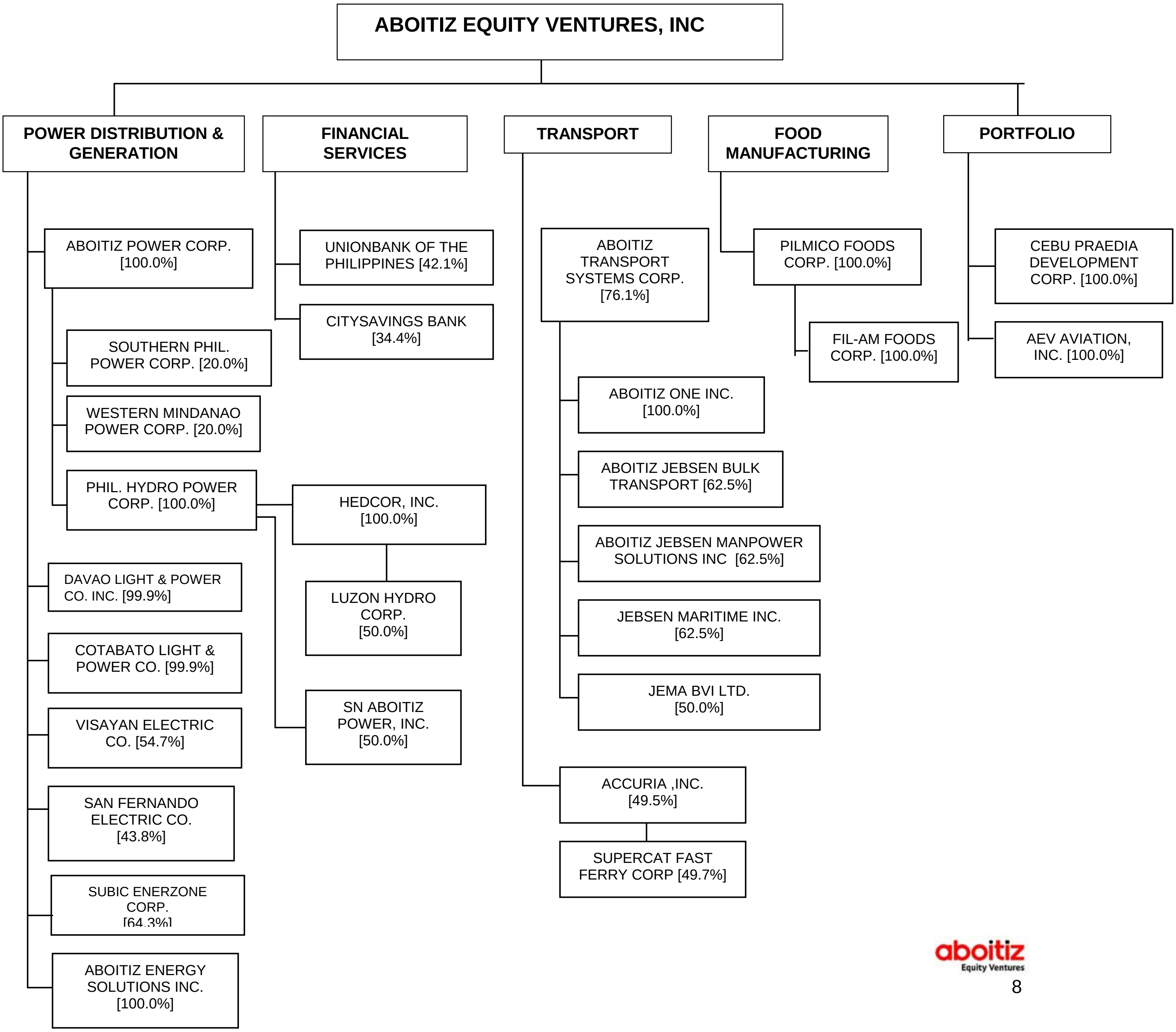
(1) Business Development

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

(2) Business of Issuer

<u>(i) Products</u>

AEV's core businesses, conducted through its various subsidiaries and associates, 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, Davao Light and Power Company, Inc., Aboitiz Transport System Corporation, and Pilmico Foods Corporation.

(ii) Sales

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

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

Note: Values in the above table are in Million Pesos.
* Figures were restated as a result of the full adoption of Philippine Financial Reporting Standards (PFRS) and the reorganization of the Transport Group.

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 2005 consolidated revenues was generated from certain subsidiaries' international operations.

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

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

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.

(iii) Distribution Methods of the Products or Services

POWER GENERATION AND DISTRIBUTION

This business is divided into two groups, namely:

- Power Generation, which is composed of various companies under Aboitiz Power Corporation (APC), AEV's wholly owned holding company for power generation investments. These include Philippine Hydropower Corporation, HEDCOR Inc., Southern Philippines Power Corporation (SPPC) and Western Mindanao Power Corporation (WMPC).

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

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

Aboitiz Power Corporation (APC)

APC was incorporated on February 13, 1998 as a holding company for AEV's power investments. However, in order to prepare for future growth in the power generation industry, APC was repositioned at the start of the third quarter of 2003 as a holding company owning purely power generation assets. The divestment by APC of its power distribution assets was achieved through a property dividend declaration in the form of APC's stockholdings in the different power distribution companies, which has an aggregate carrying value of ₱ 3.18 billion. The property dividend declaration effectively transferred direct control over the power distribution companies to AEV.

Under the current structure, APC's holdings include the companies of the hydropower generation group, and AEV's investment in the Alsons Group's two diesel-fired power plants in Mindanao, Southern Philippines Power Corp. (SPPC) and Western Mindanao Power Corp. (WMPC).

On December 14, 2006 SN Aboitiz Power Inc. (SNAP), a joint venture between APC and SN Power Group of Norway (SN Power), submitted the highest bid to PSALM (Power Sector Assets and Liabilities Management Corporation) for the 360 Megawatt (MW) Magat Hydroelectric Power Plant Complex located in Isabela province. The price offered amounted to US$530 million.

On January 9, 2007 the PSALM issued the Notice of Award to SNAP, officially declaring the joint venture as the winning bid for the 360-megawatt (MW) Magat Hydroelectric Power Plant. Subject to PSALM's board approval, the facility will be the second hydroelectric power asset to be acquired by the Aboitiz group from the government.

The Magat facility will add a significant amount of hydroelectric capacity to APC's portfolio of power generation assets. SN Power, APC's partner in the Magat project, is an investor and developer of hydropower projects in emerging markets, with existing capacity of 1,435 in Asia and Latin America.

APC intends to bid for other power generation assets to be auctioned off by the government.

APC opened the year 2007 by announcing its intention to become a public company through an initial public offering (IPO), subject however to the approval of the Philippine Stock Exchange (PSE), Securities and Exchange Commission (SEC) and all other regulatory authorities.

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

Philippine Hydropower Corporation (PhilHydro)

PhilHydro, a wholly owned subsidiary of APC, is the holding company for all investments in hydro power generation. Prior to 2005, its subsidiaries were Hydro Electric Development Corp. (HEDC), Northern Mini Hydro Corp. (NMHC), and Benguet Hydropower Corporation (BHC), which has a 50% stake in Luzon Hydro Corp. (LHC).

In June of 2005, the hydro group's operating companies Hydro Electric Development Corp. and Northern Mini Hydro Corp., were merged into Benguet Hydro Corp., which was then renamed HEDCOR, Inc.

HEDCOR, Inc.

HEDCOR Inc. 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 turn, HEDCOR Inc. is 100% owned and controlled by Philhydro.

Under a long-term contract with the National Power Corp. (NPC) for its mini–hydro plants, HEDCOR, Inc. books 88% of the effective grid charged by NPC to end-users for generated energy of not more than 130 gWh in a year. For power generated in excess of 130 GWH but not to exceed 150 GWH, it books 66% of the effective grid rate. HEDCOR, Inc. also charges a wheeling fee to NPC for the use of its transmission lines. Given the "must-run-when-available" feature of the contract, NPC is committed to purchase all the power generated by HEDCOR, Inc.

Through its 50% ownership in LHC, HEDCOR, Inc. operates and manages the 70-MW Bakun AC hydro project located in Bakun, Benguet. The project is a run–of–river power plant, which taps the flow of the neighboring Bakun river to provide the plant with its generating power. The US$150 million-project is under the government's build–operate–transfer scheme. The Bakun AC plant went onstream in October 2000 and is rated to generate 217 gigawatt–hours of power annually. Energy produced by the plant is delivered and taken up by NPC and dispersed to its Luzon Power Grid for distribution to customers throughout Luzon.

Southern Philippines Power Corporation (SPPC)

SPPC is a joint venture between the Aboitiz Group, Alsons Group, and SingPower. Aboitiz has a 20% stake in the company, which owns and operates a 50-MW capacity bunker fuel power generating plant near General Santos City in Mindanao. Its capacity and generation are contracted entirely to NPC.

Western Mindanao Power Corporation (WMPC)

WMPC, like SPPC, is a joint venture between the Aboitiz Group, Alsons Group, and SingPower. Just the same, Aboitiz has a 20% stake in the company, which owns and operates a 100-MW capacity bunker fuel power generating plant in Zamboanga del Sur in Mindanao. Its capacity and generation are also entirely contracted to NPC.

Davao Light and Power Company, Inc. (DLPC)

DLPC is the third largest privately owned electric utility in the country and is one of the major contributors to AEV's earnings. 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). The Aboitiz Group acquired the company in 1947. DLPC's franchise was extended for an additional 25 years in 1980 by the National Electrification Commission and again extended by Congress for another 25 years in 2000 through Republic Act No. 8960. Its franchise area, which has a population of about 1.2 million people, covers Davao City, and Davao del Norte's Panabo City, and the municipalities of Carmen, Dujali, and Sto. Tomas.

As of 2005, DLPC's manpower complement is 364, serving 231,279 residential, commercial, industrial, and flat rate customers at a peak load of 230 mW. It has one of the lowest systems losses in the industry at 8.45%, lower than the government mandated cap of 9.50% set for private electric utilities.

The company has a 150 mVA substation drawing power at 138 kV. In 1998, it entered into a 10-year power purchase agreement with the NPC which allowed it to bypass NPC's subtransmission system and cut costs by using its own facilities. It maintains a stand-by 42mW diesel plant capable of supplying 24% of its requirements.

The company operates for the whole franchise a fully functional automated mapping and facilities management (AM/FM) system, the first to be used in the Philippines and developed in-house by its computer programmers. The system allows DLPC to track down field assets and at the same time, determine a customer's electricity utilization and detects malfunctions or abnormal usage such as illegal tapping. Its elite engineers also make use of the Supervisory Control and Data Acquisition (SCADA) system, a facility that allows the monitoring of DLPC's electric distribution assets via remote control.

Cotabato Light and Power Company (CLPC)

CLPC was incorporated on April 23, 1938. Originally granted a 50-year distribution franchise by the precursor of the National Electrification Administration (NEA) during the same year, its franchise was extended by the Energy Regulatory Board in 1990 for another 25 years from June 17, 1989, or until 2014. Like DLPC, it charges end-users the cost of distributing generated power from the NPC.

