AYALA LAND, INC.

NOTICE OF REGULAR ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the regular annual meeting of stockholders of **AYALA LAND, INC.** will be held at the Grand Ballroom, Hotel InterContinental Manila, Ayala Center, Makati City, on **Wednesday, 06 April 2005** at **9:00 a.m.** with the following

A G E N D A

1. Proof of Notice and Determination of Quorum
2. Approval of Minutes of Previous Meeting
3. Annual Report
4. New Business
   4.1 Ratification of all Acts and Resolutions of the Board of Directors and of the Executive Committee adopted in the ordinary course of business during the preceding year.
5. Election of Directors (including the Independent Directors)
6. Election of Auditors and Fixing of their Remuneration
7. Consideration of such other business as may properly come before the meeting
8. Adjournment

Only stockholders of record at the close of business on **18 February 2005** are entitled to notice of, and to vote at, this meeting. As per By-Laws, the Stock and Transfer Books of the Corporation will be closed from **18 to 28 February 2005**, inclusive.

Makati City, 02 February 2005.

FOR THE BOARD OF DIRECTORS

Mercedita S. Nolledo

MERCEDITA S. NOLLEDO
Corporate Secretary

We are not soliciting your proxy. However, if you would be unable to attend the meeting but would like to be represented thereat, you may accomplish the enclosed proxy form and submit the same to the Office of the Corporate Secretary on or before 28 March 2005. You may use the enclosed reply envelope for this purpose. Validation of proxies shall be held on 30 March 2005 at 9:00 a.m. at the Office of the Corporate Secretary.

Thank you.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement Pursuant to Section 20
Of the Securities Regulation Code (SRC)

1. **Check the appropriate box:**

_________ Preliminary Information Sheet
____✓____ Definitive Information Sheet

2. **Name of Registrant as specified in this Charter:** AYALA LAND, INC.

3. **Province, country and other jurisdiction or incorporation or organization:**

MAKATI CITY, PHILIPPINES

4. **SEC Identification Number:** 152747

5. **BIR Tax Identification Code:** 000-000-153-790

6. **Address of Principal Office:** 31st Floor, Tower One,
Ayala Triangle, Ayala Avenue,
Makati City 1226

7. **Registrant's telephone number, including area code:** (632) 848-5772/841-5333

8. **Date, time and place of the meeting of security holders:**

Date	-	06 April 2005
Time	-	9:00 A.M.
Place	-	Grand Ballroom InterContinental Manila Ayala Center, Makati City

9. **Approximate date of which the Information Statement is to be first sent or given to security holders:**

09 March 2005

10. **Securities registered pursuant to Sections 4 and 8 of the RSA**

a. **Authorized Capital Stock** P 12,000,000,000

Common Shares 12,000,000,000 (P 1.00 par value)

b. **No. of Shares Outstanding as of 31 December 2004**

Common Shares 10,775,345,430
(net of 24,081 Treasury shares)

c. Amount of Debt Outstanding as of 31 December 2004

(interest-bearing payables; current and long-term; including bonds and commercial papers) P 13.4 billion

11. Are any of the registrant's securities listed in the Philippine Stock Exchange?

__✓__ Yes _____ No

10,739,697,330 Common shares have been listed with the Philippine Stock Exchange as of 31 December 2004, excluding the 35,672,181 underlying shares for the P4 Billion Long Term Commercial Paper (LTCP) which have been approved for listing.

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INFORMATION REQUIRED IN THE INFORMATION STATEMENT

Date, time and place of meeting of security holders

Date	-	06 April 2005
Time	-	9:00 A.M.
Place	-	Grand Ballroom InterContinental Manila Ayala Center, Makati City
Principal Office	-	31st Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226

Approximate date when the Information Statement is to be first sent or given to security holders

09 March 2005

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

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

a) No current director or officer of the Corporation, or nominee for election as director of the Corporation nor any associate thereof, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

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

Right of Appraisal

There are no matters or proposed corporate actions which may give rise to a possible exercise by security holders of their appraisal rights under Title X of the Corporation Code of the Philippines.

Voting Securities and Principal Holders Thereof

a) Number of Shares Outstanding as of 18 February 2005: 10,785,310,879 Common Shares (net of 24,081 Treasury Shares)

Number of Votes Entitled: one (1) vote per share

b) All stockholders of record as of 18 February 2005 are entitled to notice and to vote at the Annual Stockholders' Meeting

c) Manner of Voting

Article III Section 7 of the Amended By-Laws of the Corporation provides :

"Section 7 - Each share of stock entitles the person in whose name it is registered in the books of the Corporation to one vote, provided the conditions as regards payment subject to which it was issued have been complied with."

d) Security Ownership of Certain Record and Beneficial Owners and Management

1. Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of 18 February 2005.

Type of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent of Class
Common	Ayala Corporation[1] 34/F Tower One Bldg. Ayala Ave., Makati City	Ayala Corporation[2]	Filipino	6,695,182,595	62.077%
Common	PCD Nominee Corporation (Non-Filipino)[3] G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[4]	Various	2,823,342,539	26,178%
Common	PCD Nominee Corporation (Filipino)[3] G/F MSE Bldg. Ayala Ave., Makati City	Hongkong and Shanghai Banking Corporation (HSBC) and Standard Chartered Bank (SCB)[4]	Filipino	816,443,693	7.570%

2. Security Ownership of Directors and Management as of 18 February 2005.

Type of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Directors					
Common	Fernando Zobel de Ayala	559,400	(direct & indirect)	Filipino	0.00519%
Common	Jaime Augusto Zobel de Ayala II	10,000	(direct)	Filipino	0.00009%
Common	Jaime I. Ayala	1	(direct)	Filipino	0.00000%
Common	Mercedita S. Nolledo	51,753	(direct)	Filipino	0.00048%
Common	Nieves R. Confesor	1	(direct)	Filipino	0.00000%
Common	Ramon R. del Rosario, Jr.	1	(direct)	Filipino	0.00000%
Common	Delfin L. Lazaro	1	(direct)	Filipino	0.00000%
Common	Leandro Y. Locsin, Jr.	1,422,885	(direct)	Filipino	0.01319%
CEO and Ten Most Highly Compensated Officers					
Common	Jaime I. Ayala	1	(direct)	Filipino	0.00000%
Common	Vincent Y. Tan	3,758,419	(direct)	Filipino	0.03485%
Common	Tristan B. dela Rosa	0		Filipino	n/a
Common	Miriam O. Katigbak	2,258,318	(direct)	Filipino	0.02094%
Common	Jaime E. Ysmael	339,513	(direct & indirect)	Filipino	0.00315%
Common	Angela dV. Lacson	305,418	(direct)	Filipino	0.00283%
Common	Jose Rene D. Almendras	0		Filipino	n/a
Common	Ma. Victoria E. Añonuevo	616,333	(direct & indirect)	Filipino	0.00571%
Common	Emilio J. Tumbocon	219,799	(direct)	Filipino	0.00204%
Common	Raul M. Irlanda	150	(direct)	Filipino	0.00000%
Common	Ma. Cynthia H. Poblador	54,783	(direct)	Filipino	0.00051%
Other Executive Officers					
Common	Dinna G. Bayangos	0		Filipino	n/a
Common	Bernard Vincent O. Dy	0		American	n/a
All Directors and Officers as a group		**9,596,775**			**0.08898%**

None of the members of the Company's directors and management owns 2.0% or more of the outstanding capital stock of the Company.

e) The Corporation knows of no persons holding more than 5% of common shares under a voting trust or similar agreement.

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[1] The Co-Vice Chairman of Ayala Corporation, Fernando Zobel de Ayala, is the Chairman of the Board of the Company.
[2] The Board of Directors of Ayala Corporation has the power to decide how AC shares in ALI are to be voted.
[3] The PCD is not related to the Company.
[4] HSBC and SCB are participants of PCD. The 1,744,349,655 and 627,376,581 shares beneficially owned by HSBC and SCB, respectively, form part of the 3,496,726,205 shares registered in the name of PCD Non-Filipino and Filipino. The clients of HSBC and SCB have the power to decide how the Company's shares are to be voted.

f) No change of control in the Corporation has occurred since the beginning of its last fiscal year.

