Report to our Stockholders
from your President and CEO

"We are very pleased to report that AEV posted a ₱2.3 billion net profit, 18% above 2003, equivalent to 48 centavos per share."

The Philippine economy performed well in 2004, moving forward with a 6.1% GDP growth compared to 4.7% in 2003. The growth was supported by a strong services sector (7.1%), agriculture (5.8%) and industry (4.8%).

Your company was a primary beneficiary of this growth as revenues grew to ₱21 billion in 2004, 17% higher than the previous year.

We are very pleased to report that in 2004 AEV posted a ₱2.3 billion net profit, 18% above 2003, equivalent to 48 centavos per share. Except for Transport, all our businesses showed healthy earnings gains. Increased fuel, security and dry docking costs had an adverse impact on Transport's operating margins.

Despite the country's credible economic performance, the investment climate was clouded by concerns over government's budget deficit and the stability of the Philippine peso.

As many companies slowed down investment, your company continued to pursue long-term objectives and faithfully implemented the following strategic initiatives:

a) Sticking to our core businesses of power, banking, transport and food;

b) Leveraging on our competencies to expand core businesses;

c) Enhancing customer intimacy while maintaining our position as low-cost producers; and

d) Maintaining a balanced portfolio, strong balance sheet and healthy cash flow.

Jon Ramon M. Aboitiz
PRESIDENT AND CHIEF EXECUTIVE OFFICER

POWER

Power continued to be the main driver of AEV's earnings, providing the lion's share of our income.

Except for San Fernando Electric Light & Power Company (SFELAPCO), we completed the unbundling of our rates as required by the Energy Regulatory Commission. We also received reasonable rate increases that were implemented at various dates in 2004.

Aside from the healthy growth rates we are experiencing in our utilities, the effect of implementing these rate increases for the full year in 2005 should further boost the contributions from our electric distribution business.

Following the conclusion of our shareholders' agreement with our VECO partners, AEV's power distribution group began getting more involved in managing the Cebu-based utility in June 2004. Davao Light provided technical support in the areas of engineering, administration, purchasing, information technology and human resources. The company was rightsized, with its regular workforce trimmed down by 59%.

We are confident that the initiatives implemented in VECO will not only result in better customer service but will also immediately show dramatically reduced operating costs, increased efficiencies and improved net income contributions to AEV.

The first full year of operations of Subic EnerZone Corporation (SEZ) also showed impressive efficiency improvements. Its workforce was reduced to 40 from 180 when the system was still operated by SBMA. By yearend 2004, systems loss was down to 8.4% from 14.1% when we officially took over in October 2003. We expect this to go down further in 2005. SEZ turned in a net profit of ₱44 million in its first full year of operations.

SFELAPCO purchased the electricity distribution assets and franchise of Mansons Corporation, former operator of the electric distribution system in Floridablanca, Pampanga, which is adjacent to SFELAPCO's franchise area. While it is a small utility of 11,000 customers with a peak load of 5 MW, it is located in a fast growth area. We are confident that the area is poised for growth with the availability of reliable and reasonably priced power. The Clark-Subic Highway also passes right through the franchise area and this should stimulate development and further growth once completed.

To ensure adequate supply of power, the power distribution group of AEV recently signed Transmission Supply Contracts (TSC) with the National Power Corporation (NPC). The TSCs will provide VECO, Davao Light and Cotabato Light and their customers with electricity supply from NPC until December 31, 2008. We are very pleased to work with NPC in what we consider a mutually beneficial relationship. These TSCs do not only secure a reliable supply of power to our customers, they also secure an offtaker for NPC's power generation. We also hope that this will make it easier for the Power Sector Assets and Liabilities Management Corporation (PSALM) to sell their generating assets and progress their efforts of privatization.

We have also initiated the purchase of all the sub-transmission assets of the National Transmission Corporation (TransCo) that are in our franchise areas. This move will not only give our utilities a larger revenue base but will further protect our franchises and assure us of continued exclusive access to our customer base even when open access is allowed.