CLPC's franchise area covers the city of Cotabato, and a part of the municipalities of Datu Odin Sinsuat (formerly Dinaig) and Sultan Kudarat, both in Maguindanao. As of 2005, it has a manpower complement of 70 full-time and a number of contractual employees serving a customer base of 26,379 residential, commercial, industrial, and flat rate customers. Systems loss for the period was at 8.84% and peak load at 21mW.

Although a relatively small utility, CLPC's linkage with sister-company DLPC allows it to immediately benefit from the latter's system's and facilities' developments. Like DLPC, CLPC has a working AM/FM system and SCADA system in place. CLPC likewise shares the economies of bulk materials purchasing with DLPC and enjoys many other technological advantages of DLPC's engineering team without duplication of overhead. Another benefit CLPC's customers enjoy is the existence of a standby power plant capable of supplying 9.9 MW of electricity in cases of supply problems with NPC and for the stability of voltage whenever necessary.

Visayan Electric Company, Inc. (VECO)

VECO is the second largest electric distribution utility in the country and is a major contributor to AEV's earnings. It holds the franchise for Metro Cebu, which includes Cebu City, Mandaue City and Talisay City and the neighboring municipalities of Consolacion and Lilo-an to the north, and Minglanilla, Naga, and San Fernando to the south. VECO was granted its distribution franchise in 1928 for a period of 50 years, and this was extended for a period of 25 years in 1978. On December 8, 2003, the National Electrification Commission (NEC) in its Case No. 2000-08 renewed VECO's franchise for another 25 years. On September 24, 2005, VECO 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.

Like DLPC and CLPC, VECO does not produce electricity but charges end-users the cost of distributing generated power, which is sourced from both the NPC and existing IPPs such as East Asia Power.

VECO currently has a manpower complement of 449 full-time and contractual employees serving a base of 276,497 residential, commercial, industrial, and flat rate customers. Its systems loss as of 2005 stood at 9.72%, while load demand for the same period peaked at 291 mW.

San Fernando Electric Light and Power Company (SFELAPCO)

SFELAPCO is AEV's power distribution utility in Central Luzon. Its franchise area covers San Fernando City and the municipalities of Bacolor and Mexico in Pampanga province. Its current franchise, which was granted under Republic Act No. 3207, is set for renewal in 2013.

At present, the company serves 50,436 residential, commercial and industrial customers with a workforce of 96 full-time and contractual employees. Its systems loss as of 2005 stood at 5.32%, while load demand for the same period peaked at over 68 mW.

Subic EnerZone Corporation (SEZC)

SEZC is the project company for a consortium of DLPC, AEV and Mirant Philippines, SFELAPCO and 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. It was formally awarded the contract to manage the power distribution system by the Subic Bay Metropolitan Authority (SBMA) on October 25, 2003, the same day that SEZC officially took over the operations of the power distribution system.

As of 2005, the company serves 2,376 residential, commercial and industrial customers with a workforce of 40 full-time and contractual employees. Its systems loss stood at 6.20%, while load demand for the same period peaked at over 30 mW.

FINANCIAL SERVICES

This group is composed of two companies: Union Bank of the Philippines (UBP), a leading universal bank in the country, and City Savings Bank (CSB), a thrift bank based in Cebu City.

Unionbank of the Philippines (UBP)

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, thus further 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 UBP's competitive strengths. At present, AEV, directly and indirectly, holds approximately 42.01% of the bank. Other major shareholders of UBP are Insular Life Assurance Company, Ltd. and the Social Security System.

At yearend 2005, UBP had a manpower complement of over 1,671 employees, with 111 branches nationwide.

The Securities and Exchange Commission (SEC) approved on August 28, 2006 the merger of UnionBank and the International Exchange Bank (iBank), with iBank as the absorbed entity and UnionBank as the surviving entity. The merger created the seventh largest private universal bank in the country, with an aggregate resource base of over Php160 billion.

UnionBank has risen to Top 5 in financial results and has been counted among the world's 25 soundest banks for four consecutive years by The Banker of London. It has also been ranked among Asia's best managed companies by Euromoney, Asiamoney and Finance Asia.

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. It introduced online banking services in late 1999, the first domestic bank to introduce such services. This signified the bank's efforts to migrate existing transactions and relationships from the traditional location-based channels to the Internet, in preparation for the growth of e-commerce in the Philippines.

UBP caters primarily to the middle market. Recognizing that larger domestic banks and foreign banks in the Philippines would 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 has also focused on cash management services and solutions for corporate clients. With its extensive technical capabilities, it has found a niche for providing a whole range of receivables and payables management products and services for both local and multinational corporate clients. In addition to catering to the top 500 corporations in the country, UBP has begun to tap into the market of small and medium-sized companies by offering to them corporate solutions previously available only to large corporations.

City Savings Bank (CSB)

CSB is a thrift and savings bank incorporated on December 9, 1965 with Head Offices located in Cebu City. For over 36 years, CSB has been serving its community by making salary loans, home mortgage loans, home improvement loans as well as small business loans. In addition, it offers very competitive rates for savings products with minimum deposits as low as 100 pesos. The entire bank's operations are highly automated allowing it to better meet its customers needs with faster service and new products.

In addition to the Head Office, CSB now maintains eleven other branches namely, Colon Branch and Fuente Osmeña Branch in Cebu City, Balamban Branch in the west coast of Cebu, and one each in Ormoc City, Calbayog in Samar, Tagbilaran City, Davao City, Cagayan de Oro City, Roxas City, Iloilo City and Tacloban City.

FOOD MANUFACTURING

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

Pilmico Foods Corporation (Pilmico)

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

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

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.

In 1995 Pilmico-Mauri Foods Corporation (Pilmico-Mauri) was formed in 1995 as a joint venture company by Pilmico and Burns Philp Company of Australia to manufacture yeast and other bakery ingredients. In 2004 Burns Philp sold its yeast division, including its stake in Pilmico-Mauri, to the UK-based multinational Associated British Foods plc. On November 28, 2006 Pilmico signed a Stock Purchase Agreement with ABF Overseas Limited (ABF Overseas), a subsidiary of Associated British Foods plc for the sale of Pilmico's stake in Pilmico-Mauri. Purchase price for the stake is approximately PHP100,000,000.00.

The divestment of Pilmico's yeast business is in lines with its continuing efforts to further concentrate on growing its flour milling business and the feeds and swine businesses of its subsidiary, Fil-Am Foods, Inc.

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

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

To diversify from the cyclical nature of its existing products, Pilmico also entered the swine production and animal feeds business in 1997 by forming Fil-Am Foods, Inc. (Fil-Am), 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. The acquisition strengthened and further diversified Pilmico's focus and core competence in the feed milling industry. Fil-Am's products are sold under the "Farmer's Edge" brand.

TRANSPORT

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

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

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

ATSC, is the result of the 1995 merger of the three biggest shipping companies in the Philippines at that time: William Lines owned by the Chiongbian family, Carlos A. Gothong Lines of the Gothong family, and Aboitiz Shipping Corporation. In September 2002, the three major owners of ATSC, then known as WG&A, Inc., finalized an agreement for the Aboitiz Group to buy out the Chiongbian and Gothong (C&G) groups. For a total cash value of about ₱5.40 billion, the C&G groups sold off their holdings in ATSC to AEV.

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

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

1. Airfreight forwarding and courier delivery services (Aboitiz One);

2. Manpower recruitment and training, ship management, ship crewing (Aboitiz Jebsen); and
3. Inter–island passenger transport and cargo liner services.

For its main passenger and cargo shipping operations ATSC has a route network of 23 ports of call in the Philippines. Furthermore it has a fleet of 18 operating vessels consisting of ten (10) SuperFerries, one (1) ATSC Ferry, two (2) SuperFreighters, five (5) Cebu Ferries and two (2) chartered vessels. ATSC links the major ports and principal cities of the Philippines.

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

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

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

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

PORTFOLIO INVESTMENTS (PARENT COMPANY/OTHERS)

The businesses under this group are AEV investments whose earnings contributions to AEV are marginal.

These 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 such as the hangar. 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 a workforce of four (4) composed of one (1) pilot-in-command, two (2) co-pilots, and one (1) flight engineer. Their task is to provide air transport for AEV's corporate officers within the Philippine archipelago.

Cebu Praedia Development Corporation

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

(iv) New Product/Services

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

(v) 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 three years can be found in Item 8 (f), Management's Discussion and Analysis of this Information Statement.

(vi) 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, as mentioned earlier. These franchises give the distribution companies exclusive right to distribute electricity in the areas covered by such franchises. As such, the companies do not have any competitors within their franchise areas.

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

FINANCIAL SERVICES

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

City Savings Bank (CSB) competes with other similar thrift banks operating in Cebu and the neighboring islands of Bohol and Leyte, such as the First Consolidated Bank of Bohol.

TRANSPORT

ATSC competes primarily with four other major inter-island shipping companies, namely: Sulpicio Lines Inc., Negros Navigations, Lorenzo Shipping Corporation, and Solid Lines Corporation. 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.

(vii) Purchase of Raw Materials and Supplies

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

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

(viii) 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 would have no material adverse impact on its subsidiaries.

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

(ix) 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.

(x) Patents, Copyrights, Franchises

As a holding company, AEV does not own or possess patents, copyrights, franchises or other similar rights. However, the businesses of AEV's utility subsidiaries – power and transport – are dependent on their continued possession of government franchises. AEV's power distribution subsidiaries either have congressional franchises or certificate/s of public convenience issued by the Energy Regulatory Commission or its predecessor. For its part, ATSC 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", 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.

(xi) Government Approval

a. HEDCOR and NMHC are registered as mini hydro electric power developers with the Department of Energy under Republic Act (RA) 7156, entitled "Mini Hydro Electric Power

Incentive Act". By virtue of such registration, these companies were 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, acquired from the Power Sector Assets and Liabilities Management Corporation and which started commercial operation on January 19, 2005. Income tax holiday of the four plants started on September 28, 2005.

With the effectivity of RA 9136 known as "Electric Power Industry Reform Act of 2001", sales of generated power by generation companies became value added tax zero-rated. HEDCOR and NMHC have updated their registration with the BIR from VAT Exempt to VAT Zero Rated effective April 10, 2003.

b. ATSC is registered with the BOI under the Omnibus Investment Code of 1987 as a new operator of inter-island shipping through its SuperFerry 15, 16, on a pioneer status starting February 13, 2003, and Superferry 12 starting May 4, 2005. Such registration entitles ATSC to income holiday for a period of three to six years from the date of registration. Income tax holiday incentive availed amounted to ₱55,789 and ₱40,640 in 2005 and 2004, respectively.

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 for the expansion of Fil-Am's registered capacity.

(xii) Effect of Existing or Probable Governmental Regulations

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

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

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

Distribution Wheeling Rate Guidelines
In accordance with the authority given to the ERC by Sec. 43 of EPIRA to "adopt alternative forms of internationally-accepted rate-setting methodology", the ERC approved the

Distribution Wheeling Rate Guidelines (DWRG) last December 20, 2004. The DWRG took effect on January 29, 2005.