Directors and Executive Officers

Nominees for Election as Members of the Board of Directors, including Independent Directors

The following are expected to be nominated to the Board of Directors of the Company for the ensuing year:

Fernando Zobel de Ayala	Delfin L. Lazaro
Jaime Augusto Zobel de Ayala II	Leandro Y. Locsin, Jr.
Jaime I. Ayala	Aurelio R. Montinola III
Ma. Nieves R. Confesor	Mercedita S. Nolledo
Ramon R. del Rosario, Jr.	

The aforementioned nominees were formally nominated to the Nominations Committee of Ayala Land, Inc. by a shareholder of the Company, Ms. Michelle Marie T. Valbuena. The nominees were likewise endorsed by Ayala Corporation. In addition, Messrs. Ramon R. del Rosario, Jr., Leandro Y. Locsin, Jr. and Ms. Ma. Nieves R. Confesor are being nominated as independent directors. Please refer to Annex "A" for a summary of their qualifications.

The Company has adopted the SRC Rule 38 (Requirements on Nomination and Election of Independent Directors) and compliance therewith has been made.

Legal Proceedings

None of the Directors or Executive Officers is involved in any material pending legal proceedings in any court or administrative agency of the Government.

Directors and Executive Officers Please refer to Annex "A" hereof.

Significant Employees

The Corporation considers its entire work force as significant employees. Everyone is expected to work together as a team to achieve the Corporation's goals and objectives.

Family Relationships

Fernando Zobel de Ayala and Jaime Augusto Zobel de Ayala II, Chairman and Vice Chairman of the Board of Directors respectively, are brothers.

Relationships and Related Transactions

The Company, in its regular course of trade or business, enters into transactions with principal stockholders involving mainly the sale of land and other assets. In addition, the Company obtains borrowings from an affiliated commercial bank. However, no other transaction was undertaken by the Company in which any Director or Executive Officer was involved or had a direct or indirect material interest.

Parent Company

Ayala Corporation directly owns 62.077% of the total issued and outstanding capital stock of the Company as of 18 February 2005.

Resignation of Directors

Mr. Francisco H. Licuanan III, a member of the Board of Directors since 1988, retired from Ayala Corporation effective 16 September 2004. His resignation from the Board of the Corporation is not due to any disagreement with the Corporation's operations, policies and practices.

To date, no director has resigned or declined to stand for re-election for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's operations, policies and practices.

Compensation of Directors & Officers

Directors. Article IV Section 17 of the Company's By-Laws provides:

"Section 17 – Each member of the Board of Directors who is neither an officer nor consultant of the Corporation shall be entitled to receive a reasonable per diem in an amount to be determined by the Board of Directors for his attendance in Board meetings. Any additional compensation, other than per diems, to be given to members of the Board of Directors shall be subject to stockholders' approval."

During the 2003 Annual Stockholders' Meeting, the stockholders ratified the resolution fixing the remuneration of non-executive directors at P1,000,000.00 consisting of the following components:

Retainer Fee:	P500,000.00
Per diem per Board meeting attended:	P100,000.00

In addition, a non-executive director is entitled to a per diem of P20,000.00 per board committee meeting actually attended.

Officers. The Company adopts a performance-based compensation scheme as incentive. Total compensation paid to all senior personnel from Manager and up amounted to P352.79 million in 2003 and P437.74 million in 2004. The projected total annual compensation for the current year is P481.51 million.

The total annual compensation of the top 11 officers of the Company amounted to P91.4 million in 2003 and P92.12 million for 2004. The projected total annual compensation for the current year is P101.33 million.

The total annual compensation paid to all senior personnel from Manager and up was all paid in cash. The total annual compensation includes the basic salary and other variable pay (performance bonus and other taxable income).

Name	Principal Posistion	2005 *		2004		2003	
		Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay
Jaime I. Ayala	President						
Vincent Y. Tan	Executive Vice President						
Tristan B. dela Rosa	Senior Vice President						
Miriam O. Katigbak	Senior Vice President						
Jaime E. Ysmael	Senior Vice President						
Angela DV. Lacson	Senior Vice President						
Jose Rene D. Almendras	Vice President						
Ma. Victoria E. Añonuevo	Vice President						
Emilio J. Tumbocon	Vice President						
Raul M. Irlanda	Vice President						
Ma. Cynthia H. Poblador	Vice President						
All above-named Officers as a group		P95.55 Mn	P5.78 Mn	P86.86 Mn	P5.26 Mn	P85.99 Mn	P5.41 Mn

* *Projected Annual Compensation*

Name	2005 *		2004		2003	
	Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay
All Officers** as a Group	P461.9 Mn	P19.61 Mn	P419.91 Mn	P17.83 Mn	P332.87 Mn	P19.92 Mn

* *Projected Annual Compensation*

** *Managers and up*

The Company has no other arrangement with regard to the remuneration of its existing directors and officers aside from the compensation received as herein stated.

Options Outstanding

The Company offered the Executive Stock Option Plan (ESOP) to the Company's officers since 1998. Of the above named officers, there were 4.16 million common shares exercised for the year 2004 by the following officers, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Ma. Victoria E.Añonuevo		Various	Various	Various
Raul M. Irlanda		Various	Various	Various
Angela dV. Lacson		Various	Various	Various
Emilio J. Tumbocon		Various	Various	Various
Jaime E. Ysmael		Various	Various	Various
All above-named Officers as a group	4,165,146		4.43 *	5.62 *

* Average prices on the dates of grant.

The Company has not adjusted nor amended the exercise price of the options previously awarded to the above named officers.

Independent Public Accountants

The principal accountants and external auditors of the Company is the accounting firm of SyCip, Gorres, Velayo & Company (SGV & Co.). The same accounting firm is being recommended for re-election at the scheduled annual meeting for the same remuneration as in the previous year.

Representatives of SGV & Co. for the current year and for the most recently completed fiscal year are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Pursuant to Memorandum Circular No. 8, Series of 2003 (Rotation of External Auditors), the Company has not engaged with Ms. Jessica D. Cabaluna, partner of SGV & Co., for more than five years. Ms. Cabaluna was engaged by the Company since 2002 for the examination of the Company's financial statements.

Authorization or Issuance of Securities Otherwise than for Exchange

There are no matters or actions to be taken up in the meeting with respect to authorization or issuance of securities.

Financial and Other Information

(1) The audited financial statements as of 31 December 2004, Management's Discussion and Analysis, Market Price of Shares and Dividends and other data related to the Company's financial information are attached hereto as Annex "B". The Schedules required under Part IV(c) of Rule 68 will be included in the Annual Report (Form 17-A).

(2) Ayala Land, Inc. adopted the following Statement of Financial Accounting Standards (SFAS) which became effective in 2003:

- SFAS No. 12/IAS No. 12, *Income Taxes,* prescribes the Accounting treatment for current and deferred income taxes. The standard requires the use of balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, asset for all temporary differences with certain exceptions. The standard provides for the recognition for a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. The standard also provides for the recognition of deferred income tax liability or (subject to the probability criteria for recognition) deferred tax assets on temporary differences arising from fair value adjustments made on a business combination with a corresponding effect on the determination of the amount of goodwill or negative goodwill. The adoption of SFAS 12/IAS 12 resulted in additional disclosures in the Company's financial statements.

There are no disagreements with accountants on accounting and financial disclosure.

Legal Proceedings

Ayala Land is not involved in any litigation it deems material. However, certain individuals and entities have claimed an interest in Ayala Land's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale. The controversy involves approximately 146 hectares owned by Ayala Land in Las Piñas. As of the year 2004, the Supreme Court has issued two decisions affirming the title of ALI to approximately 21 hectares of these properties.

Prior to purchasing the aforesaid properties, Ayala Land conducted an investigation of the titles to the properties and had no notice of any title or claim that was superior to the titles purchased by Ayala Land. Ayala Land traced its titles to their original certificates of title and Ayala Land believes that it has established its superior ownership position over said parcels of land. Ayala Land has assessed these adverse claims and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, Ayala Land filed petitions in local regional trial courts of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. Certain proceedings are in the process of consolidation for trial and at various stages of trial and appeal.

Ayala Land does not intend to develop and sell its Las Piñas properties until the litigations are resolved.

