Results of Operations

from your COO

One Group
One Vision

Creating long-term value
for all our stakeholders

"The power group continued to be AEV's largest business unit in terms of earnings, contributing a total of ₱1.6 billion, 20% higher over the previous year. This represents 56% of the total income from AEV's businesses".

Erramon I. Aboitiz
EXECUTIVE VICE PRESIDENT AND
CHIEF OPERATING OFFICER

Aboitiz Equity Ventures, Inc. (AEV) closed 2004 with a ₱2.3 billion net income, an 18% increase from its 2003 restated earnings of ₱1.97 billion[1]. This represents an earnings per share (EPS) of ₱0.48.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 14% to ₱5.7 billion.

POWER GROUP

The power group continued to be AEV's largest business unit in terms of earnings, contributing a total of ₱1.6 billion, 20% higher over the previous year. This represents 56% of the total income from AEV's businesses.

Distribution Companies

The combined income of AEV's power distribution companies was up 38% to ₱744 million in 2004 from the previous year's ₱538 million. Taking into account AEV's percentage ownership of the distribution companies, the group sold a total of 2,420 gigawatt-hours (Gwhrs) in 2004, an increase of 12.5% percent over 2003.

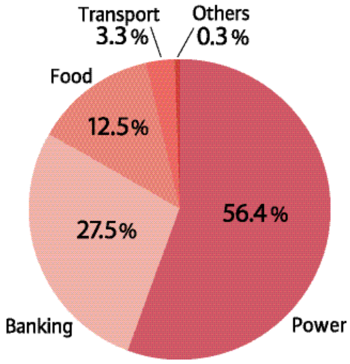
Davao Light and Power Company (DLPC) turned in a profit contribution of ₱665 million in 2004, 42% higher than in 2003. DLPC sold 1,247 Gwhrs resulting in a 10% increase in power sales. Number of customers grew by 6% to 227,734. Peak demand was also up by 12% to 234 MW. Systems loss was 8.9% in 2004 from 9% in 2003.

In January 2004, the Energy Regulatory Commission (ERC) granted provisional approval to DLPC's application for rate unbundling, allowing the company its first rate increase since 1992. The overall average tariff adjustment was 19 centavos per kilowatt-hour.

In May 2004, DLPC's stand-by power plant in Bajada was used to augment the National Power Corporation's (NPC) power supply. The plant supplied power to DLPC's franchise area during a short-fall in power supply to correct voltage fluctuations.

In January 2005, DLPC signed a transition supply contract (TSC) with the NPC, increasing its contracted demand from 130 MW to 205 MW.

Income Contribution from AEV's Business Groups



[1] AEV's 2003 earnings were restated to consider the retroactive effect of adapting new accounting standards on leases and income taxes.

> VECO goes closer to the customer by opening a full service center right at SM Mall in the heart of Cebu.

Cotabato Light & Power Company (CLPC) contributed ₱56 million in 2004, up 11% from the previous year. The company sold 111 Gwhrs, a 3% increase over its 2003 kilowatt-hour sales. Number of customers grew by 4% to 26,088. Systems loss was lowered to 8.8% in 2004 from 9.2% in 2003. Peak demand remained flat at 21 MW in 2004. In May 2004, the ERC also approved the unbundling of CLPC's rates and a corresponding increase of ₱0.15 centavos per kilowatt-hour was implemented in August of the same year.

In January 2005, CLPC signed a transition supply contract with NPC, increasing its contracted demand from 18 MW to 20 MW.

Visayan Electric Company (VECO), after amortizing goodwill and other non-recurring charges, had a net loss contribution of ₱21 million in 2004. The company implemented a special redundancy program, thereby reducing its workforce from 536 to 295, and resulting in a one-time charge of ₱234 million. The enforcement of the company's retirement policy further reduced the workforce by 23 employees.

VECO sold 1,471 Gwhrs in 2004, up 8% from 2003. Number of customers increased by 3% to 265,738. Systems loss dropped to 9.8% in 2004 from 11.2% of the previous year, and peak load increased by 5% to 289 MW.

The ERC approved VECO's rate unbundling application in August and was implemented in November 2004. Improved margins as a result of the rate unbundling will ultimately be felt in 2005.