DWRG embodies a new rate-fixing scheme more commonly known as performance-based ratemaking (PBR). Under the current RORB methodology, utility tariffs are based on historical costs plus a reasonable rate of return. On the other hand, the PBR scheme sets tariffs according to forecasts of performance and capital and operating expenditures. The DWRG also employs a penalty/reward mechanism depending on a utility's actual performance.

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

Wholesale Electricity Spot Market
The year 2005 also saw the Philippine Electricity Market Corporation, or PEMCO, finalizing its preparations for the commercial operations of the wholesale electricity spot market, or WESM, as envisioned by Sec. 30 of EPIRA.

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

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

Preparations for Retail Competition
The ERC has been laying down the framework for the eventual introduction of retail competition and open access, in accordance with Sec. 31 of EPIRA. The framework, known as the “seven pillars”, is a set of regulations that are intended to encourage and govern competition in the retail supply market.

Of the seven, three have been promulgated, the Business Separation Guidelines (September 2003), the Retail Electricity Supplier Licensing Guidelines (July 2005), and the Distribution Service and Open Access Rules (February 2006). Currently, the ERC is soliciting comments on a draft Code of Conduct for Retail Market Participants and the proposed Supplier of Last Resort, or SoLR, Guidelines, the draft Manual of Uniform Business Practices, and a revised Competition Rules and Complaints Procedures.

The ERC has yet to release a draft of its Manual of Uniform Business Practices.

The ERC also announced that it would be conducting public consultations on a possible revision of its timeline for implementing retail competition. In an earlier Resolution (dated September 2004), the ERC set the commencement of retail competition in Luzon Grid for July 1, 2006.

Removal of cross-subsidies
The companies reflected in the bills of end-users the final step in TransCo's intra-grid subsidy removal process. Meanwhile, the ERC revised the inter-class subsidy removal schedule of companies, extending the process by another year. Under the revised schedule, the inter-

class subsidy component of the companies' unbundled tariffs will be completely phased out in 2006. The gradual removal of cross-subsidies is mandated by Sec. 74 of EPIRA.

(xiii) 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.

(xiv) Compliance with Environmental Laws

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

Moreover, 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.

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

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

(xv) Employees

On the parent company level, AEV has a total of 35 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.

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

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

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

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

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

Political and Economic Factors. AEV is a holding company that, through its investee companies, is engaged in power generation and distribution, banking and financial services, transportation, and food production, among other business activities. The results of operations of the investee companies historically have been influenced to a certain extent by the political situation in the Philippines and by the general state of the Philippine economy. In the past, the Philippines experienced periods of slow or negative economic growth. Any future political or economic instability in the country 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 is required to comply with environmental regulations governing operation of its projects, including the transportation, 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, and AEV's ability to operate the projects in a cost-effective manner could be materially adversely affected.

AEV or its investee companies has taken necessary steps to ensure full compliance with all existing standards of the Department of Environment and Natural Resources (DENR) with regard to emissions and waste disposal. AEV has commissioned a third-party environmental audit of its projects to evaluate compliance with DENR standards. In the event of any increased costs due to the adoption of new laws or regulations, or changes in the interpretation or application of existing laws or regulations, AEV's projects are afforded varying rights under the power purchase agreements to negotiate for adjustments in the tariff for the projects. With respect to those projects that sell power based on NPC's grid rate, changes in environmental law will also impact NPC's cost of production. These costs production should ultimately be reflected through an adjustment in NPC's tariff.

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

Working Capital. For 2005, AEV derived its working capital mainly from the steady cash flow generated and contributed by its subsidiaries and associates.

Item 2. Properties

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

On a consolidated basis, the 2005 total property, plant and equipment of AEV was valued at P12.850 billion compared to ₱11.903 billion pesos for 2004. Breakdown is as follows:

	2004 As restated *	2005
Power Plant & Equipment	1,844,215	1,862,739
Transmission & Distribution Equipment	1,723,792	2,005,947
Machinery & Equipment	1,355,610	1,358,707
Distribution Transformers & Substation Equipment	943,533	1,105,424
Buildings, Warehouses & Improvements	1,016,974	1,212,126
Office Furniture, Fixtures & Equipment	603,682	756,853
Transportation Equipment	711,653	740,787
Land	157,783	152,162
Leasehold Improvements	200,831	305,961
Miscellaneous Equipment	23,656	424,564
Ships in Operation and Improvements	8,905,904	9,086,746
Containers	1,991,901	1,976,605
Handling Equipment	1,086,471	1,237,855
Less: Accumulated Depreciation	9,598,441	11,108,728
Ships under Refurbishment and Construction in Progress	79,156	85,656
TOTAL	11,046,720	11,203,404

Note: Values for the above table are in Thousand pesos.
* Figures were restated as a result of the full adoption of PFRS and the reorganization of the Transport Group.

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

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
Cotabato Light and Power Co.	Industrial land, buildings/plants eqpt. & machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light and Power Co., Inc.	Industrial land, buildings/plants eqpt. & machineries	P. Reyes Street, Davao City; Bajada, Davao City	In use for operations
Pilmico Foods Corp.	Industrial land, buildings/plants eqpt. & machineries	Kiwalan Cove, Iligan City	In use for operations
HEDCOR, Inc.	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet; Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet, Bakun, Benguet	In use for operations
Aboitiz Transport System Corp.	Passenger & Cargo Ships in Operation, (Cargo) Containers	In Transit	In use for operations
	Cargo Handling Equipment	Eva Macapagal Super Terminal, Manila South Harbor; Cebu International Port	In use for operations
Fil-Am Foods Corp.	Industrial land, building/plant equipment & machineries	Barangay Sto. Domingo II, Capas, Tarlac	In use for operations

Item 3. Legal Proceedings

Material Pending Legal Proceedings

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

On December 7, 1990, certain customers of DLPC, a subsidiary, filed a letter-petition for recovery before the Energy Regulatory Board (ERB), claiming that with the Supreme Court's decision reducing the sound appraisal value of DLPC's properties, DLPC exceeded the 12%

return on rate base. ERB's order dated June 4, 1998, 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.

DLP strongly disputes the decision.

Whatever the outcome of the final decision, management is confident that there are no excess profits for the period 1984-1989 and therefore, there will be no refund.

Luzon Hydro Corporation (LHC) Arbitration

LHC is a party to a dispute with a contractor regarding the delay in the completion of LHC's Bakun hydropower plant (Power Plant). The Turnkey Contract between LHC and the contractor, provided that contractor shall pay liquidated damages for each day of delay on the following day without the need of demand from LHC. LHC may, without prejudice to any other method of recovery, 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 letters of credit amounting to US$18 million (the Security).

In 2001 due to the delay in the completion of the Power Plant, LHC withdrew the irrevocable and confirmed standby letters of credit amounting to US$18 million which the contractor has constituted as security to LHC as contained in the Turnkey Contract.

In November 2000, the contractor and LHC 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 is entitled to certain money claims and refund of the liquidating damages that LHC had drawn from the contractor's stand-by letters of credit.

LHC has recognized 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 for the construction of the Power Station.

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.

Use of Tax Credit Certificates (TCC)

Pilmico, Pilmico-Mauri and VECO were assessed by the Bureau of Internal Revenue in the total amount of ₱57.618 million, including fines and penalties covering value-added taxes for the first quarter of 2003 and April 2003. The assessments stemmed 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 resolution. 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 therefore, that assessments have no legal basis.

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

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

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

	2006		2005	
	High	Low	High	Low
First Quarter	5.30	4.75	5.40	3.20
Second Quarter	6.90	5.00	5.30	4.30
Third Quarter	5.50	3.15	5.20	4.40
Fourth Quarter	9.70	5.00	5.20	4.70

AEV has 12,503 shareholders as of 31 December 2006. Common shares outstanding as of same date were 4,952,087,683 shares.

(2) The top twenty stockholders of AEV as of 31 December 2006 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	48.53%
2	PCD Nominee Corporation	Filipino	878,493,357	0	878,493,357	17.22%
3	Ramon Aboitiz Foundation, Inc.	Filipino	364,885,243	0	364,885,243	7.15%
4	PCD Nominee Corporation	Other Alien	283,498,534	0	283,498,534	5.56%
5	Sanfil Management Corporation	Filipino	116,790,211	0	116,790,211	2.29%
6	Lekeitio & Company, Inc.	Filipino	91,876,977	0	91,876,977	1.80%
7	Tricanaya Development Corporation	Filipino	82,099,033	0	82,099,033	1.61%
8	INXS Holdings Corporation	Filipino	78,595,677	0	78,595,677	1.54%
9	Midcita Management & Dev. Corp.	Filipino	62,176,225	0	62,176,225	1.22%
10	Chanton Management & Dev. Corp.	Filipino	62,118,484	0	62,118,484	1.22%
11	Teresita or John Carcovich	Filipino	57,764,020	0	57,764,020	1.13%
12	Dolores S. Aboitiz Foundation, Inc.	Filipino	53,010,620	0	53,010,620	1.04%
13	Bauhinia Management, Inc.	Filipino	51,779,484	0	51,779,484	1.01%
14	Windemere Management & Dev. Corp.	Filipino	47,666,352	0	47,666,352	0.93%
15	Donya-1 Management Corp.	Filipino	43,136,359	0	43,136,359	0.84%
16	Morefund Management & Dev. Corp.	Filipino	40,000,000	0	40,000,000	0.78%
17	Anso Management Corporation	Filipino	34,369,707	0	34,369,707	0.67%
18	Triabo Development Corporation	Filipino	31,932,639	0	31,932,639	0.62%

19	Armoza Management & Development Corp.	Filipino	28,766,061	0	28,766,061	0.56%
20	Emetasi Holdings Inc.	Filipino	25,156,985	0	25,156,985	0.49%
	SUBTOTAL		**4,910,138,383**	**0**	**4,910,138,383**	**96.21%**
	Other Stockholders		784,461,238	150,000,000	934,461,238	3.79%
	TOTAL SHARES		**5,694,599,621**	**150,000,000**	**5,844,599,621**	
	LESS: TREASURY SHARES		742,511,938		742,511,938	
	NET ISSUED AND OUTSTANDING SHARES		**4,952,087,683**	**150,000,000**	**5,102,087,683**	**100.00%**

3) The cash dividends declared by AEV to common stockholders from fiscal year 2003 to the first quarter of 2005 are shown in the table below:

	2006	**2005**	**2004**
Amount of Dividend Per Share	₱0.15	₱0.12	₱0.10
Total Amount of Cash Dividend Declared	₱735,955,302.45	₱596,601,895.08	₱497,279.949.90

In a special meeting last January 11, 2007 the Board of Directors approved the declaration of cash dividends in the amount of twenty centavos per share to all stockholders of record as of the close of business hours on February 9, 2007, payable on February 23, 2007.

In the same meeting the Board of Directors of AEV approved the policy of distributing at least one-third of its previous year's earnings as cash dividends to its stockholders for subsequent years.

4) On November 28, 2006, AEV signed an Issue Management and Underwriting Agreement with BPI Capital Corporation (BPI Capital) as Issue Manager for the issuance of 150,000,000 cumulative, non-voting, non-participating, non-convertible, five (5) and seven (7)-year redeemable preferred shares at the offer price of ₱10.00 per share. BPI Capital is the Lead Underwriter, PCI Capital Corporation, Co-Lead Underwriter and First Metro Investment Corporation, BDO Capital & Investment Corporation, Multinational Investment Bancorporation, Citicorp Capital Philippines, Inc. and Union Bank of the Philippines are the Underwriters for the offer.