In addition, Mr. Manuel Sanchez, a stockholder of Capitol Hills Golf & Country Club, Inc. ("CHGCC"), has publicly threatened to file suit against Ayala Land in connection with the joint development by Ayala Land and CHGCC of the Ayala Hillside Estates, a residential subdivision project located in what used to be a portion of the golf course of CHGCC in Diliman, Quezon City. Mr. Sanchez' claims pertain to the alleged lack of corporate approval of the stockholders of CHGCC for the development of CHGCC's property and the alleged irregularities in the issuance by the relevant government agencies of the permits for the project. Ayala Land has been advised that CHGCC has sought and obtained the dismissal of certain of these claims and that the relevant issuing agencies of the government have affirmed that the pertinent permits for the development of the project have been regularly issued.

Ayala Land has made no provision in respect of such actual or threatened litigations.

Action with Respect to Reports

a) Approval of the Minutes of the 2004 Annual Meeting of the Stockholders held on 24 March 2004 covering the following matters:

- i) Annual Report of Officers;
- ii) Ratification and approval of all acts and resolutions of the Board of Directors and the Executive Committee for the fiscal year 2003;
- iii) Election of the Members of the Board of Directors, including Independent Directors; and
- iv) Election of External Auditors and Fixing their Remuneration.

b) Approval of the Annual Report of Management for the year ending 31 December 2004.

Other Proposed Actions

a) Ratification of all acts of the Board of Directors, Executive Committee and Management for the period covering 01 January 2004 through 31 December 2004.

These acts are covered by Resolutions of the Board of Directors duly adopted in the normal course of trade or business, such as:

- i) Approval of projects and investments;
- ii) Treasury matters related to opening of accounts and bank transactions; and
- iii) Appointment of signatories and amendments thereof.

b) Election of the Members of the Board of Directors, including Independent Directors, for the ensuing calendar year.

c) Election of External Auditors and Fixing their remuneration.

Voting Procedures

Vote required:

The vote of stockholders representing at least a majority of the issued and outstanding capital stock entitled to vote is required.

Method: Straight and Cumulative Voting

In all items for approval except election of directors, each share of stock entitles its registered owner to one vote.

In case of election of directors, each stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many nominees as he shall see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the total number of directors to be elected.

If there are more than nine nominees for the 9-member Board of Directors, voting shall be done by secret ballot. If there are only nine nominees, voting will be done by show of hands.

The external auditor of the Company, SyCip Gorres Velayo and Co. (SGV), will validate the ballots when voting is done by secret ballot. Likewise, SGV will count the number of hands raised when voting by show of hands is done.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on 23rd of February 2005.

AYALA LAND, INC.

(SGD.)
by: MERCEDITA S. NOLLEDO
Corporate Secretary

ANNEX "A"
Directors and Executive Officers
(as of 31 December 2004)

The write-ups below include positions currently held by the directors and executive officers, as well as positions held during the past five years.

Board of Directors

Fernando Zobel de Ayala	Ramon R. del Rosario, Jr.
Jaime Augusto Zobel de Ayala II	Delfin L. Lazaro
Jaime I. Ayala	Leandro Y. Locsin, Jr.
Nieves R. Confesor	Mercedita S. Nolledo

***Fernando Zobel de Ayal*a**, 44, has served as Chairman of the Board of Directors of ALI since 1999. He is also an Executive Managing Director for International Operations, Co-Vice Chairman of the Board of Directors and Member of the Executive Committee of Ayala Corporation. His other significant positions include: Chairman of Manila Water Company, Inc., Roxas Land Corporation, Ayala Hotels, Inc., AC International Finance Ltd., and Alabang Commercial Corporation; Vice-Chairman of Ayala International Pte. Ltd.; Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; Director of the Bank of the Philippine Islands, Globe Telecom, Inc., Integrated Microelectronics Inc. (IMI), and Habitat for Humanity International. He graduated with B.A. Liberal Arts at Harvard College in 1982.

Jaime Augusto Zobel de Ayala II, 45, has served as Director and member of the Executive Committee of ALI since 1988. He also serves as the Co-Vice Chairman of the Board of Directors, Member of the Executive Committee and Management Committee and President and CEO of Ayala Corporation; Chairman of the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands, Ayala International Pte. Ltd., Integrated Microelectronics, Inc., and Azalea Technology Investment, Inc. His other significant positions include: Co-Vice Chairman and Trustee of Ayala Foundation, Inc.; Member of the Board of Directors of Asia Pacific Advisory Committee to the New York Stock Exchange, Inc., International Youth Foundation, and World Wildlife Fund; Member of the Board of Trustees of Asian Institute of Management, AIM-Washington Sycip Policy Center, Carlos P. Romulo Foundation for Peace and Development, and Makati Business Club. He graduated with B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA (with Distinction) at the Harvard Graduate School of Business Administration in 1987.

Jaime I. Ayala, 42, has served as Director of ALI since 2004. He also serves as President and CEO of ALI. Concurrently, he is Managing Director of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors of Cebu Holdings, Inc., Cebu Insular Hotel Co., Inc., Makati Development Corp., Laguna Properties Holdings Corp., Station Square East Commercial Corp., and Makati Property Ventures, Inc.; Director of Ayala Greenfield Development Corporation, Aurora Properties, Inc., Vesta Property Holdings, Inc., Roxas Land Corporation, Ayala Land Sales, Inc., Community Innovations, Inc., Alabang Commercial Corp., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation Inc., Ayala Hotels, Inc., Enjay Hotels, Inc., Ayala Infrastructure Ventures, Inc., myAyala.com Inc., Ayala Center Association, Makati Parking Authority and World Wildlife Fund (WWF). Prior to joining ALI, he spent 19 years with McKinsey & Company in the US, Mexico, China, and Southeast Asia. At McKinsey, he was a Director (senior partner) and played a number of global and regional leadership roles, including President of McKinsey's Manila office. He earned his M.B.A. from Harvard School, graduating with honors in 1988. He completed his undergraduate work in 1984 at Princeton University, where he graduated Magna Cum Laude in Economics, with a minor in Engineering.

Nieves R. Confesor, 54, has served as an Independent Director of ALI since 2003. A member of the faculty of the Asian Institute of Management, she also served as Dean of the Institute in 2002 –2004, bringing the institution forward into the community of European and American accredited business schools. She presently serves as Chairman of the Government Peace Panel in the negotiations with the Communist Party of the Philippines-National Democratic Front- New People's Army. She serves as an adviser, external collaborator to the World Bank, the Asian Development Bank, the International Labor Organization, and the ASEAN secretariat as well as private companies like the Metropolitan Bank and Trust Corporation, Philippine National Oil Company, Philippine National Coal Corporation; local and international organizations such as the Philippine Agency for the Improvement of Community and Family, Inc. (PACAF), the Miriam College Foundation, Philippine Youth for Business, the Operating Council of the Global Alliance for Workers based in Washington D.C., USA; the International System for National Agricultural Research. She also served as presidential adviser on Human Resource Development and International Labor Affairs to former Philippine President Fidel V. Ramos, with the personal rank of Ambassador of Extraordinary and Plenipotentiary. She also served as the Philippines' first woman Secretary of Labor and Employment during the Corazon C. Aquino and Fidel V. Ramos administrations. In 1992, in recognition of her excellent service in government, she was named one of the Ten Outstanding Women in the Nation's Service (TOWNS) and received the Outstanding Service Award by the Philippine Civil Service Commission. She holds a Master in Public Policy and Administration from Harvard University in 1990 as an Edward S. Mason Fellow; had her Master in Business Administration from the Graduate School of Business of the Ateneo de Manila University in 1978; took special courses in Labor and Employment and in Asian Studies at the University of the Philippines and in International Economics, Negotiations, Women in Politics at Harvard University. She completed Bachelor of Arts in Literary Studies (Magna Cum Laude and Class Valedictorian) at Maryknoll College in 1971.

Ramon R. del Rosario, Jr., 60, has served as an Independent Director of ALI since 1994. He is President of Philippine Investment Management (PHINMA), Inc., President of Bacnotan Consolidated Industries, Inc., Chairman and CEO of AB Capital and Investment Corporation, Chairman of United Pulp and Paper Co., Inc., Director of Trans-Asia Oil & Energy Development Corporation, Roxas Holdings, Inc., and PSi Technologies, Inc. He served as the Philippines' Secretary of Finance in 1992-1993. He graduated with degrees in BSC-Accounting and AB-Social Sciences (Magna cum Laude) at De La Salle College, Manila in 1967 and earned his Masters in Business Administration at Harvard Business School in 1969.