In March 2004, Hedcor submitted the winning bid for the 3.5-MW Talomo hydro complex in Davao, the first power generation facility to be privatized by the PSALM. We officially took over the facility in January 2005. Full rehabilitation is still expected in June 2005 but we have already started to generate power and to sell its output to Davao Light.

The completion of Luzon Hydro's supplemental water project is expected in May 2005. We expect an additional 15 GWHRS of generation from the project, which will further enhance the profitability of Luzon Hydro.

With optimism, we wait for PSALM to roll out the sale of the remaining NPC assets. We will be selective in our acquisitions and zero in on generation facilities that we think will remain competitive and be the low-cost producer in the future.

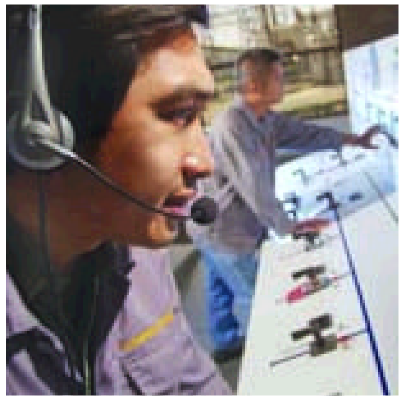
Anticipating a tightening in the power supply-demand situation in the Visayas and Mindanao, we have also initiated the development of various Greenfield projects to ensure the continued supply of power to our utilities in Davao and Cebu. In Davao, we are looking at two hydro plants with an aggregate capacity of 76 MW, which we hope to start construction by early next year. In Cebu, we will participate in a 200-MW coal-fired plant that is expected to break ground by the end of 2005.

We expect our power business to continue to fuel AEV's earnings as we leverage our competencies and pursue the opportunities that will come in a more deregulated and competitive market place.

BANKING

Our banking affiliates are not only reporting record profits but also posting very healthy growth in their assets and deposits.

In 2004, UnionBank's assets exceeded ₱100 billion. As they continue to build on their reputation as innovative, productive and highly profitable financial institutions, both UnionBank and City Savings are expanding their reach and customer base.



Capitalizing on its leadership in information technology, UnionBank won the contract for the GSIS e-card, besting the bids of much bigger banks. With this achievement, we expect to have 1.4 million new Visa-GSIS cardholders to add to our growing number of retail customers.

Moving forward, we will continue to work toward FOCUS 2010 – a 10-year program launched in 2000 – to create superior Financial Value, Operational Excellence, Customer Franchise, UnionBank Brand / Experience and Superior Innovation in order to realize our vision for UnionBank to be a top three universal bank in the Philippines by 2010. The bank is highly focused on creating long-term shareholder value.

TRANSPORT

With fuel prices at all-time highs, 2004 was a difficult year for Aboitiz Transport System (ATS) and SuperCat Fast Ferry Corporation. Higher security-related expenditures and drydocking costs led by higher steel prices have also adversely affected our operating margins. The implementation of rate adjustments has not been able to catch up with these increased costs. We are therefore temporarily absorbing part of these higher costs. However, we are confident that as prices stabilize, we will recover these costs and regain the margins we enjoyed in the past.

We are fortunate to have completed the fleet modernization program begun by ATS several years before the sudden upsurge in ship prices. We believe our transportation network will maintain its position as the most efficient and versatile operations that will continue to provide our customers with the most effective transport solutions.

ATS launched 2GO, a new brand for all its freight businesses, in October 2004.

With its brand promise of "a passion for delivery", ATS differentiates 2GO from competitors by focusing on understanding client needs, logistics solutions development and managing long-term relationships.

Complementing 2GO is the ATS Road Roll On, Roll Off Terminal System (RRTS) service in the South with 18 vessels plying 23 major ports nationwide. The RRTS effectively bridges the islands via the southern nautical highway to move agricultural and commercial goods at reduced transport costs through efficient logistics operations.