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

Subscriber's Name	**Purchaser Qualification**	**Shares Purchased**	**% to Total Preferred Shares Issued**
Union Bank of the Philippines	Qualified Buyer	5,000,000	3.33%
First Metro Investment Corporation	Qualified Buyer	6,400,000	4.27%
Metrobank Trust Banking as Trustee	Qualified Buyer	600,000	0.40%
Metrobank Trust Banking as Investment Manager for Private Education Retirement Annuity	Qualified Buyer	500,000	0.33%
Pioneer Life, Inc.	Qualified Buyer	300,000	0.20%
Multinational Investment Bancorporation	Qualified Buyer	4,700,000	3.13%
Equitable PCI Bank Trust as Trustee for Various Accounts	Qualified Buyer	7,500,000	5%

UCPB Trust Banking Division FAO Various Trust Accounts	Qualified Buyer	1,000,000	0.67%
Perla Compania de Seguros, Inc.	Qualified Buyer	200,000	0.13%
Cibeles Insurance Corporation	Qualified Buyer	300,000	0.20%
Mapfre Insular Insurance Corporation	Qualified Buyer	5,000,000	3.33%
SM Prime Holdings, Inc.	Qualified Buyer	10,000,000	6.67%
The Insular Life Assurance Co., Ltd.	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Investment Manager for PERAA	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Trustee for Various Trust Accounts	Qualified Buyer	21,400,000	14.27%
BPI AMTG as Trustee for Various Trust Accounts	Qualified Buyer	10,000,000	6.67%
BPI AMTG as Investment Manager for Ayala Fixed Income Fund, Inc.	Qualified Buyer	4,100,000	2.73%
BPI AMTG as Investment Manager for Ayala Fixed Income Fund, Inc.	Qualified Buyer	18,000,000	12.00%
PCI Capital Corporation	Qualified Buyer	7,000,000	4.67%
Knights of Columbus Fraternal Association of the Philippines	Qualified Buyer	3,000,000	2%
Beneficial PNB Life Insurance Co., Inc.	Qualified Buyer	3,000,000	2%
PCI Capital Corporation	Qualified Buyer	2,000,000	1.33%
Equitable PCI Bank Trust Banking	Qualified Buyer	15,000,000	10%
BDO Capital & Investment Corp.	Qualified Buyer	5,000,000	3.33%
	TOTALS	150,000,000	100%

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

Year ended December 31, 2005

This is the first time that AEV 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, 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 to P 3.159 billion in 2005 from P 2.453 billion in 2004.

The power group again provided the bulk of income contribution with P2.123 billion or 61% of the total, followed by the banking group which contributed P930 million or 27%, food manufacturing with P382 million or 11% and the transport group with P34 million. AEV's portfolio investments provided the remaining P12 million of income contribution.

Earnings before Interest, Taxes, Depreciation and Amortization or EBITDA for the whole year of 2005 went up by 11% to P6.527 billion compared to P5.860 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's boost in sales was attributable to the increase in 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 than 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. JMBVI group was not included in the 2004 consolidation as it was acquired by its former owner 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 last 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, recognizing 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.

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

The above increases were offset by the following decreases:
- Trade and Other Receivables went down by 7% (from P 3.610 billion to P 3.368 billion) largely as a result of the collection of 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 P 18.222 billion debt figure in 2004 considers the P 1.884 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 P 56 million lower in 2005 due to the reversal of prior 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 increased by 17% to P 20.128 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 P 461 million Retained Earnings charges mainly representing AEV's share of UBP's valuation losses. Even with these adjustments and the P 597 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 P 320 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 P 506 million, reversing the P 383 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 hydro power 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 P 1.607 billion in 2004 to P 2.961 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 P 710 million, a 17% decrease from previous year's P 852 million. The lower fund usage level was brought about by the decrease in capital expenditures in 2005. In 2004, ATSC allocated more funds for the purchase of new vessels, though this partially financed by the proceeds from sale of old vessels and other assets. Furthermore, at the AEV parent level, cash dividends received from associates and interest income earned on money market placements were higher in 2005.

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

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

Key Performance Indicators

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

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

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA**). EBITDA is calculated as net income before minority interest, net interest expense, income tax expense, amortization and depreciation. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts.

3. **Cash Flow Generated.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period, and analyzes how the group manages its profit and uses its internal and external sources of funds. This aids management in identifying the impact on cash flow when the Group's activities are either in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **Current Ratio**. This is a measurement of liquidity, calculated by dividing total current assets by the total current liabilities. It is an indicator of the Group's short–term debt paying ability. The higher the ratio, the more liquid the Group.

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

Key Performance Indicators for 2005 and 2004 are as follows:

	2005	**2004** As restated *
EQUITY IN NET EARNINGS OF INVESTEES	**2,155,342**	1,532,131
EBITDA	**6,527,059**	5,859,589
CASH FLOW GENERATED:		
Net cash provided by operating activities	**2,960,865**	1,607,220
Net cash used in investing activities	**(709,598)**	(851,554)
Net cash used in financing activities	**(2,068,043)**	320,928
Net Increase (Decrease) in Cash & Cash Equivalents	**54,886**	1,098,330
Cash & Cash Equivalent, Beginning	**4,567,791**	3,469,461
Cash & Cash Equivalent, End	**4,622,676**	4,567,791
CURRENT RATIO	**1.29**	1.31

DEBT-TO-EQUITY RATIO	**0.84**	1.06

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

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

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

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

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

Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties Which May Have Material Impact on Registrant

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

Power Industry (Generation Sector)

With the consolidation of its operating companies into HEDCOR, Inc. it is expected that the hydro generation group will be in a position to aggressively pursue opportunities from the privatization of NAPOCOR's hydro–generation assets, as well as develop its own new hydro–power projects in 2006.

Power Industry (Distribution Sector)

All of the distribution utilities are expected to carry on their solid performance from 2005. Specifically, DLPC will continue to lead the Group in income contribution and operating efficiency. Likewise it is anticipated, that VECO, with the system and operating changes it has established over the past couple of years, will generate a larger portion of the Group's income in the coming year. SFELAPCO will continue to enjoy sales and volume growth from its acquisition in 2004 of an additional distribution franchise and service area (i.e. from Manson Corp. covering the area of Floridablanca in Pampanga).

Financial Services

UBP and CSB are expected to sustain their robust performance of the preceding year into 2006. UBP foresees that growth in liquidity, especially with its handling nationwide of the GSIS E-cards for government employees, will drive its earnings potential for the year. A better trading environment is also expected for UBP's large portfolio of securities.

As in most of AEV's other businesses, the financial services companies are among the leaders in operating cost efficiency in their respective markets.

Food Manufacturing

The current high prices of oil and fuel products might have a ripple effect on consumer demand for an industry already marked by high material costs (i.e. high cost of imported wheat, and freight). However, given management's focus to be a low cost producer, Pilmico is well positioned in terms of inventory and contracted supplies to ride out and even benefit from the current market condition. Furthermore, its feed and yeast subsidiaries have done well in 2005 and are expected to continue doing so in the coming year. And as such, Pilmico projects another robust performance in 2006.

Transport

ATSC had a challenging year in 2005 and in view of the current high level of oil prices, the Company will continue to see pressure on margins in 2006. The high oil prices have pushed up fuel costs, a major component of the company's operating expenses. Security related costs were also high last year, but it has started to see our insurance premiums come down significantly, because of the risk management initiatives the Company has taken.

However, with the consolidation of its various transport and logistic businesses in 2005, ATSC is in better position to optimize its operational efficiencies and to weather the poor business environment. For 2006, ATSC will continue its various initiatives to remain as the premier transport company in the Philippines.

ATSC will also continue to focus on increasing its overall efficiency through proper utilization, optimization, and upgrade of its existing vessels. Finally, ATSC will continue to undertake investments in various software application systems for both its front line services and back room support.

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.

Last year in comparison, the Group disclosed the following forecast for 2005:

Power Industry (Generation Sector)

In the first quarter of 2004, HEDCOR won the bid for NPC's Talomo mini–hydro electric plants in Davao province. The Talomo plants were then officially turned over to HEDCOR in January 2005. HEDCOR plans to improve the operating efficiencies of these plants and double generated power output to 26 gigawatt–hours per year. This in turn will translate into additional income for the Hydro Group for 2005 on top of what is contributed by its existing power plants in Luzon.

Power Industry (Distribution Sector)

For 2005, VECO expects positive results from the improvements it has recently implemented to its operating efficiencies. In 2004, it successfully implemented a voluntary employees redundancy program, which resulted in a much streamlined and more flexible workforce. This program, coupled with other initiatives such as the incremental reduction in systems losses, will lower operating expenses and significantly improve the Company's earning scenario for the coming year.

Also, the other utilities, specifically DLPC and CLPC, are expected to carry on their solid performance from 2004 to present. DLPC and CLPC will see continued income growth mainly as a result of the approval by the ERC of both companies' application for rate unbundling. SFELAPCO will have an income upside, primarily because of sales and volume growth from the acquisition in 2004 of additional distribution franchise and service area (i.e. from Manson Corp. covering the area of Floridablanca in Pampanga).

Financial Services

UBP and CSB are expected to sustain their robust performance of the preceding year into 2005. UBP foresees that growth in liquidity (through increased customer volume from cash management and deposit products) will drive its earnings potential for the year. A better trading environment is also expected for UBP's large portfolio of securities.

As in most of AEV's other businesses, the financial services companies are among the leaders in operating cost efficiency in their respective markets.

Food Manufacturing

The current high prices of oil and fuel products might have a ripple effect on consumer demand for an industry already marked by high material costs (i.e. high cost of imported wheat, and freight). However, given management's focus to be a low cost producer, Pilmico is well positioned in term of inventory and contracted supplies to ride out and even benefit from the current market condition. Furthermore, its feed and yeast subsidiaries have done well in 2004 and are expected to continue doing so in the coming year. And as such, Pilmico projects another operating performance in 2005.

Transport

ATSC had a challenging year in 2004 and is expected to continue having one in 2005. Among its major concerns is the current high level of oil prices and potential security risks. The high oil prices have pushed up fuel costs, a major component of the company's operating expenses. Likewise, there remains a potential risk to security, and as a result, related costs and expenses (such as insurance premiums) have gone up. Because of these, ATSC's margins have been squeezed and are expected to be flat for the foreseeable future.

For 2005, ATSC will continue its various initiatives to remain as the premier transport company in the Philippines. Significant developments include the Company's support of the government's plan to promote private sector participation and investment in the development of Road RoRo Terminal Systems (RRTS). RRTS is a project to link the entire archipelago through its ports.

ATSC will also continue to focus on increasing its overall efficiency through proper utilization, optimization, and upgrade of its existing vessels. It also aims to be leading freight transport enterprise with the launch of its brand "2GO" in October 2004. Finally, ATSC will continue to undertake investments in various software application systems for both its front line services and back room support.