Delfin L. Lazaro, 59, has served as member of the Board of Directors of ALI since 1996. He is also a Consultant and a member of the Management Committee of Ayala Corporation; Director and Chairman of the Executive Committee of Globe Telecom, Inc.; Director and President of Ayala Infrastructure Ventures, Inc. Formerly, Mr. Lazaro was the President and CEO of Benguet Corporation and Secretary of the Department of Energy of the Philippine government. He was named Management Man of the Year 1999 by the Management Association of the Philippines for his contribution to the conceptualization and implementation of the Philippine Energy Development Plan and to the passage of the law creating the Department of Energy. He was also cited for stabilizing the power situation that helped the country achieve successively high growth levels up to the Asian crisis in 1997. He graduated with BS Metallurgical Engineering at University of the Philippines in 1967 and took his MBA (with Distinction) at Harvard Graduate School of Business in 1971.

Leandro Y. Locsin, Jr., 42, has served as an Independent Director of ALI since 1994. He also serves as Administrator and Design Consultant of Leandro V. Locsin Partners Architects; Senior Vice President of C-J Yulo & Sons and Canlubang Sugar Estate; Director of World Wildlife Fund, Phils., The Beacon School, De La Salle University – Canlubang, Vesta Holdings Corp., The Asian Cultural Council Philippines and Museo Pambata ng Maynila. He graduated with Bachelor of Arts, Double Major in Architecture and Eastern Art History at Wesleyan University, Middletown, Connecticut, USA and had his Masters in Architecture at Harvard University Graduate School of Design, Cambridge, Massachusetts, USA in 1989.

Mercedita S. Nolledo, 63, has served as Director and Corporate Secretary of ALI since 1994. She also serves as Board member, Senior Managing Director and Corporate Secretary of Ayala Corporation, and General Counsel of the Ayala Group of Companies. Her other significant positions include: Director of Ayala Aon Risk Services, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings, Inc., and Bank of the Philippine Islands; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc. (AFI); Director and Treasurer of Aurora Properties Inc., and Vesta Property Holdings Inc. She also serves as Treasurer of Ayala Realty Development Corp. and Roxas Land Corporation. She had her education at University of the Philippines and graduated Magna Cum Laude and Class Valedictorian in Bachelor of Science in Business Administration and Cum Laude and Class Valedictorian in Bachelor of Laws.

Elected to the Board of Directors on 14 February 2005:

Aurelio R. Montinola, III, 53, is the President and CEO of Bank of the Philippine Islands. His other affiliations include: Chairman of the Board of Directors of Amon Trading Corporation; Vice Chairman of the Board of Directors of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; President and Trustee of Alliance Francaise de Manille; Regional Director of MasterCard International; Member of the Board of Directors of Manila Water Company; Member of the Board of Trustees of BPI Foundation, Inc.; and Director of the Bankers Association of the

Philippines. He graduated with BS Management Engineering at Ateneo de Manila University in 1973 and had his MBA at Harvard Business School in 1977.

Management Committee Members / Key Officers

Jaime I. Ayala *	President
Mercedita S. Nolledo*	Corporate Secretary
Vincent Y. Tan	Executive Vice President
Tristan B. dela Rosa **	Senior Vice President
Miriam O. Katigbak	Senior Vice President
Angela dV. Lacson	Senior Vice President
Jaime E. Ysmael	Senior Vice President & Chief Finance Officer
Jose Rene D. Almendras	Vice President
Ma. Victoria E. Añonuevo	Vice President
Dinna G. Bayangos ***	Vice President
Augusto D. Bengzon	Vice President & Treasurer
Bernard Vincent O. Dy ***	Vice President
Raul M. Irlanda	Vice President
Ma. Cynthia H. Poblador	Vice President
Emilio J. Tumbocon	Vice President

* *Members of the Board*
** *Resigned from the Company effective 31 December 2004*
*** *Member of the Management Committee effective 01 January 2005*

Vincent Y. Tan, 54, is Executive Vice-President, member of the Management Committee and Head of the Planning Group of ALI. His other positions include: Chairman of the Board of Laguna Technopark, Inc., CMPI Holdings, Inc. and CMPI Land, Inc.; Vice Chairman of the Board of Directors of Ayalaport, Inc.; President of ALInet.com, Inc.; and Member of the Board of Directors of Ayala Greenfield Development Corporation, Community Innovations, Inc., Station Square East Commercial Corporation, Aurora Properties, Inc., Vesta Property Holdings, Inc., Ayalaport Makati, Inc., myAyala.com, Inc., Metro Rail Transit Corporation, Metro Rail Transit Dev. Corp., Metro Rail Transit Holdings II, Inc., MRT Holdings, Inc. and North Triangle Development Corporation. He graduated with a degree of B.S. Management Engineering (Cum Laude) at the Ateneo de Manila University in 1971 and earned his M.B.A. (Concentration in Management Science and Finance) at the University of Chicago in 1973.

Tristan B. de la Rosa, 53, joined ALI in September 2002 as Senior Vice President. He heads both the Sales and Marketing Services Group and the Land & Community Development Group. A member of the Management Committee of ALI, he is also President of Ayala Land Sales, Inc. Prior to joining ALI, Mr. de la Rosa was Managing Director of Wrigley Philippines, Inc. (1998-2002); and Managing Director and General Manager, respectively, of Johnson & Johnson Hong Kong (1997-98) and Vietnam (1993-96). He graduated as class valedictorian, with a degree of Bachelor of Science in Business Administration and Marketing at the University of the Philippines. Mr. dela Rosa resigned from the Company effective 31 December 2004.

Miriam O. Katigbak, 51, is Senior Vice-President, member of the Management Committee and Head of the Commercial Centers Group of Ayala Land, Inc. (ALI). Her other significant positions include: Director of Cebu Holdings, Inc. and Alabang Commercial Corporation; President of Ayala Theaters Management, Inc., ALI-Concepcion Industries, Inc., Liberty Real Holdings Corp., Five-Star Cinema Corp., South Innovative Theaters Management, Inc.; Vice-President and Director of Leisure Allied Industries (Phils.); Board member of Lagoon Development Corporation and Governor of Ayala Center Association. She graduated with Bachelor of Science in Education, Major in Mathematics at St. Scholastica's College. She took the Management Development Program at Asian Institute of Management in 1993 and at University of Michigan in 1997.

Angela dV. Lacson, 57, joined ALI in July 1999. She is Senior Vice President and Head of the Residential Buildings Group and Core Middle-Income Residential Group of ALI. Her other significant positions include: President & Director of Community Innovations, Inc.; General Manager of Roxas Land Corporation; and Director of Ayala Land, Sales, Inc., Ayala Property Management Corporation, Makati Development Corporation and Laguna Properties Holdings, Inc. Prior to joining ALI, she was Vice President and Marketing Director of San Miguel Brewing Philippines (1998-1999), Marketing Director of the San Miguel Food Group (1996-1997), VP and Division Head of J. Walter Thompson (1995).

She graduated with a degree of Bachelor of Liberal Arts, Major in Mathematics and English Literature (Magna Cum Laude) at the Assumption College.

Jaime E. Ysmael, 44, is Senior Vice President, Chief Finance Officer and member of the Management Committee of Ayala Land, Inc. Concurrently, he is Managing Director of Ayala Corporation and Chief Operating Officer of Ayala Hotels, Inc. His other significant positions include: Director and President of First Communities Realty, Inc.; Director and Treasurer of Alinet.com, Cebu Insular Hotel Co., Inc., Community Innovations, Inc., Enjay Hotels, Inc., Laguna Technopark, Inc. and Makati Property Ventures, Inc.; Treasurer of Ayala Infrastructure; Director of Aurora Properties, Inc., Alabang Commercial Corp., Laguna Phoenix Structures Corp., Makati Theatres, Inc., Station Square East Commercial Corp., and Vesta Properties Holdings, Inc.; and Chief Finance Officer of Roxas Land Corp. He graduated Summa Cum Laude at the University of the East with a degree of Bachelor of Science in Business Administration, Major in Accounting. He holds an M.B.A. degree (Major in Finance) at The Wharton School and an M.A. degree in International Studies at the School of Arts and Sciences of the University of Pennsylvania under The Joseph H. Lauder Institute of Management and International Studies.