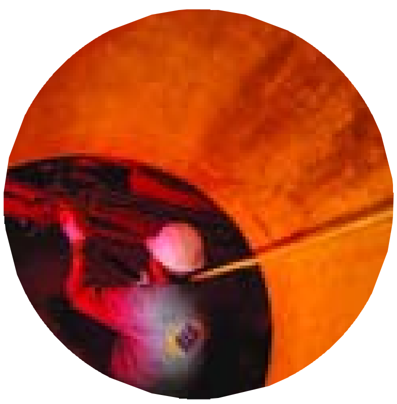
In March 2004, AEV and Vivant Corporation, of which the Garcia family is the majority owner, signed a Memorandum of Agreement with respect to the ownership and management of VECO and Hijos de F. Escaño. The Aboitizes and the Garcias now jointly manage the company.

In 2004, the company applied with the ERC to implement a time-of-use (TOU) pricing scheme with all of its power suppliers, including the NPC. The TOU allows VECO the flexibility of sourcing electricity from the cheapest power producer at any given time and assures customers of the lowest rates possible.

In January 2005, VECO signed a transition supply contract with NPC, increasing its contracted demand from 120 MW to 170 MW.

In February 2005, VECO opened a full service center at SM Cebu. The concept of an electric utility in a mall is the first of its kind in the Philippines. The new VECO office provides convenience and comfort to its customers 10 hours a day, seven days a week. It also has a call center equipped with Voice Over Internet Protocol (VoIP) facilities that will improve customer service through the telephone, making it more convenient for customers to interact with VECO.

SFELAPCO lights up San Fernando, Pampanga's bustling shopping mecca. Below: Subic EnerZone linemen maintain Subic Bay Industrial Park's medium voltage underground cable system.



San Fernando Electric Light & Power Company (SFELAPCO) contributed ₱14 million to AEV's earnings in 2004, down by 24% from the previous year. The reduction in earnings was caused by the rehabilitation and startup costs from the purchase of the electric distribution system of Mansons Corporation, and the one-month lag in passing on the rate increases from NPC per the approved ERC formula.

The electric distribution system and franchise of Mansons Corporation covers the Floridablanca area in Pampanga. With the purchase, SFELAPCO further expanded its service area and its customer base increased by 11,000.

The company sold 347 Gwhrs in 2004, up 11% from 2003. Its systems losses further declined to 6.3% from 6.5% in 2003, one of the lowest in the country. Peak load increased by 11% to 68 MW. The company's customers increased by 34% in 2004 to 62,242 from the previous year's 46,603, inclusive of the customer base acquired from Mansons.

In January 2004, SFELAPCO signed an agreement with the National Transmission Corp. (TransCo) for the purchase of 12 kilometers of sub-transmission lines in San Fernando, Pampanga.

The Clark-Subic access road, which recently had its groundbreaking, will further enhance the prospects for high growth for SFELAPCO.

Subic EnerZone Corporation (SEZ) contributed ₱25 million to AEV's 2004 earnings. In spite of a 40-centavo reduction in its power distribution rates, SEZ was able to make a turnaround and operate profitably in 2004, its first full year of operation.

The company sold 166 Gwhrs and peak demand was 32 MW. Systems losses in 2004 dropped to 8.4% from 14.1% in October 2003 when SEZ took over the power distribution system at the Subic Freeport Zone. The company's competitive bid to manage Subic's electric distribution system is the privatization showcase for other distribution franchise areas to follow.

For 2004, the company allocated ₱156 million for capital expenditures to improve the reliability and efficiency of Subic's power distribution system. SEZ has also budgeted ₱300 million for the next five years to upgrade and expand its services at the Freeport Zone.

Generation Companies

In 2004, the combined income of the power generating companies rose to ₱879 million, up 7% from the group's 2003 contribution. The generation group produced a total of 888 Gwhrs in 2004, a 17% increase over the previous year.

Luzon Hydro Corporation (LHC) turned in a net income of ₱726 million in 2004, up 3% from the previous year. LHC generated 213 Gwhrs, a 13% reduction from 2003's output.

In January 2005, construction work began for a supplemental water project that will increase the output of the company's 70-MW Bakun AC plant by approximately 15 Gwhrs, a 6.7% increase in its annual energy output. Project cost is US$3.5 million with target completion in May 2005.

As part of its corporate social responsibility program, LHC undertook several projects for its local host communities. The company completed the ₱60-million Luzon Hydro Friendship Bridge in June 2004. The bridge, which is 5.2 meters wide and spans 292 meters across the Amburayan River, connects two barangays in Ilocos Sur and La Union provinces benefiting over 4,000 residents.

LHC also funded an ₱18-million electrification project covering four barangays in Alilem, Ilocos Sur and one in Bakun, Benguet to energize some 270 households in the area.