FOOD

Our food group turned in record profits in 2004. Pilmico Foods and its wholly owned subsidiary Fil-Am Foods continued to expand their markets, while maintaining healthy margins in their various product lines. We attribute this to their effective raw materials procurement strategy and continued pursuit of delivering value nutrition.

As part of its continuous reinvestment program, Pilmico is adding 150 metric tons per day of milling capacity to its Iligan plant's flour mill. In 2004, Fil-Am Foods also completed the expansion of its feed mill, adding another 10,000 tons of milling capacity per month.

In contrast to its disappointing performance in the past, Fil-Am Food's swine production business had a dramatic turnaround beginning in the first quarter of 2004 and is contributing substantially to company earnings.

TREASURY SHARE SALE

Your Board and management are not only focused on the short-term performance of your company, but also in its long-term wellbeing and ability to sustain its growth objectives. Anticipating large capital investments in the coming years, we think it is prudent to bring in additional capital to further strengthen our balance sheet and investment capability.

In February 2005, your board approved the sale of all the treasury shares held by AEV itself and some of its subsidiaries amounting to approximately 890 million shares, representing 15.6% of the company's stock. No fixed timetable or price was set for the sale of the treasury shares and would be dependent on the company's capital needs moving forward. We purchased these shares in the late 1990s when the stock was trading at depressed prices.

Aside from bringing in additional capital to fund our investment program, we think the release of these shares will enhance shareholder value by increasing the liquidity and trading of its share by increasing its free float.

CASH DIVIDEND

Your Board of Directors approved a cash dividend of 12 centavos per share in February 2005, which was paid out on March 21, 2005. The dividend declaration is 20 percent higher than 2003's dividend and is equivalent to 25% of 2004 earnings. Moving forward, we will continue with a comfortable balance between cash distribution and growth.

CORPORATE SOCIAL RESPONSIBILITY

We firmly believe that our long-term success and reputation do not end with our customers and financial results. The working relationship we maintain with our communities is key to our ability to sustain our growth initiatives.

Through the Aboitiz Group Foundation, AEV and its subsidiaries have implemented various projects wherein we provide opportunities for our hosts communities. Our programs aim to build strong partnerships not only with our communities but also with local government units. We augment their limited resources to uplift the quality of life in areas where our companies operate. This is a testament to our commitment to good corporate citizenship, to help people help themselves and to be the neighbor of choice.

NEW LOGO AND BRAND ESSENCE

As you have noticed, AEV now has a new corporate identity. Together with the unveiling of our new logo, we have launched our new brand essence. For decades, our brand essence was "to be the best at what we do".

Senior management embarked on a comprehensive program to encapsulate the essence of what Aboitiz is really all about and how to intensify the Aboitiz way of doing things. We consulted far and wide to thoroughly understand the DNA of what really defines us. We looked back and drew inspiration from our past to give us guidance and insights into our future.

We found out that quality and innovation were the key drivers of value across all our businesses.

This then allowed us to develop our new brand positioning. We worked towards simplifying it to a point where it could be applied in our daily work life.

"Passion for Better Ways" is our new brand essence. It is our revitalized outlook to guide us through our future. It will constantly remind and inspire us to continue upholding all that is good about Aboitiz and what we represent. This is the new Aboitiz way.

We are driven to lead, to excel and to serve.

We will continuously strive to find better ways to deliver excellent products and services to all our stakeholders. We will continue to heed the call of the changing times by challenging conventional approaches with innovative solutions. This has always been our vision, our mindset.

To the 6,000 team members of the AEV group, we thank you for your commitment and relentless pursuit to build world-class enterprises. As we push ahead, let us be driven by a shared passion for better ways. To our stockholders, partners and customers, our most sincere gratitude for your continued trust, confidence and support.

Jon Ramon M. Aboitiz
PRESIDENT AND CHIEF EXECUTIVE OFFICER