Jose Rene D. Almendras, 44, is Vice President assigned to the Visayas-Mindanao group and a member of the Management Committee of ALI. His other significant positions include: President and Director of Cebu Holdings, Inc. and Cebu Property Ventures and Development Corp. since May 2001. He is also the President of City Sports Club Cebu, trustee of the Ramon Aboitiz Foundation, Inc., Director of JDA Agro-Industrial Development Corp. Prior to joining CHI, he served as President and CEO of City Savings Bank and First Vice President of Aboitiz Equity Ventures. He graduated Business Management at Ateneo de Manila University and finished the Strategic Business Economic Program at the University of Asia and the Pacific.

Ma. Victoria E. Añonuevo, 54, is Vice-President and Member of the Management Committee of ALI. She also serves as Head of the Corporate Business Group and the Leisure & Lifestyle Communities Group of ALI, as well as President of Laguna Technopark, Inc. She graduated with a degree of Bachelor of Science in Business Administration, Major in Marketing (Cum Laude) at the University of the Philippines in 1971 and had her Masters in Business Administration at the University of the Philippines in 1975. She was sent by Ayala Land, Inc. as a scholar to the Program for Management Development, Harvard Business School, 1997 in Boston, Massachusetts, USA.

Dinna G. Bayangos, 40, is Vice President and member of the Management Committee of ALI effective 01 January 2005. She is also the President of Laguna Properties Holdings, Inc. Her other significant positions include: Director of Community Innovations, Inc., Makati Development Corp. and Cebu Holdings, Inc. She was also a Senior Divisions Manager at the Residential Buildings Group and an Assistant Vice President and Head of the Corporate Planning Division of ALI. She graduated with a degree of A.B. Major in Economics and B.S.C. Major in Management of Financial Institutions at De La Salle University and took her Masteral in Business Management at the Asian Institute of Management.

Augusto D. Bengzon, 41, joined ALI in December 2004 as Vice President and Treasurer. Prior to joining ALI, he was Vice President and Credit Officer in Global Relationship Banking at Citibank N.A. where he spent sixteen years in various line management roles covering Treasury, Portfolio Management, Structuring, Debt Syndication and Relationship Management. He received his Bachelor of Science degree in Business Management from the Ateneo de Manila University and is a graduate of the Philippine Trust Institute. He was granted a full scholarship by the Asian Institute of Management where he received his Masters in Business Management degree.

Bernard Vincent O. Dy, 41 is Vice President & member of the Management Committee of Ayala Land, Inc. effective 01 January 2005 and currently heads the Land & Community Development Group. His other significant positions include: Director of Fort Bonifacio Development Group and Director of Lagoon Development Corporation. He graduated with a degree of Bachelor of Science in Business Administration from the University of Notre Dame and took up his MBA and Masters in International Relations at the University of Chicago.

Raul M. Irlanda, CFM, 49, is Vice-President, member of the Management Committee, President and board member of Ayala Property Management Corporation. He is the first and only Filipino Certified Facility Manager (CFM) by the International Facility Management Association (IFMA). He is also Governor of Ayala Center Association, Group Head of Ayala Security Force, Director and Vice-President of Tower One Condominium Corporation, and Board Adviser of the College of Technology Management at University of Makati. He graduated with a degree of Bachelor of Science in Management/Finance from San Sebastian College and obtained his Master of Business Administration major in Financial Management from De La Salle University.

***Ma. Cynthia H. Poblador*,** 51, joined ALI in 1991. She is Vice-President, member of the Management Committee and Head of the Legal Division of ALI. She graduated Cum Laude from the University of the Philippines (UP) with a degree of Bachelor of Arts in Political Science in 1974. In1978, she graduated Cum Laude from the UP College of Law. She is currently the Corporate Secretary of Serendra, Inc. and Buendia Land Holdings, Inc.

Emilio J. Tumbocon, 48, is Vice-President, member of the Management Committee and Head of the Construction Group of ALI and concurrently, serves as President & Director of Makati Development Corporation, an wholly owned construction subsidiary of ALI. He is also the President of the Philippine Constructors Association, Inc. (PCA), Director of the Construction Industry Authority of the Philippines (CIAP), Department of Trade & Industry and Board Member of the International Federation of Asia & Western Pacific Contractors' Associations (IFAWPCA) and Asean Contractors Federation (ACF). He graduated at the University of the Philippines with a degree of Bachelor of Science in Civil Engineering (C.E. '79) and graduated in Masters in Business Administration (MBA '85 at the same university. He also took the 1987 Construction Executive Program at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program in 1991 at the University of Asia and the Pacific, and The Executive Program in 1997 at Darden Graduate School of Business Administration, University of Virginia, Charlottesville, Virginia, U.S.A.

ANNEX "B"

I. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

<u>2004 vs. 2003</u>

Results of Operations

Given favorable market response to its high quality and innovative products, Ayala Land posted a record-high consolidated revenues of P18.1 billion, 24% higher than previous year's level. Initiatives to efficiently manage cost cushioned the effects of increasing margin pressure from rising costs, enabling the Company to post an 11% growth in net income to P3.0 billion.

Strong growth was experienced across the Company's various business lines.

Ayala Land's leasing business, derived from shopping centers, office buildings and hotels exhibited good growth due to improving market conditions and superior quality of leased properties and contributed 31% of total revenues.

Shopping centers and office leasing revenues amounted to P3.9 billion, contributed 22% to total and grew by 10% year-on-year. The Company's shopping centers, which benefited from further expansions, high occupancies and strong merchant sales, drove leasing revenues. In the past year, total mall leasable area increased with the opening of Greenbelt 4, completion of SM Makati renovation and start of operations of Market! Market! As of year-end, retail shopping center GLA (excluding hotels) amounted to 730,000 sqms. Weighted average occupancy of shopping centers was 95%, excluding Market! Market! which opened in September and had 82% of its 115,000 sqms leaseable area leased out by year-end. At Ayala Center, which generates the bulk of shopping center revenues, total sales and same-store sales grew by 11% and 8%, respectively, given the increased pedestrian traffic generated by the efficient walkway system and sustained advertising and marketing activities. An escalation in basic rents also contributed to rental revenue growth.

Office leasing remained resilient as seen in the high 94% average occupancy rate enjoyed by the Company-owned buildings. To further increase its office rental revenues, Ayala Land is carving a niche in the build-to-suit office building segment as it addresses the growing demand from call centers and BPO firms. Construction of PeopleSuppport Center and Convergys Center are in full swing and will be completed by April and October, respectively. These buildings will add 30,000 sqms of leasable area and increase the Company's office portfolio by 43% to about 100,000 sqms.

With the hotel sector's marked recovery in 2004, the Company's hotel and serviced apartment properties did well. Revenues from hotel operations contributed 9% of consolidated revenues or P1.5 billion, up 21% year-on-year. Higher visitor arrivals led to significant improvement in occupancies, allowing moderate increases in room rates. Oakwood Premier Ayala Center's average occupancy rate was 89%, significantly higher than previous year's 69% and much better than MCBD hotels' average of 75%. Hotel InterContinental Manila was 71% occupied compared to 66% in 2003. Meanwhile, Cebu City Marriott Hotel posted a high occupancy rate of 85%, also better than Cebu hotels' average of 72%.

In 2004, the Company's development business lines expanded due to new project launches which kept pace with improvements in the property market.

Condominium and high-end residential unit sales generated P3.6 billion in revenues and contributed 20% to total revenues. This is nearly double last year's level as the Company successfully launched Serendra and sold One Legazpi Park receivables which paved the way for an accelerated revenue booking. By end-2004, a total of 1,031 units have been offered for sale at Serendra, 55% of which has been taken up. Higher sales at Montgomery Place and One Roxas Triangle, as well as additional sales and revenue recognition on prior year sales at The Residences at Greenbelt (Laguna Tower), also contributed to the significant revenue increase. The sale of 1,773 sqms of office space at Ayala Life FGU Center in Makati further augmented revenues.

The sale of residential, commercial and industrial lots contributed 16% to consolidated revenues or P2.9 billion, about the same level as last year. At Ayala Greenfield Estates, the completion of the golf course's first nine holes boosted sales, bringing cumulative take-up rate to 91% of the 508 lot offering as of year-end. Steady community build up at Ayala

Westgrove Heights prompted the construction of a neighborhood retail area, bringing take-up rate to 90% of 1,535 lots. At Ayala Hillside Estates, the completion of the 18-hole golf course attracted new buyers and brought the project's take-up rate to 98%. Also contributing to land sales were the 2,997-sqm gas station site in Alabang and a 2,400-sqm lot within the MCBD. At Laguna Technopark, a total of 3.7 hectares were sold in 2004, slightly lower than previous year's 4.1 hectares.