Hydro Electric Development Corporation (HEDCOR), and **Northern Mini Hydroelectric Company** (NMHC) had a combined income contribution of ₱45 million, down 4%. The El Niño phenomenon in the latter part of the year lowered the total power output of both companies by 5% to 132 Gwhrs.

In March 2004, HEDCOR submitted the winning bid for the 3.5 MW-Talomo hydroelectric facility in Tugbok, Davao. The four-plant Talomo facility is the first NPC generation asset to be privatized.

HEDCOR, in partnership with the Philippine Long Distance Telephone Company and the National Telecommunications Commission, commissioned the installation of five telephone landlines in the company's Ampohaw Grid mini-hydropower plants located in the municipalities of Sablan and La Trinidad, Benguet Province. This capability for voice and data communication has opened new possibilities for greater efficiency in off-site management of its remote power plants.

In 2004, HEDCOR's "Cleanergy" project was cited by the League of Corporate Foundations (LCF) as one of the best corporate responsibility projects. The company's operation of run-of-river mini-hydro power plants was recognized as a best practice because of the social benefits extended to communities for its production of clean and emission-free energy from indigenous and renewable sources.

Southern Philippines Power Corporation (SPPC) and **Western Mindanao Power Corporation** (WMPC) had a combined contribution of ₱96 million, up 48%. WMPC's power output almost doubled from 160 Gwhrs in 2003 to 305 Gwhrs in 2004 while SPPC posted a 12% increase in generation producing 238 Gwhrs in 2004.

Since Mindanao's power is generated mainly from hydroelectric power plants that are dependent on the Agus River, the reduction of rainfall caused by the El Niño phenomenon resulted in a very tight power situation in the area. This resulted in the increased capacity utilization in both the 50-MW SPPC and the 100-MW WMPC, which augmented power supply thereby averting brownouts.

Farmers from Ilocos Sur enjoying easy access to markets through the Luzon Hydro Friendship Bridge.

Left: Cebuanas enjoying the perks of UnionBank's exclusive Bai card in Cebu. Right: One of City Savings Bank's loyal customers attended to by a smiling teller.

BANKING

The banking group's contribution to AEV's income in 2004 increased by 14% to ₱793 million, representing 28% of total income from the various business segments.

UnionBank of the Philippines (UnionBank) contributed ₱778 million to AEV's income in 2004, up 14% from the previous year. Strong deposit generation propelled the bank's balance sheet expansion. Its aggressive sales drive, supported by technology-based solutions, generated an 18% growth in its deposit base, which stood at ₱54 billion at yearend.

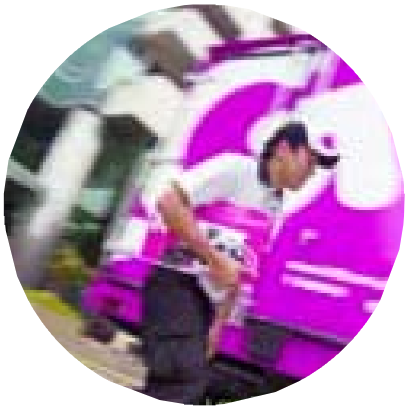
One of the country's leading universal banks, UnionBank in 2004 ranked number 1 in terms of soundness, asset profitability and productivity with its 42.9% credit risk-adjusted capital adequacy ratio, 2.7% return on asset, and 2.3x revenue to expense ratio, respectively. It placed second in terms of capital efficiency when it recorded a 14.2% return on average equity, double the industry's average.

The bank ended the year with an equity base of ₱16 billion and resources of ₱102 billion. In September 2004, it also tapped the international capital markets when it issued US$125 million non-convertible notes.

UnionBank also won the bid to develop an electronic card for the 1.4 million members of the Government Service Insurance System (GSIS). Over 200,000 cards were issued as of yearend 2004. The e-card allows GSIS members to withdraw their salaries, loans and pension benefits from any ATM machine nationwide.

City Savings Bank (CSB) contributed ₱15 million to AEV's income in 2004, up 2% from the previous year. With its new deposit products, total deposits grew by 28% to ₱864 million in 2004. CSB's return on equity was 18.6% in 2004 while its return on assets was 4.3%. Total loans increased by 22% to ₱701 million and non-performing loans represented 5% of total loans for 2004. Capital adequacy ratio was at 29%.

CSB Finance, Inc. (CSBFI), an affiliate of CSB, opened a branch in Bacolod City in August 2004, bringing to six the total number of CSBFI branches. This financing institution began operations in May 2000 to extend credit facilities to individuals, commercial and agricultural enterprises.