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 as disclosed in some other portion of this report, there are, as of December 31, 2005 and 2004, no known trends, events or uncertainties that have had or are reasonably expected to have a material impact on net sales, revenues, income from continuing operations or on relationship between costs and revenues. There were also no events that would trigger substantial or contingent financial obligations or cause any default or acceleration of an existing obligation.

Material Off–Balance Sheet Transactions, Arrangements, Obligations and Other Relationships

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

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

Item 7. Information on Independent Accountant and Other Related Matters

External Audit Fees and Services

The external audit and consultancy fees for the years 2005 and 2004 were as follows:

	Year ended December 31, 2005	**Year ended December 31, 2004**
Audit Fees (Incurred by Registrant)	₱275,000.00	₱266,200.00
Audit-Related Fees	-	-
Tax Fees	-	-
Consultancy Fees (Incurred by Group)	2,816,000-	-
Total	**₱3,091,000.00**	**₱266,200.00**

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 pesos.

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 2005 and 2004 were pre–approved by the Audit Committee. The Committee had also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

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

SGV & Co. has been AEV's Independent Public Accountant for the last twelve (12) 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 twelve (12) years where AEV and SGV & Co. or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

PART III – CORPORATE GOVERNANCE

a. Evaluation System

AEV is committed to the high standards of corporate governance as set by SEC Memorandum Circular No. 2 dated April 5, 2002 (Code of Corporate Governance). This commitment is also embodied in AEV's Manual of Corporate Governance (the "Manual") and its Code of Ethics and Business Conduct ("Code of Conduct").

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

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

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

The Board of Directors conducts a quarterly review of the Manual to asses its relevance to AEV's needs and to evaluate it against the leading practices and principles on good corporate governance. At its regular meetings in 2005 on May 16 and November 17, the Board reviewed the Manual and decided to continue achieving the goals for which the Manual was designed.

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

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

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

Even before the concept of corporate governance was formally introduced in the Philippines, AEV has been continuously assessing and implementing good corporate governance in its operations through its Corporate Audit Team, which conducts independent internal audit of its organizational and procedural controls. AEV also emphasizes transparency, as shown by its insistence on the disclosure of any material information that may affect its various stakeholders.

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

c. Deviation from the Manual of Corporate Governance

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

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

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

There were no major deviations from the adopted Manual.

d. Plan to Improve Corporate Governance

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

NOTICE AND AGENDA OF THE MEETING

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

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

NOTICE is hereby given that the Special Meeting of Stockholders of **ABOITIZ EQUITY VENTURES, INC.,** will be held on February 27, 2007 at 4:00 p.m. at the Audio Visual Room of the Aboitiz Corporate Center, Gov. Manuel Cuenco Avenue, Kasambagan, Cebu City.
.

The Agenda of the meeting is as follows:

1. Call to Order
2. Proof of Notice of Meeting
3. Determination of Quorum
4. Reading and Approval of the Minutes of the Previous Stockholders' Meeting of May 15, 2006.
5. Presentation on the planned initial public offering of Aboitiz Power Corporation (APC).
6. Approval and Ratification of the proposed transfer of AEV's investments in power companies to APC.
7. Other Business
8. Adjournment

Only stockholders of record at the close of business on January 31, 2007 are entitled to notice and to vote at this meeting. Registration will start at 2:00 p.m. and will end at 4:00 p.m. Kindly present any proof of identification, such as driver's license, passport, company I.D. or SSS/GSIS I.D. Aside from personal identification, representatives of corporate stockholders and other entities should also present a duly sworn Secretary's Certificate or a similar document showing his or her authority to represent the corporation or entity.

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

For the Board of Directors.

M. JASMINE S. OPORTO
Corporate Secretary

ANNEX "A"

SUMMARY OF THE MINUTES OF THE 2006 AEV STOCKHOLDERS' MEETING

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

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

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

The body passed the following resolutions:

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

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

COVER SHEET

CE02536

S.E.C. Registration Number

ABOITIZ EQUITY VENTURES, INC.

(Company's Full Name)

ABOITIZ CORPORATE CENTER
GOV. MANUEL CUENCO AVE.
KASAMBAGAN, CEBU CITY

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

LEAH I. GERALDEZ

Contact Person

(032) 231-2580 LOC 310

Company Telephone Number

3rd Quarter Report

1	2		3	1

Month *Day*

Fiscal Year

1	7	-	Q	

FORM TYPE

Month *Day*

Annual Meeting

Secondary License Type, if Applicable

SEC

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

x

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

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

2. Commission identification number **CEO2536**

3. BIR Tax Identification No. **003-828-269-V**

4. Exact name of issuer as specified in its charter

   ABOITIZ EQUITY VENTURES, INC.

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

   Cebu City, Philippines

6. Industry Classification Code: ______ (SEC Use Only)

7. Address of issuer's principal office — Postal Code

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

8. Issuer's telephone number, including area code

   (032) 2312580

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

   N.A.

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common stock, P1.00 par value	**4,950,087,683**
Total debt	**P16,764,577,089**

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

    Yes [**x**] No [ ]

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

    Philippine Stock Exchange — **Common**

12. Indicate by check mark whether the registrant:

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

Yes [**x**] No [ ]

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

Yes [**x**] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Please refer to the financial statements and schedules attached herewith

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

Top Five Key Performance Indicators

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

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

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

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA**). EBITDA is calculated as net income before minority interest, net interest expense, income tax expense, amortization and depreciation. It provides management and investors with a tool for determining the ability of the group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the group’s ability to service its debts.

3. **Cash Flow Generated.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period, and analyzes how the group manages its profit and uses its internal and external sources of funds. This aids management in identifying the impact on cash flow when the group’s activities are either in a state of growth or decline, and in evaluating management’s efforts to control the impact.

4. **Current Ratio**. This is a measurement of liquidity, calculated by dividing total current assets by the total current liabilities. It is an indicator of the group’s short–term debt paying ability. The higher the ratio, the more liquid the group.

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

	SEPT 30/2006	**SEPT 30/2005** As restated *	**DEC 31/2005**
EQUITY IN NET EARNINGS OF INVESTEES	**1,573,691**	1,828,053	
EBITDA	**4,693,904**	5,121,153	
CASH FLOW GENERATED:			
Net cash provided by operating activities	**1,482,771**	2,396,298	
Net cash used in investing activities	**(113,401)**	(627,985)	
Net cash used in financing activities	**(1,085,323)**	(3,026,135)	
Net Increase (Decrease) in Cash & Cash Equivalents	**174,448**	(1,265,017)	
Cash & Cash Equivalent, Beginning	**4,622,676**	4,567,791	
Cash & Cash Equivalent, End	**4,797,124**	3,302,774	
CURRENT RATIO	**1.77**	1.27	1.29
DEBT-TO-EQUITY RATIO	**0.79**	0.84	0.84

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

All the key performance indicators were well within expected levels during the first nine months of this year. The decrease in equity earnings was anticipated due to the projected decline in earnings of Luzon Hydro Corporation (LHC) this year mainly as a result of lower revenues brought about by the drop in capacity fee rates as provided for in its contract with the National Power Corporation (NPC). It was also expected that the increase in fuel costs and decrease in revenues as a result of stiffer competition would put a squeeze on the operating margins of Aboitiz Transport System Corporation (ATSC), resulting in a lower EBITDA for the whole AEV group this year.

Inspite of the lackluster performance of the transport group, it consistently generated positive cash inflows, which are utilized to further bring down its debt.

Despite the challenging economic environment, the group continues to manage its cashflows and operations effectively. Thus, as in the previous years, financial ratios are anticipated to remain robust in 2006.

Financial Results of Operations

Gross profit for the first nine months of 2006 reduced by 6% as compared to the same period last year. This was mainly due to the substantial decline in the gross margins of ATSC, which completely offset the increase posted by majority of the other subsidiaries. The decrease in ATSC's margins was attributed to the 8.6% drop in revenues brought about by the decline in its international charter business and the reduction in its domestic fleet capacity. The high cost of fuel also contributed to the squeeze in margins.

The power group provided the largest part of income contribution with P1.622 billion or 61% of the total, followed by the banking group, which contributed P680 million or 25%, and food manufacturing with P350 million or 13%. The transport group on the other hand had a net loss contribution of P275 million for the period. AEV's portfolio investments provided the remaining P18 million of income contribution.

EBITDA for the first three quarters of 2006 went down by 8% to P4.694 billion compared to P5.121 billion in 2005.

Material Changes in Line Items of Registrant's Income Statement

Share in net earnings of associates was down 14% largely due to the decrease in income contributions by LHC and Union Bank of the Philippines (UBP). The decline in LHC net income was brought about by lower revenues due to lesser number of days in downtime billings in 2006 compared to that of last year and to the decrease in capacity fee rates based on agreed tariff structure provided for under its contract with NPC. The integration costs incurred in the purchase of International Exchange Bank (iBank) and lower interest margins accounted for the decrease in UBP's income contribution.

Other income dropped by 47% mainly due to the lower gain generated by ATSC on its sale of a tied-up vessel as compared to that of the same period last year and to the higher unrealized foreign exchange (FX) losses. The further appreciation of the peso in September 2006 resulted in valuation losses when foreign denominated funds were marked to market.

The overall decline in consolidated bottom line was partially offset by the 37% increase in interest income, coupled with a 9% reduction in interest expense. Higher fund holdings at parent level and decrease in average debt level and interest rates accounted for this improvement.

Changes in Registrant's Resources, Liabilities and Shareholders Equity

Compared to year–end 2005 levels, consolidated assets slightly increased by 5% (from P38.2 billion to P39.1 billion). This increase was mainly due to the following:

- Cash & Cash Equivalents - up 4% (P4.80 billion vs P4.62 billion) mainly due to the higher fund holdings generated from the remaining proceeds of the P2.7B long-term loan availed of by the parent company in March and June 2006, and to additional cash dividends received from investees.
- Trade and Other Receivables - up 12% (P3.77 billion vs P3.37 billion) largely due to higher trade receivables which correspondingly rose in consonance with the growth in revenues of AEV Parent and the food group.
- Inventories - grew by 10% (P1.69 billion vs P1.53 billion) due to higher wheat inventory carried by Pilmico Foods Corporation (Pilmico) in 2006.
- Other Current Assets - increased by 26% (P942 million vs P746 million) due to interim build up of prepaid expenses and taxes during the first nine months of 2006, as compared to year-end 2005 level. As of December 2005, prepaid expenses had been fully charged to P&L while prepaid taxes had been substantially applied against resulting 2005 income tax payable.
- Deferred Income Tax Assets - increased by 48% (P469 million vs P317 million) mainly due to higher provisions for doubtful accounts, which required the set up of additional deferred income tax benefits, with Deferred Income Tax Assets as contra-account.

Consolidated bank and long-term liabilities decreased by 5% compared to 2005 year-end level, mainly due to prepayment of debt. ATSC alone was able to reduce its debt by P498 million. In spite of the poor operating results during the current period, this transport subsidiary generated positive cash flow, which was used to pay off its obligations. Likewise, the other subsidiaries also paid their loan amortization dues using internally-generated funds.

Accounts payable & other current liabilities were higher by 7% primarily due to the increase in trade payables and accrued expenses of the transport and food groups and higher income tax payable. Customer deposits grew by 8% due to the increase in the power distribution group's customer base.