Revenues from mass housing sales through Laguna Properties Holdings, Inc. (LPHI) amounted to P1.8 billion or 10% of total. While LPHI's sales booking increased by 6% to 1,536 units in 2004, mass housing revenues slightly declined by 4% due to the still low revenues recognized from medium-rise condominium projects given their early stage of construction. In addition, there were more high-value commercial lots sold in 2003. LPHI's affordable line accounted for nearly two-thirds of sales volume in 2004. These products, priced at P750,000 to P1.8 million per unit, came primarily from projects like Sta. Catalina Village (Dasmariñas, Cavite), San Francisco Village (Sto. Tomas, Batangas) and Villa Sta. Monica (Lipa, Batangas). LPHI's affordable condominium line, while still a relatively new product, has also been well-received. The first and second towers of One Aeropolis in Sucat, Parañaque were 97% and 76% taken-up, respectively, while newly-launched Aeropolis Two in New Manila, Quezon City was 13% taken-up by year-end.

Revenues from the sale of core-middle income residential units through Community Innovations, Inc. (CII) amounted to P1.3 billion, representing a 97% year-on-year growth and accounting for 7% of Ayala Land's consolidated revenues. Driving growth in the core-mid segment were new sales and construction accomplishment at The Columns. The project's nearly fully sold first tower was topped off while the second and third towers, 78% and 69% taken up as of end-2004, were 49% and 12% complete, respectively. Serendra (District 2) and Verdana Mamplasan, both launched in 2004, also contributed to the growth. Of the 416 lots offered for sale at Verdana Mamplasan, 34% has been taken up. Soon, CII will launch house-and-lot packages within this project.

Two wholly-owned subsidiaries, Makati Development Corporation and Ayala Property Management Corporation, continued to service Company projects. Revenues from construction projects of wholly-owned Makati Development Corporation contributed P1.0 billion, or 5% of consolidated revenues. This represents a 30% year-on-year growth, with various projects for BCDA and Manila Water, as well as Market! Market! and Ayala Greenfield Estates, accounting for the increase.

Interest and other income accounted for 11% of revenues and amounted to P2.1 billion. The 20% increase was due to higher interest income, higher equity earnings from Fort Bonifacio Development Corporation, Cebu Holdings, Inc. and Alabang Commercial Corporation, higher management and marketing fees and gain on sale of shares in some companies.

Financial Condition

A strong balance sheet enabled the Company to launch new projects, pursue expansion plans and fund strategic investments.

Liquidity was preserved, backed by strong cash generation from leasing operations. Cash reserves stood at P6.4 billion as of end-2004, 31% higher than end-2003 level, keeping current ratio at a high level of 1.71:1.

Further enhancing liquidity were the sale of receivables and non-strategic assets which, in 2004, generated P3.2 billion net cash proceeds. This enabled the Company to pare down debt, amidst expanding project offerings, to P13.4 billion, 7% lower than end-2003 level. With a low debt-to-equity ratio of only 0.36:1, the Company has room to gear up for strategic investments.

In 2004, Ayala Land's consolidated project and capital expenditures amounted to P8.1 billion, 47% of which was spent for residential buildings and townhouse projects, primarily Serendra, Montgomery Place, One Legazpi Park and The Residences at Greenbelt. Nearly 30% was used for buildings for lease including Market! Market! and PeopleSupport Center. The balance was used for residential subdivision projects and equity investments. For 2005, Ayala land is allocating a P13.6 billion budget for consolidated project and capital expenditures.

The table below sets forth the comparative key performance indicators of the Company and its majority-owned subsidiaries:

	End-2004	*End-2003*
Current ratio [1]	1.71:1	1.77:1
Debt-to-equity ratio [2]	0.36:1	0.41:1
Net debt-to-equity ratio [3]	0.19:1	0.27:1

	FY 20004	*FY 20003*
Return on assets [4]	4.5%	4.4%
Return on equity [5]	8.5%	7.8%

[1] *Current assets / current liabilities*
[2] *Total interest-bearing debt (inclusive of bonds and CPs) / stockholders' equity*
[3] *Interest-bearing debt less cash & cash equivalents / stockholders' equity*
[4] *Net income / total assets (at the beginning of the year)*
[5] *Net income / stockholders' equity (at the beginning of the year)*

There were no events that trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Likewise, there are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

There are no disagreements with accountants on accounting and financial disclosure.

Looking Ahead

Ayala Land has lined up new projects that will enable the Company to capitalize on emerging opportunities given the anticipated recovery of the property sector. To further strengthen its recurring revenue base, Ayala Land increased its stake in the North Triangle Commercial Center, a 200,000-sqm mall which will commence construction within the first half of 2005. In addition, Phase 1B of Market! Market! with about 35,000 sqms of leasable space will be completed late this year.

On the development side, the Company will soon launch the next phase in Ayala Southvale while the second tower of The Residences at Greenbelt will be offered for sale. Ayala Land will also embark on its first leisure project, a high-end seaside residential resort community to be developed on over 320 hectares of land in Morong, Bataan.

While pursuing new projects, the Company will continue to roll-out new phases in existing projects.

As the Company builds up its product portfolio across a wider market, it will continue to put emphasis on cost efficiency to preserve margins and deliver the best value for money for its customers. The expanded product offerings will be complemented by intensified sales and marketing efforts to broaden market reach and tap the growing market of overseas-based Filipinos.

Material changes (+/- 5% or more) in the financial statements

<u>Income Statement items </u>*- 2004 versus 2003*

25% increase in real estate revenues
Principally due to higher sales bookings at Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Northpoint, Montgomery Place and One Roxas Triangle; sales at newly-launched projects Serendra and Verdana Homes Mamplasan; sale of office spaces at Ayala Life FGU Center in Makati, an office lot within the MCBD and a gasoline station site in Alabang; accelerated revenue booking of installment sales at One Legazpi Park due to the sale of receivables; revenue recognition on prior years' sales due to additional construction accomplishment at One Legazpi Park, The Residences at Greenbelt (Laguna Tower) and The Columns; higher mass housing sales due to new LPHI projects; higher rental revenues from shopping centers due to additional leasable space, increase in basic rent and robust sales of merchants; and higher construction revenues.

21% increase in revenues from hotel operations
Primarily due to higher occupancy and room rates at the Company's hotel properties.

20% increase in interest and other income
Largely due to higher interest income, equity earnings, management fees and marketing fees; and gain on sale of shares in some companies.

35% increase in real estate cost and expenses
Mainly due to higher real estate revenues; Roxas Land Corporation's project cost adjustment; higher RPT, marketing expenses, depreciation expenses for rental properties and insurance; and change in revenue/product mix.

8% increase in hotel operations expenses
Largely due to higher occupancy rates at the Company's hotel properties.

36% increase in general and administrative expenses
Primarily due to higher payroll costs; higher ESOP availments and contributions to retirement fund; and additional expenses from expanding subsidiaries such as Ayala Land Sales, Inc., Community Innovations, Inc. and Serendra, Inc.

13% decrease in interest and other charges
Principally due to the real property tax (RPT) charges in 2003.

58% increase in provision for income tax
Basically due to lower tax in 2003 given the tax deductibility of the RPT charges.

168% decrease in net earnings applicable to minority interest
Largely due to Roxas Land Corporation's loss which resulted from project cost adjustments.

Balance Sheet items - End-2004 versus End-2003

31% increase in cash and cash equivalents
Mainly due to proceeds from the sale of non-core assets and installment receivables, partly offset by the upfront cash payment to BCDA for the Serendra project and loan payments.

65% increase in accounts and notes receivables (current portion)
Primarily due to additional sales from new projects of ALI, Laguna Properties Holdings, Inc. & Community Innovations, Inc.; advances to a subsidiary; and increase in advances to contractors.

20% decline in subdivision land for sale
Mainly due to continued sales at residential subdivision developments such as Ayala Greenfield Estates, Ayala Westgrove Heights, Ayala Hillside Estates, Paseo de Magallanes, Ayala Northpoint and Plantazionne Verdana Homes, as well as industrial park project Laguna Technopark.