Passengers take a moment to relax on the roof deck of the new generation SuperFerry. Above: A 2GO team member delivering on the promise.

TRANSPORT

In 2004, **Aboitiz Transport System Corporation** (ATS) contributed ₱94 million to AEV's income, down by 63% from its contribution in 2003. Revenues from passage and freight services improved and a non-recurring gain was recognized from the sale of three of the company's vessels, namely: M/V Brinkness, Our Lady of Lipa and Our Lady of Sacred Heart. Despite this, income contribution declined due to the rise in fuel, insurance, security-related costs, and the one-time impairment loss provision set up by an associate on its stock investments and advances.

ATS's freight revenue grew by 8% to ₱4.3 billion, with volume increasing by 2.6% to 317,900 twenty-equivalent-units (TEUs) and the average rate per TEU improving by 4.7%. In October 2004, ATS launched its new freight brand, 2GO, which takes a highly integrated approach to efficiently moving goods as specified by customer requirements. Associated with action, precision, and speed, the 2GO brand helps clients manage their supply chains more effectively.

In 2004, ATS carried a total of 3,540,700 million passengers, up 4% from the previous year. With the launch of the new generation SuperFerries in early 2004, ATS is confident that it will gain an even larger share of the inter-island passage market.

As a government incentive to companies that provide public conveyance, ATS's SuperFerries 15, 16, 17, 18, and 19 were granted income tax holidays by the Board of Investments (BOI). The tax holiday helps offset the rising fuel costs and keeps ATS's ticket prices at affordable levels.

In 2004, the Maritime Industry Authority commended ATS for its on-time compliance to the International Ship and Port Facility Security (ISPS) code. The code requires ship owners, managers, operators and port facilities to provide for a security system to enhance overall maritime security. SuperFerries 1, 2, 15, and 16 were issued with a full-term International Shipping Security Certificate (ISSC) after their compliance with the provisions and requirements of the ISPS code.

SuperCat Fast Ferry Corporation (SFFC) also faced higher fuel, insurance and security-related costs and as a consequence contributed a loss of ₱1.4 million in 2004. With seven operating vessels, the company transported 2.7 million passengers, up 3.5% from 2003.

All SFFC vessels fulfilled the requirements for ISPS code compliance in 2004. All its vessels were also accredited with the Det Norske Veritas (DNV), an Oslo-based independent organization providing services for managing risks worldwide. SFFC proceeded to have its passenger terminals audited to protect its vessels from contamination from non-compliant facilities.

SFFC and ATS-Cebu Ferries were also awarded by SGS Philippines for their implementation of the Quality Management System (QMS), an ISO 9001:2000 standard covering both shipboard and shore-based processes.

Fil-Am Foods supervisors assure world-class standards.

FOOD

Pilmico Foods Corporation (PFC) posted a 109% increase in income contribution to AEV, turning in ₱361 million in 2004. Pilmico Foods and Fil-Am Foods achieved higher margins due to improved cost management and an effective raw materials procurement strategy. Both flour and feeds registered higher sales volumes. Improvements in volume growth, market prices, and operating efficiencies contributed to the dramatic turnaround of the swine business in 2004.

To address the increasing demand for its products, PFC is expanding its milling capacity in Iligan by 150 metric tons (MT) per day, bringing total annual milling capacity to 1,310 MT. Operation of the new mill is expected to start in mid-year 2005.

In response to the government's *Sangkap Pinoy* Seal food fortification program, which encourages manufacturers to enhance their products with essential nutrients at levels prescribed by the Department of Health, Pilmico started to fortify all its flour products with Vitamin A and iron in 2004. Studies have shown conclusively that Vitamin A and iron are essential nutrients lacking in the Filipino diet. These nutrients are important building blocks to help children grow especially in their early formative years.

Farmer's Edge, the commercial feed division of Fil-Am Foods, launched its new Ultimax line of hog feeds, which is formulated with special high quality ingredients to ensure faster and more consistent hog growth. The division also launched Cocker's Edge feeds as a total nutrition solution for fighting cocks.

The expansion of Fil-Am Foods feed mill by 120,000 MT a year was completed in late 2004 and began operations in January 2005. Total feed milling capacity now stands at 240,000 MT a year.

OTHER INVESTMENTS

The combined profit of AEV's other investments decreased by 27% in 2004 to ₱9 million. The sale of the company's 35% stake in Mindanao Container Corporation in January 2004 caused the reduction in income contribution. Other investments of AEV include holdings in real estate through Cebu Praedia Development Corporation, and in aviation through AEV Aviation, Inc.

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