Equity attributable to equity holders of the parent increased by 5%, from P20.1 billion in 2005 to P21.2 billion in 2006, substantially due to the growth in retained earnings and the sale of treasury shares. This increase was partially offset by the decrease in the group's share in unrealized valuation losses on AFS investments and underwriting accounts of its banking associate and in cumulative translation adjustments of its power generating associates.
During the first nine months of 2006, the Group continued to deliver a positive operating performance generating P2.410 billion in net income, which resulted in a 12% increase in retained earnings, despite the P736 million cash dividend distribution.

Share in unrealized gains (losses) on AFS investments and underwriting accounts declined by P640 million. The drop in the market prices of these financial instruments as of September 2006 resulted to a P762 million share in valuation losses, reversing the P122 million share in gains as of yearend 2005.

The 40% decline in share in cumulative translation adjustments of associates was due to the further appreciation of the Philippine Peso in September 2006, from P53.062 as of Dec 31, 2005 to P50.249 as of end of the current period. The power generating associates, which are under the US dollar functional currency financial reporting, recorded substantial foreign exchange adjustments in preparing their September 2006 financial statements under the peso presentation currency. These foreign exchange adjustments are booked under Cumulative Translation Adjustments account.

Material Changes in Liquidity and Cash Reserves of Registrant

Consolidated cash generated from operating activities decreased by 43%, from P2.40B in 2005 to P1.48B in 2006. As compared to last year, more funds were used in purchasing inventory and in paying trade payables during the current period.

Net cash used in investing activities declined by P514 million, mainly due to higher cash dividends received from associates and lower capital expenditures in 2006.

Net cash used in financing activities dropped by 64% primarily due to higher loan payments made and cash dividends distributed during the current period.

For the first nine months of 2006, net cash inflows were higher than cash outflows, resulting to a 4% increase in cash and cash equivalents, from P4.62 billion in December 2005 to P4.80 billion in September 2006.

The 21% decrease in current liabilities resulting from payment of short-term borrowings and loan amortization dues, coupled with a 9% increase in current assets, accounted for the improvement in current ratio, from 1.29:1 as of yearend 2005 to 1.77:1 as of September 2006. Likewise, net debt-to-equity decreased from 0.38:1 as of Dec 2005 to 0.32:1 as of Sept 2006 while debt-to-equity ratio stood at 0.79:1.

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

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

Power Industry (Generation Sector)

With the consolidation of its operating companies into HEDCOR, Inc. it is expected that the hydro generation group will be in a position to aggressively pursue opportunities from the privatisation of NPC's hydropower generation assets, as well as develop its own new hydropower projects in 2006.

Power Industry (Distribution Sector)

All of the distribution utilities are expected to carry on their solid performance from 2005. Specifically Davao Light and Power Co., Inc. (DLPC) will continue to lead the group in income contribution and operating efficiency. Likewise, it is anticipated that the Visayan Electric Company, Inc. (VECO), with the system and operating changes it has established over the past couple of years, will generate a larger portion of the Group's income in the coming year. San Fernando Electric Light and Power Co. Inc. (SFELAPCO) will continue to enjoy sales and volume growth from its acquisition in 2004 of additional distribution franchise and service area (i.e. from Manson Corp. covering the area of Floridablanca in Pampanga).

Financial Services

With its recent acquisition of International Exchange Bank, UBP is expected to more than sustain their robust performance of the preceding year into 2006. UBP foresees that growth in liquidity, specially with its handling nationwide of the GSIS e-cards for government employees, will drive its earnings potential for the year. A better trading environment is also expected for UBP's large portfolio of securities.

As in most of AEV's other businesses, the financial services companies are among the leaders in operating cost efficiency in their respective markets.

Food Manufacturing

The current high prices of oil and fuel products might have a ripple effect on consumer demand for an industry already marked by high material costs (i.e. high cost of imported wheat, and freight). However, given management's focus to be a low cost producer, Pilmico is well positioned in terms of inventory and contracted supplies to ride out and even benefit from the current market condition. Furthermore, its feed and yeast subsidiaries have done well in 2005 and are expected to continue doing so in the coming year. And as such, Pilmico projects another robust performance in 2006.

Transport

ATSC had a challenging year in 2005 and in view of the high current high level of oil prices, the company will continue to see pressure on margins in 2006. The high oil prices have pushed up fuel costs, a major component of the company's operating expenses. Security related costs were also high last year, but insurance premiums have started to come down significantly, because of the risk management initiatives the company has taken.

However, with the consolidation of its various transport and logistic businesses in 2005, ATSC is in better position to optimize its operational efficiencies and better weather the poor business environment. For 2006, ATSC will continue its various initiatives to remain as the premier transport company in the Philippines.

ATSC will also continue to focus on increasing its overall efficiency through proper utilization, optimization, and upgrade of its existing vessels. Finally, ATSC will continue to undertake investments in various software application systems for both its front line services and back room support.

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 as already disclosed in this report, there are, as of June 30, 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.

PART II - OTHER INFORMATION

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

SIGNATURES

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

Issuer	**Aboitiz Equity Ventures, Inc.**
Principal Accounting Officer	**Melinda R. Bathan**
Signature and Title	**Vice President – Controller**
Date	**November 20, 2006**
Corporate Secretary	**M. Jasmine S. Oporto** M. Jasmine S. Oporto
Signature and Title	**First Vice President - Legal / Corporate Secretary**
Date	**November 20, 2006**

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AT SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(Amounts in Thousands)

	UNAUDITED SEP 2006	AUDITED DEC 2005
ASSETS		
Current Assets		
Cash and cash equivalents	**4,797,125**	4,622,676
Trade and other receivables - net	**3,765,763**	3,367,854
Inventories - net	**1,691,912**	1,535,480
Other current assets	**941,697**	745,570
Total Current Assets	**11,196,497**	10,271,580
Noncurrent Assets		
Property, plant, and equipment - net	**11,130,286**	11,392,102
Investment properties	**188,942**	203,162
Investments and advances	**14,498,385**	14,504,621
Available-for-sale (AFS) investments	**148,994**	149,835
Goodwill	**784,784**	784,883
Pension Asset	**44,415**	45,414
Deferred income tax assets	**469,031**	317,185
Other noncurrent assets - net	**591,875**	573,924
Total Noncurrent Assets	**27,856,712**	27,971,126
TOTAL ASSETS	**39,053,209**	38,242,706
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	**370,022**	1,299,353
Trade and other payables	**4,769,841**	4,595,416
Dividends payable	**12,847**	16,147
Income tax payable	**297,828**	142,103
Current portion of long-term debt	**727,326**	1,756,246
Current portion of obligations under finance lease	**130,030**	140,393
Total Current Liabilities	**6,307,894**	7,949,658
Noncurrent Liabilities		
Long-term debt - net of current portion	**7,313,142**	5,810,786
Obligations under finance lease - net of current portion	**109,148**	210,490
Customers' deposits	**1,102,774**	1,016,253
Redeemable preferred shares	**1,886,940**	1,886,940
Pension liability	**24,322**	40,863
Deferred income tax liability	**20,357**	21,253
Total Noncurrent Liabilities	**10,456,683**	8,986,585
Total Liabilities	**16,764,577**	16,936,243
Equity Attributable to Equity Holders of the Parent		
Capital stock	**5,694,600**	5,694,600
Additional paid-in capital	**1,334,912**	1,201,051
Net unrealized gains on AFS investments	**9,895**	1,656
Cumulative translation adjustments	**(2,738)**	(2,097)
Share in cumulative translation adjustments of associates	**270,305**	452,617
Share in net unrealized gains (losses) on AFS investments and underwriting accounts of associates	**(518,105)**	122,290
Retained earnings	**15,899,849**	14,234,479
Treasury stock at cost	**(1,489,025)**	(1,576,463)
	21,199,693	20,128,133
Minority Interests	**1,088,939**	1,178,330
Total Equity	**22,288,632**	21,306,463
TOTAL LIABILITIES AND EQUITY	**39,053,209**	38,242,706

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Amounts in Thousands)
(UNAUDITED)

	JAN-SEP/06	RESTATED JAN-SEP/05	JUL-SEP/06	RESTATED JUL-SEP/05
REVENUES	**20,844,527**	20,643,120	**6,997,189**	6,670,986
COSTS AND EXPENSES	**19,142,464**	18,863,764	**6,516,797**	6,204,920
GROSS PROFIT	**1,702,063**	1,779,356	**480,392**	466,066
OTHER INCOME (CHARGES)				
Share in net earnings of associates	**1,573,691**	1,828,053	**641,888**	702,749
Interest income	**237,274**	173,077	**89,049**	54,115
Interest expense	**(841,469)**	(928,495)	**(279,071)**	(275,773)
Other income (charges)	**99,910**	187,461	**(35,858)**	34,999
	1,069,406	1,260,096	**416,008**	516,090
INCOME BEFORE INCOME TAX	**2,771,469**	3,039,452	**896,400**	982,156
PROVISION FOR INCOME TAX	**456,468**	458,781	**125,884**	149,175
NET INCOME	**2,315,001**	2,580,671	**770,516**	832,981
ATTRIBUTABLE TO:				
EQUITY HOLDERS OF THE PARENT	**2,401,325**	2,562,062	**844,668**	902,718
MINORITY INTERESTS	**(86,324)**	18,609	**(74,152)**	(69,737)
	2,315,001	2,580,671	**770,516**	832,981
Earnings Per Common Share **				
Basic, for income for the period attributable to ordinary holders of the parent	**0.487**	0.529	**0.170**	0.184
Diluted, for income for the period attributable to ordinary holders of the parent	**0.487**	0.529	**0.170**	0.184

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

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIODS ENDED SEPTEMBER 30, 2006 AND DECEMBER 31, 2005

	Attributable to equity holders of the parent										
	Capital Stock Common	**Preferred**	**Additional Paid-in Capital**	**Net Unrealized Gains (Losses) on Noncurrent Marketable Equity Securities and AFS Investments**	**Cumulative Translation Adjustments**	**Share in Cumulative Translation Adjustments of Associates**	**Share in Net Unrealized Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate**	**Retained Earnings**	**Treasury Stock**	**Minority Interests**	**Total**
Balances at December 31, 2004, as restated	**5,694,600**	**186,700**	**2,466,793**	**(1,024)**		**639,242**	**(383,473)**	**12,203,380**	**(1,710,084)**	**1,158,428**	**20,254,562**
Effects of adoption of PAS 39		(186,700)	(1,680,300)					(461,232)		(28,748)	(2,356,980)
Effects of reorganization of transport group			94,515					(70,199)		(10,037)	14,279
Sale of treasury shares			320,043						133,621		453,664
Net income for the year								3,159,132		58,361	3,217,493
Cash dividends								(596,602)			(596,602)
Movement of unrealized valuation gains of AFS investments				2,680						985	3,665
Share in unrealized valuation gains on AFS investments of associates							505,763				505,763
Movement of cumulative translation adjustments					(2,097)					(659)	(2,756)
Share in movement of cumulative translation adjustment of associates						(186,625)					(186,625)
Balances at December 31, 2005	**5,694,600**	**-**	**1,201,051**	**1,656**	**(2,097)**	**452,617**	**122,290**	**14,234,479**	**(1,576,463)**	**1,178,330**	**21,306,463**
Sale of treasury shares			133,862						87,438		221,300
Net income for the period								2,401,325		(86,323)	2,315,001
Cash dividends								(735,955)			(735,955)
Movement of unrealized valuation gains of AFS investments				8,239						(985)	7,254
Share in movement of unrealized valuation gains on AFS investments of associates							(640,395)				(640,395)
Movement of cumulative translation adjustments					(641)					(2,083)	(2,724)
Share in movement of cumulative translation adjustment of associates						(182,312)					(182,312)
Balances at September 30, 2006	**5,694,600**	**-**	**1,334,912**	**9,895**	**(2,738)**	**270,305**	**(518,105)**	**15,899,849**	**(1,489,025)**	**1,088,939**	**22,288,632**