11% decrease in condominium and residential units for sale
Largely due to continued sales at residential building projects such as One Legazpi Park, The Residences at Greenbelt (Laguna Tower), The Columns and One Aeropolis.

86% increase in deferred tax and other current assets
Mainly due to higher prepaid expenses and creditable withholding taxes of some subsidiaries.

18% increase in non-current accounts and notes receivables
Largely due to increase in installment sales at various projects.

9% decline in land and improvements
Primarily due to transfer of a formerly unutilized property (now site of Convergys Center) to Investments.

14% increase in investments
Mainly due to the expansion of leasing portfolio through Market! Market!, PeopleSupport Center and Convergys Center, as well as the acquisition of additional stake in the North Triangle Depot Commercial Corporation.

9% increase in other assets
Largely due to increase in prepaid items.

43% increase in accounts payable and accrued expenses
Primarily due to the additional purchases by ALI and some subsidiaries such as Laguna Properties Holdings, Inc., Roxas Land Corporation, Makati Development Corporation and Serendra, Inc.

33% increase in loans payable
Largely due to ALI's STCP issuance and new loan availments of Station Square East Commercial Corporation, Laguna Properties Holdings, Inc., Ayala Greenfield Development Corporation, Roxas Land Corporation, Community Innovations Inc. and Leisure and Allied Industries Phils.

47% increase in income tax payable
Additional income tax payable mainly due to 2004 operations.

17% decline in current portion of long-term debt
Largely due to payment of long-term debt.

24% increase in current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

22% decrease in other current liabilities
Due to payment made to a landowner.

10% decline in long-term debt (net of current portion)
Mainly due to payment and reclassification to current of some long-term debt.

17% increase in non-current liabilities and deposits
Due to increase in tenants' deposits at Market! Market! and higher deferred credits such as DST and transfer taxes.

81% increase in non-current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

16% increase in minority interest
Mainly due to additional share of minority partners in net income of Ayala Greenfield Development Corporation, Leisure and Allied Industries Philippines, Laguna Technopark Inc., Ayala Hotels Inc. and Serendra, Inc.

7% increase in stockholders' equity
Largely due to higher retained earnings from 2004 net income.

Risks

Ayala Land is subject to significant competition in each of its principal businesses. Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and customers for the retail outlets, restaurants and hotels in its commercial centers.

However, Ayala Land believes that, at present, there is no single property company that has a significant presence in all sectors of the property market.

High-End, Middle Income and Mass Housing Developments

With respect to high-end land and condominium sales, Ayala Land competes for purchasers primarily on the basis of reputation, reliability, price and the quality and location of the community in which the relevant site is located. For the middle income and mass housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing.

Office Space, Retail and Land Rental

With no new supply of office space in the Makati Central Business District since 2003, office rental rates are slowly improving. With respect to its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building's owner, the quality of support services provided by the property manager, and rental and other charges.

With respect to its retail properties, Ayala Land competes for tenants primarily based upon the ability of the relevant retail center to attract customers - which generally depends on the quality and location of, and mix of tenants in, the relevant retail center and the reputation of the owner of the retail center- and rental and other charges. The market for shopping centers has become especially competitive and the number of competing properties is expected to grow. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers (including the commercial center constructed by its affiliate, Cebu Holdings, Inc. in Cebu Business Park).

Industrial Property Business

The industrial property business is affected by an oversupply as well as limited industrial expansion and declining foreign investments. The entry of China into the World Trade Organization in 2003 is still expected to pose strong competition for foreign direct investment. Overall, the industrial property segment is not likely to show significant demand improvement in the medium term.

Hotel Operations

After a slump of several years, the local hotel sector experienced marked growth in both occupancy and rental rates. The Company's hotels, known for their premium value and service, performed strongly in each of their respective markets.

Infrastructure, Construction and Property Development

Ayala Land's construction business is benefiting from the improved performance of the construction industry, particularly from an uptick in development activities mostly from the housing and retail sector.

Other risks that the company may be exposed to are the following:

- Changes in Philippine and international interest rates, with respect to Ayala Land's borrowings
- Changes in the cost of construction materials, whether local or imported
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions
- Changes in the value of the Peso

To mitigate the above mentioned risks, Ayala Land shall continue to adopt appropriate risk management tools as well as conservative financial and operational controls and policies to manage the various business risks it faces.

2003 vs. 2002

Results of Operations

Ayala Land continued to maintain its preeminent position in traditional markets while vigorously pursuing available opportunities in emerging growth areas. This enabled the Company to post an 8% growth in net income to P2.71 billion derived from consolidated revenues of P14.62 billion, 20% higher than previous year's level.

The Company's leasing portfolio performed well with an 8% increase in rental revenues to P3.59 billion, contributing 24% to total revenues. Rental revenues from commercial centers, primarily driven by Ayala Center, contributed nearly 80% to total rentals. With the full year operations of Greenbelt 2 and 3, as well as the opening of Greenbelt 4 in the fourth quarter, total sales at Ayala Center grew by 6% year-on-year. Ayala Center maintained a high occupancy rate of 95% and attracted more mall visitors as new stores opened. Meanwhile, the Company's office properties also did well, with high occupancy rates averaging at 95%. These properties continued to command premium pricing given their superior location, better quality and high level of property management.

Land sales also drove revenues, contributing P2.85 billion, or 19% of total revenues. This represents a 35% increase year-on-year, primarily due to higher sales bookings at Ayala Westgrove Heights, Ayala Hillside Estates and Plantazionne Verdana Homes. At the end of the year, take up rates were 86% of 1,329 lots at Westgrove, 84% of 121 ALI-owned lots at Hillside and 71% of 159 lots at Plantazionne. Industrial lot sales were also higher as Laguna Technopark sold seven lots with a total area of 4.1 hectares in 2003 versus one lot with an area of 0.6 hectare in the previous year. Also pushing revenues from land sales were the two Madrigal Business Park lots sold in the first quarter. Further augmenting lot sales were other subdivision projects such as Ayala Greenfield Estates, Paseo de Magallanes and Tamarind Cove.

With the strong performance of Ayala Land's new condominium projects, revenues from residential unit sales grew by 20% to P1.88 billion, accounting for 13% of consolidated revenues. Launched in June, the 249-unit The Residences at Greenbelt – Laguna Tower met favorable market response as seen in the take-up rate of 61% by year-end. One Legazpi Park was nearly fully sold with a 96% take-up rate. Contributions from these two projects, however, were tempered by the revenue recognition process which takes into account the completion rate of the buildings. At the end of 2003, The Residences at Greenbelt – Laguna Tower was 3% complete while One Legazpi Park's completion rate was at 34%. Meanwhile, the Company also realized additional sales at One Roxas Triangle, Ferndale Homes and Montgomery Place.

Through Laguna Properties Holdings, Inc. (LPHI), Ayala Land continued to address the underserved demand for mass housing. With intensified sales efforts, LPHI's sales bookings in 2003 totaled 1,451 units, 29% higher than previous year's 1,121. Revenues grew by 31% to P1.86 billion, representing 13% of consolidated revenues. During the year, LPHI ventured into its first medium-rise residential building project, One Aeropolis in Sucat, Parañaque, as well as Sta. Arcadia Estates, its first mass housing project in Northern Luzon. At the end of 2003, 82% of the 240 units at the first tower of One Aeropolis, soft launched in June, was taken up, leading to the launch of the 2nd tower in November. Sta. Arcadia Estates, launched in October, posted a 16% take-up rate for its 167-unit initial phase.

The core-middle income residential segment, through Community Innovations, Inc. (CII), contributed P658 million or 5% to total revenues. With Verdana Homes' full sell-out in 2003, CII focused on the sale of The Columns, its three-tower residential complex within Makati. Given encouraging market response in the first two towers, the third tower was launched ahead of schedule in November. By year-end, take-up rates were posted at 93%, 71% and 13% for the first, second and third tower, respectively. To complete the community offering at Verdana Homes, CII launched the Verdana Village Center in the third quarter. Five out of the 18 commercial lots put on the market were sold as of year-end.