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

	Attributable to equity holders of the parent										
	Capital Stock Common	Preferred	Additional Paid-in Capita	Net Unrealized Gains (Losses) on Noncurrent Marketable Equity Securities and AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Retained Earnings	Treasury Stock	Minority Interests	Total
Balances at December 31, 2004, as restated	**5,694,600**	**186,700**	**2,466,793**	**(1,024)**		**639,242**	**(383,473)**	**12,203,380**	**(1,710,084)**	**1,158,428**	**20,254,562**
Effects of adoption of PAS 39		(186,700)	(1,680,301)					4,072		(24,306)	(1,887,234)
Sale of treasury shares			237,126						87,148		324,274
Net income for the period								2,562,062		18,609	2,580,671
Cash dividends								(596,602)			(596,602)
Movement of unrealized valuation gains of AFS investments				14,393						-	14,393
Share in unrealized valuation gains on AFS investments of associates							-				-
Movement of cumulative translation adjustments					(3,143)					(987)	(4,130)
Share in movement of cumulative translation adjustment of associates						(59,670)					(59,670)
Balances at September 30, 2005	**5,694,600**	**-**	**1,119,253**	**13,369**	**(3,143)**	**579,572**	**(383,473)**	**14,102,714**	**(1,622,936)**	**1,133,768**	**20,633,724**

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED SEPTEMBER 30, 2006 AND 2005
(Amounts in Thousands)
(UNAUDITED)

	JAN-SEP/06	RESTATED JAN-SEP/05	JUL-SEP/06	RESTATED JUL-SEP/05
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income tax	**2,771,469**	3,039,452	**896,400**	982,156
Adjustments for:				
Share in net earnings of associates	**(1,573,691)**	(1,828,052)	**(641,887)**	(702,748)
Depreciation	**1,318,239**	1,326,283	**474,256**	503,082
Interest income	**(237,274)**	(173,077)	**(89,049)**	(54,115)
Interest expense	**841,469**	769,045	**279,071**	223,175
Franchise tax expense	**35,074**	98,115	**35,074**	33,762
Provision for doubtful accounts	**-**	42,547	**-**	15,591
Provision for decline in value of fixed assets	**160**	-	**48**	-
Provision for retirement benefits	**2,349**	1,182	**779**	395
Unrealized foreign exchange loss	**109,598**	7,195	**116,038**	4,588
Gain on sale of available for sale investments	**(576)**	-	**(408)**	-
Gain on sale of property, plant & equipment	**(44,098)**	(71,113)	**(8,023)**	(299)
Operating income before working capital changes	**3,222,719**	3,211,577	**1,062,299**	1,005,587
Changes in:				
Decrease (increase) in operating current assets	**(735,778)**	(119,370)	**79,868**	673,401
Increase (decrease) in operating current liabilities	**215,562**	674,909	**(409,357)**	393,945
Cash provided by operations	**2,702,503**	3,767,116	**732,810**	2,072,933
Income and final taxes paid	**(385,274)**	(460,581)	**(141,861)**	(97,893)
Interest paid	**(798,585)**	(820,355)	**(61,771)**	(239,184)
Franchise taxes paid	**(35,873)**	(89,882)	**(35,873)**	(30,822)
Net cash provided by operating activities	**1,482,771**	2,396,298	**493,305**	1,705,034
CASH FLOWS FROM INVESTING ACTIVITIES:				
Dividends received	**721,865**	458,161	**173,361**	120,098
Interest received	**222,584**	227,305	**93,079**	56,778
Decrease in investments and advances	**34,138**	54,895	**649**	70,205
Acquisitions of property, plant and equipment - net	**(998,265)**	(1,544,633)	**(328,373)**	(787,953)
Disposals (acquisitions) of available for sale investments	**10,872**	(8,240)	**2,176**	2,310
Cash of newly-acquired subsidiary	**-**	308,750	**-**	-
Decrease (increase) in other assets	**(104,595)**	(124,223)	**(24,817)**	176,578
Net cash used in investing activities	**(113,401)**	(627,985)	**(83,925)**	(361,984)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments of loans payable	**(929,331)**	(561,401)	**(364,006)**	(816,403)
Proceeds from (payments of) long-term debt	**361,731**	(1,912,011)	**(206,250)**	(393,451)
Proceeds from issuance of capital stock	**-**	-	**-**	-
Cash dividends paid	**(735,955)**	(596,602)	**-**	-
Decrease in minority interest	**(3,067)**	(43,269)	**(243)**	(7,106)
Re-issuance of treasury shares	**221,299**	87,148	**221,299**	136,024
Net cash used in financing activities	**(1,085,323)**	**(3,026,135)**	**(349,200)**	**(1,080,936)**
Effect of foreign exchange rate changes	**(109,599)**	(7,195)	**(116,039)**	(4,586)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**174,448**	(1,265,017)	**(55,859)**	257,528
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**4,622,676**	4,567,791	**4,852,983**	**3,045,246**
CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD	**4,797,124**	3,302,774	**4,797,124**	3,302,774

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES
FINANCIAL STATEMENT SCHEDULES AND DISCLOSURES
AT SEPTEMBER 30, 2006 AND DECEMBER 31, 2005
(peso amounts in thousands)

A. INVESTMENTS AND ADVANCES

	% OWNERSHIP 2006	SEP 2006	DEC 2005
		(In Thousands)	
Investments in shares of stock			
At equity			
Acquisition cost:			
Union Bank of the Philippines	42.14%	**4,184,474**	4,184,474
Accuria, Inc.	49.54%	**567,451**	567,451
Western Mindanao Power Corporation	20.00%	**267,370**	267,370
Cebu International Container Terminal, Inc.	20.00%	**240,125**	240,125
Hijos de Escaño, Inc.	46.66%	**856,945**	856,945
San Fernando Electric Light & Power Co., Inc.	43.78%	**180,864**	180,864
Pampanga Energy Ventures, Inc.	42.84%	**209,465**	209,465
Southern Philippines Power Corporation	20.00%	**152,587**	152,587
Visayan Electric Co., Inc.	54.70%	**512,213**	511,220
City Savings Bank	34.38%	**78,818**	78,818
Resort Ville 5 Project	25.00%	**33,750**	33,750
South Western Cement Corporation	20.00%	**28,995**	28,995
PILMICO-Mauri Foods Corporation	50.00%	**26,240**	26,240
Luzon Hydro Corporation	50.00%	**1,048,251**	1,048,251
Cordillera Hydro Corporation	35.00%	**88**	88
New Zealand Lumber Shippers Ltd.	50.00%	**-**	-
Aboitiz Projects TS Corp.	50.00%	**1,888**	1,888
Reefer Van Specialist, Inc.	50.00%	**7,150**	7,150
Refrigerated Transport Services, Inc.	50.00%	**4,600**	4,600
WG&A Jebsen Ship Management, Inc.	50.00%	**400**	400
Hapag-Lloyd Philippines, Inc.	40.00%	**1,800**	1,800
Jade Ocean Shipmanagement, Inc.	15.00%	**3,986**	3,986
JAIB, Inc.	49.00%	**1,884**	1,884
Balance at end of period		**8,409,344**	8,408,351
Accumulated equity in net earnings:			
Balance, beginning of year		**5,312,663**	4,374,638
Equity in net earnings for the year		**1,573,691**	2,155,343
Accumulated equity in net earnings of investments sold		**(14,867)**	(371)
Share in associates' prior period's adjustments charged to Retained Earnings (PAS implementation)			(487,457)
Effect of Transport reorganization			4,259
Cash dividends received		**(721,865)**	(733,749)
Balance, end of period		**6,149,621**	5,312,663
Share in net unrealized gains (losses) on available-for-sale securities & underwriting accounts of an associate		**(518,099)**	122,290
Effect of Transport reorganization		**-**	(1,352)
Share in associates' cumulative translation adjustments		**268,947**	452,617
		14,309,813	14,294,570
Allowance for decline in value		**(28,995)**	(28,995)
Investments, at equity		**14,280,818**	14,265,575
Advances to investees		**218,783**	239,046
		14,499,601	**14,504,621**

B. ACCOUNTS PAYABLE & ACCRUED EXPENSES

Trade	1,945,715
DOSRI	-
Others	2,824,126
TOTAL	**4,769,841**

C. SHORT-TERM LOANS

Name of Creditor	Type of Obligation	Date of Availment	Date of Maturity	Interest Rate	Amount of Availment
Allied Banking Corporation	Working Capital Line	various dates	various dates	various	45,300
Banco de Oro Private Bank	Working Capital Line	various dates	various dates	various	134,666
Bank of the Philippine Islands	Working Capital Line	various dates	various dates	various	56,187
Equitable PCI Bank	Working Capital Line	various dates	various dates	various	10,000
Fokus Bank	Working Capital Line	various dates	various dates	various	68,443
Security Bank & Trust Co.	Working Capital Line	various dates	various dates	various	55,426
TOTAL					**370,022**

D. LONG-TERM LOANS

Name of Creditor	Type of Obligation	Date of Availment	Date of Maturity	Interest Rate	Amount of Availment
AEV PARENT					
Aboitiz Group Foundation, Inc.	Long-term loan	04/01/04	04/01/09	Variable	24,000
Allied Banking Corp.	Long-term loan	11/28/02	09/13/07	Variable	12,222
Ayala Life Assurance, Inc.	Long-term loan	03/02/06	03/02/11	Variable	53,000
Ayala Life Fixed Income Fund, Inc.	Long-term loan	03/02/06	03/02/11	Variable	900,000
Ayala Plans, Inc.	Long-term loan	03/02/06	03/02/11	Variable	37,000
Banco de Oro Universal Bank	Long-term loan	09/13/02	09/13/07	Variable	61,111
Bank of Commerce	Long-term loan	11/28/02	09/13/07	Variable	12,223
Bank of the Philippine Islands	Long-term loan	03/02/06	03/02/11	Variable	1,000,000
Development Bank of the Phils.	Long-term loan	06/07/06	03/02/11	Variable	500,000
Equitable PCIBank	Long-term loan	09/13/02	09/13/07	Variable	61,111
Equitable PCIBank	Long-term loan	11/04/04	11/04/09	Variable	1,000,000
International Exchange Bank	Long-term loan	03/02/06	03/02/11	Variable	200,000
Metropolitan Bank & Trust Corp.	Long-term loan	03/17/03	03/17/08	Variable	250,000
Robinsons Savings Bank	Long-term loan	11/28/02	09/13/07	Variable	12,222
Security Bank & Trust Co.	Long-term loan	09/13/02	09/13/07	Variable	61,111
Universal Malayan Insurance Corp.	Long-term loan	03/02/06	03/02/11	Variable	10,000
SUB-TOTAL					**4,194,000**
APC					
Equitable PCIBank	Long-tern loan	01/28/05	01/28/10	Variable	449,000
Equitable PCIBank	Long-tern loan	10/20/05	10/20/10	Variable	200,000
SUB-TOTAL					**649,000**
CLP					
Union Bank of the Phils.	Long-term loan	09/25/03	09/25/08	Variable	18,770
SUB-TOTAL					**18,770**
DLP					
China Banking Corp.	Long-term loan	10/18/04	10/18/09	Variable	320,000
Union Bank of the Phils.	Long-term loan	12/21/01	12/20/06	Variable	23,077
SUB-TOTAL					**343,077**
PILMICO & SUBSIDIARIES					
Equitable PCIBank	Long-term loan	01/31/03	01/31/08	Variable	75,000

Equitable PCIBank	Long-term loan	12/12/03	12/06/08	Variable	37,500
Metropolitan Bank & Trust Co.	Long-term loan	10/03/05	10/03/12	Variable	150,000
Union Bank of the Phils.	Long-term loan	10/14/02	10/14/07	Variable	96,154
Name of Creditor	**Type of Obligation**	**Date of Availment**	**Date of Maturity**	**Interest Rate**	**Amount of Availment**
Union Bank of the Phils.	Long-term loan	11/12/03	11/06/08	Variable	75,000
SUB-TOTAL					**433,654**
ATSC & SUBSIDIARIES					
Banco de Oro	Long-term loan	07/31/03	07/31/06	Variable	123,077
China Banking Corp.	Long-term loan	02/10/03	02/11/08	Variable	80,000
Citibank, N.A.	Long-term loan	02/10/03	02/11/08	Variable	80,000
China Trust Bank	Long-term loan	various dates	03/29/14	Variable	93,750
Development Bank of the Phils.	Long-term loan	various dates	03/29/14	Variable	328,124
Equitable PCIBank	Long-term loan	02/10/03	02/11/08	Variable	100,000
Equitable PCIBank	Long-term loan	12/16/05	12/16/10	Variable	329,000
Equitable PCIBank	Long-term loan	03/29/04	03/29/14	Variable	421,875
International Exchange Bank	Long-term loan	02/10/03	02/11/08	Variable	40,000
International Exchange Bank	Long-term loan	12/16/05	12/16/10	Variable	126,000
Interpool (Container Lease)	Long-term loan	various dates	various dates	Variable	239,179
Orix Leasing	Long-term loan	02/10/03	02/11/08	Variable	20,000
Metropolitan Bank & Trust Co.	Long-term loan	02/10/03	02/11/08	Variable	60,000
Planters Bank	Long-term loan	various dates	03/29/14	Variable	93,750
Robinsons Savings Bank	Long-term loan	12/16/05	12/16/10	Variable	105,000
Security Bank & Trust Co.	Long-term loan	02/10/03	02/11/08	Variable	60,000
Security Bank & Trust Co.	Long-term loan	12/16/05	12/16/10	Variable	140,000
Vereins UND Bank Germany	Long-term loan	07/16/03	07/16/08	Variable	17,387
SUB-TOTAL					**2,457,142**
SUBIC ENERZONE CORP.					
Development Bank of the Phils.	Long-term loan	various dates	10/10/15	Variable	184,003
SUB-TOTAL					**184,003**
TOTAL					**8,279,646**

E. DEBT SECURITIES

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

F. EARNINGS PER SHARE

Earnings per common share amounts were computed as follows:

	2006	**2005**
a. Net income to common stockholders	**2,401,325**	2,562,062
b. Average number of outstanding shares	**4,928,228,183**	4,843,014,252
c. Earnings per share (a/b)	**0.487**	0.529

G. BUSINESS SEGMENT INFORMATION

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

	Power		Food Manufacturing		Transport Services		Parent Company & Others		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
REVENUE	**6,545,732**	6,035,696	**5,502,861**	5,262,998	**8,306,303**	9,083,848	**489,631**	260,578	**-**	-	**20,844,527**	20,643,120
RESULT												
Segment results	**1,105,982**	1,050,093	**561,729**	454,894	**(274,505)**	204,768	**308,858**	69,601	**-**	-	**1,702,063**	1,779,356
Unallocated corporate income (expenses)	**90,727**	92,766	**7,101**	(9,086)	**69,575**	113,168	**(67,493)**	227,740	**-**	(237,126)	**99,911**	187,462
Gross Profit											**1,702,063**	1,779,356
Interest Expense	**(132,332)**	(167,004)	**(34,735)**	(36,395)	**(238,629)**	(261,737)	**(435,773)**	(463,359)	**-**	-	**(841,469)**	(928,495)
Interest Income	**30,129**	11,519	**5,770**	5,446	**15,861**	9,155	**185,514**	146,957	**-**	-	**237,274**	173,077
Share in net income of associates	**696,240**	951,516	**3,282**	2,306	**94**	12,530	**2,395,552**	2,829,024	**(1,521,477)**	(1,967,323)	**1,573,691**	1,828,053
Income taxes	**(352,876)**	(303,286)	**(192,694)**	(105,326)	**54,113**	(46,043)	**34,989**	(4,126)	**-**	-	**(456,468)**	(458,781)
Income for the period											**2,315,001**	2,580,671

H. DISCLOSURES

1. Accounting Policies

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

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

The Jan-Sep 2005 comparative financial statements are restated to retro-actively apply the new/revised accounting standards implemented in 2005 and to comply with the requirement of the Transport Group reorganization. In the 4th quarter of 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 and 2005 financial data of these newly-acquired subsidiaries into ATSC's restated financial statements for the same periods.

Restatement of Jan-Sep 2005 Net Income

		January - September 2005		
	Notes	Previous GAAP	Effect of Adoption of PFRS and Transport Reorganization	PFRS
REVENUES	a	17,712,623	2,930,497	**20,643,120**
COSTS AND EXPENSES	a	16,100,061	2,763,703	**18,863,764**
GROSS PROFIT		1,612,562	166,794	**1,779,356**
OTHER INCOME (CHARGES)				
Share in net earnings of associates	b & c	1,831,961	(3,908)	**1,828,053**
Interest income		173,077	-	**173,077**
Interest expense	a & d	(763,332)	(165,163)	**(928,495)**
Other income	a	187,340	122	**187,462**
		1,429,046	(168,949)	**1,260,097**
INCOME BEFORE INCOME TAX	a	3,041,607	(2,155)	**3,039,452**
PROVISION FOR INCOME TAX	a	395,234	63,547	**458,781**
NET INCOME		2,646,373	(65,702)	**2,580,671**
ATTRIBUTABLE TO:				
EQUITY HOLDERS OF THE PARENT		2,633,294	(71,231)	**2,562,062**
MINORITY INTERESTS	a	13,079	5,530	**18,609**
		2,646,373	(65,702)	**2,580,671**

Notes:

a. Transport Reorganization - The Jan-Sep 2005 income statement prepared last year did not consider the operating results of the newly-acquired subsidiaries. To comply with the requirement of this reorganization, said income statement has been restated to consolidate the financial data of these new subsidiaries. As a result, the ff. accounts increased - revenues by P2.930 billion, costs and expenses by P2.764 billion, interest expense by P6 million, other income by P0.1 million, share in associates' earnings by P70 million, provision for income tax by P64 million and minority interests by P6 million.

b. PAS 16 (Property, Plant and Equipment) - This new standard requires that depreciation reflects the useful life of the significant components of the assets. Adoption of said standard increased the depreciation expense of the hydro power generating associates as certain plant components were determined to have shorter asset lives than what were previously used. The Jan-Sep 2005 net income of these associates decreased, and AEV's share of their net earnings correspondingly reduced by P46 million.

c. PAS 40 (Investment Property) - The group opted to measure its investment properties at cost. The adoption of this new standard requires that where cost method is used, investment properties, other than land, will be carried at cost less accumulated depreciation. Under the old GAAP, idle depreciable assets were not required to be depreciated. Under the PAS, these assets are now classified as investment properties, and thus, subject to depreciation. Its banking associate, UBP, owns investment properties which now have to be depreciated. As a result, UBP's net income for the first nine months of 2005 decreased due to additional depreciation expense, and AEV's share of its net earnings correspondingly declined by P28 million.

d. PAS 32 (Financial Instruments: Disclosure and Presentation) - This new standard requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form. The Jan-Sep 2005 AEV financial statements prepared last year still treated its redeemable preferred shares as equity and the preferred dividends paid as a charge to retained earnings. The adoption of this new standard requires the restatement of the Jan-Sep 2005 net income to treat the P159 million preferred cash dividends paid as part of interest expense. As a result, interest expense increased by P159 million.

Effect on the cash flow statement for the period ending September 30, 2005

There are no differences between the cash flow statements prepared under PFRS and under previous GAAP except for the effect of the noncash adjustments.

2. Seasonality of Interim Operations

The hydro-power generating companies traditionally experience their peak production and revenue period between the months of May and November.

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

3. Material Events and Changes

On February 9, 2006, AEV Board of Directors approved the declaration of cash dividend of P0.15 per share to all stockholders of record as of the close of business hours on February 24, 2006, payable on March 10, 2006. Cash dividends paid on said date amounted to P736 Million, using internally-sourced funds.

In June 2006, UnionBank of the Philippines (UBP) purchased around 98% of the voting shares of The International Exchange Bank (iBank).

In September, 2006, registrant sold a total of 45.719 million of its treasury shares at prices ranging from 5.10 to 5.20 per share. This sale complements its fund raising activities to finance its green-field power projects as well as future participation in the National Power Corporation privatization of power plants, as they become available.

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

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

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

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

4. Material Adjustments

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

5. Contingencies

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

ABOITIZ EQUITY VENTURES, INC. & SUBSIDIARIES

AGING OF RECEIVABLES

AS OF : SEP 30/2006

	30 Days	60 Days	90 Days	Over 90 Days	Total
A/R - Trade:					
Power Generation/Distribution Customers	492,400	147,005	34,829	136,668	810,902
Food Production Customers	480,934	103,159	11,434	28,465	623,992
Aviation Services Customers	2,561	289	503	0	3,353
Real Estate Lessees	11,630	46	1	82	11,759
Transport Services Customers	661,894	96,886	55,393	585,982	1,400,155
Management Services Customers	84,738	127	101	8,265	93,231
Sub-total - A/R - Trade	**1,734,157**	**347,512**	**102,261**	**759,462**	**2,943,392**
Less : Allowance for Doubful Accounts					**355,333**
Net Trade Receivables					**2,588,059**
A/R - Non Trade	**873,463**	**54,060**	**16,840**	**233,341**	**1,177,704**
Grand Total	**2,607,620**	**401,572**	**119,101**	**992,803**	**3,765,763**

ACCOUNTS RECEIVABLE DESCRIPTION

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

NORMAL OPERATING CYCLE

Power Subsidiaries
- Distribution - 60 days
- Generation - 65 days

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