Revenues from hotel operations contributed 9% to total revenues or P1.28 billion, slightly lower by 2%, reflecting reduced occupancy rates and lower room rates of hotels at the Makati Central Business District in general. Average occupancy rates at Hotel Intercontinental Manila and Oakwood Premier Ayala Center, both at 75% in 2002, declined to 66% and 69%, respectively. Partly cushioning the Company's hotel revenues, however, was Cebu City Marriott Hotel which posted an improved average occupancy rate of 76% from 65% in the previous year, as well as higher room rates. Compared to their respective markets, Ayala Land's hotel portfolio still did better in terms of occupancy. Makati hotels' average occupancy rate was at 63% while occupancy rates at Cebu hotels averaged at 66%.

Construction arm Makati Development Corporation contributed P759 million or 5% to consolidated revenues. This represents an 18% decline year-on-year as opportunities in the construction sector continued to be limited.

Financial Condition

During the year, Ayala Land pursued new strategic projects and investments, including the acquisition of a controlling stake in Bonifacio Land Corporation (BLC) in April. This assures the Company ample supply of prime lot inventory for future developments. Given the Company's continuing investments, total assets grew by 8% year-on-year to P67.01 billion as of end-2003.

Meanwhile, stockholders' equity leveled at P35.27 billion, slightly lower than previous year's level, primarily due to the special cash dividend of P0.26 per share paid to stockholders in the fourth quarter. The increased dividend yield is part of the Company's continuing effort to reduce its capital base in tandem with its ongoing asset rationalization program.

Ayala Land's excellent financials and credit standing were reflected in the successful issuance of the P2.0 billion five-year bonds in November. The bond issue received the highest possible rating of PRS Aaa from Philratings and found strong support from investors. This borrowing, together with new bank loans, brought total borrowings to P14.38 billion by end-2003. While this is higher than end-2002 level of P10.87 billion, the Company's bank debt-to-equity and net debt-to-equity ratios were still at comfortable levels of 0.41:1 and 0.27:1, respectively. Ayala Land remained highly liquid with a current ratio at 1.78:1. In addition to the sale of non-strategic assets, liquidity was enhanced by sale of seasoned installment receivables to banks on a no-recourse basis.

In 2003, Ayala Land (parent company) disbursed P5.2 billion or 66% of the P7.9 billion project and capital expenditures budget for the year. These disbursements included the P2.6 billion investment in BLC. The rest were spent on residential building projects, commercial centers, residential subdivision projects and office building improvements.

Looking Ahead

Notwithstanding continued market uncertainties, the Company has lined-up projects to tap available market opportunities. In the retail segment, Ayala Land expects to break ground on the 200,000-sqm North Triangle Commercial Center in Quezon City within 2004 while Phase 1A of Market! Market! will be completed later in the year. Likewise, development will commence on a residential enclave being planned for the 8.5-hectare Lot B in Fort Bonifacio area, a joint venture with the Bases Conversion Development Authority. Answering the demand from call centers and business process outsourcing firms, in March, Ayala Land will break ground for the People Support Center, a 5-storey building in Makati with over 15,000 sqms of office space. New residential projects for the middle-income market will be introduced in various locations by CII and LPHI.

Ayala Land (parent company) is allocating a budget of P5.6 billion for project and capital expenditures in 2004. About P2.4 billion or 43% is earmarked for projects, primarily for residential buildings and high-end residential subdivisions. The balance of P3.2 billion or 57% is allocated for capital expenditures, primarily for investments in commercial centers and office buildings, as well as equity investments in various subsidiaries.

Material Changes in the 2003 Financial Statements
(increase/decrease of 10% or more versus 2002)

Income Statement items – FY2003 versus FY2002

18% increase in real estate revenues
Principally due to sales of new projects such as Ayala Hillside Estates, Plantazionne Verdana Homes, One Legazpi Park, The Residences at Greenbelt (Laguna Tower), The Columns and new mass housing projects; higher sales bookings at Ayala Westgrove Heights and Ferndale Homes; lot sales at Madrigal Business Park and Laguna Technopark in 2003; and higher rental revenues from shopping centers given new spaces at Greenbelt 2 & 3 as well as escalation in basic rent.

66% increase in interest and other income
Mainly due to gain on sale of shares of a landholding company and higher interest income from installment sales of mass housing projects.

27% increase in real estate cost and expenses
Mainly due to higher real estate revenues and change in revenue/product mix.

17% increase in general and administrative expenses
Primarily due to professional fees, higher payroll costs and ad & promo expenses; and additional expenses from new subsidiaries such as Ayala Land Sales, Inc. and Community Innovations, Inc.

118% increase in interest and other charges
Principally due to payment of unpaid balances in real estate property taxes, higher consolidated debt and higher effective interest rate.

30% decrease in provision for income tax
Basically due to lower taxable income as a result of the higher general and administrative expenses and interest and other charges.

273% increase in net earnings applicable to minority interest
Largely due to higher net income from Laguna Technopark, Inc.

Balance Sheet items – End-2003 versus End-2002

15% decrease in cash and cash equivalents
Mainly due to the investment in Bonifacio Land Corporation and special cash dividends; partly offset by proceeds from the bond issuance and sale of non-strategic properties and investments.

14% increase in current portion of accounts and notes receivables
Primarily due to the increase in real estate sales.

21% increase in condominium and residential units for sale
Mainly due to the construction progress at new residential building projects such as One Legazpi Park, The Residences at Greenbelt (Laguna Tower) and The Columns.

31% increase in deferred tax and other current assets
Due to higher input VAT and creditable withholding tax.

35% increase in non-current accounts and notes receivables
Largely due to increase in installment sales at various projects.

21% increase in investments
Primarily due to the investment in Bonifacio Land Corporation, additional construction costs for Market! Market! and Greenbelt redevelopment, and acquisition of the former Ayala Museum site from Ayala Corporation.

25% decline in loans payable
Principally due to short-term loan repayment.

79% decline in income tax payable
Mainly due to lower income subject to the 32% corporate income tax.

331% increase in current portion of long-term debt
Largely due to reclass of maturing principal amortization of long-term debt.

71% increase in current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

34% increase in long-term debt (net of current portion)
Principally due to bond issuance and new long-term loan availments.

12% increase in non-current liabilities and deposits
Largely due deposits from new tenants/merchants at Ayala Center.

68% increase in non-current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

II. Market Price of and Dividends on the Registrant's Common Equity

Market Price

Philippine Stock Exchange
Prices (in PhP/share)

	High		Low		Close	
	2004	2003	2004	2003	2004	2003
First Quarter	6.50	5.30	4.90	4.35	5.30	4.55
Second Quarter	5.90	6.60	5.20	4.50	5.80	6.00
Third Quarter	6.60	6.90	5.20	5.70	6.50	6.30
Fourth Quarter	7.30	6.70	6.30	5.30	7.30	6.10

The market capitalization of ALI as of end-2004, based on the closing price of P7.30/share, was approximately P78.6 billion.

The price information as of the close of the latest practicable trading date, 23 February 2005, is P9.00.

Dividends

STOCK DIVIDEND (Per Share)			
PERCENT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
20%	April 15, 1998	May 7, 1998	June 19, 1998
20%	April 26, 2000	May 16, 2000	June 26, 2000

CASH DIVIDEND (Per Share)			
PESO AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
0.03	June 20, 2003	July 25, 2003	August 20, 2003
0.26	August 27, 2003	September 26, 2003	October 22, 2003
0.03	December 5, 2003	December 23, 2003	January 16, 2004
0.03	July 27, 2005	August 13, 2004	August 27, 2004
0.03	December 7, 2004	December 28, 2004	January 25, 2005

Dividend policy

Dividends declared by the Company on its shares of stocks are payable in cash or in additional shares of stock. The payment of dividends in the future will depend upon the earnings, cash flow and financial condition of the Company and other factors.

Cash dividends are subject to approval by the Company's Board of Directors but no stockholder approval is required. Property dividends which may come in the form of additional shares of stock are subject to approval by both the Company's Board of Directors and the Company's stockholders.

Holders

There are approximately 13,518 holders of common equity security of the Company as of 18 February 2005. The following are the top 20 holders of the common equity securities of the Company:

	Stockholder Name	**No. of Common Shares**	**Percentage (of Common Shares)**
1.	Ayala Corporation	6,695,182,595	62.08%
2.	PCD Nominee Corp. (Non-Filipino)	2,823,342,539	26.18%
3.	PCD Nominee Corp. (Filipino)	816,443,693	7.57%
4.	The Insular Life Assurance Co., Ltd.	47,354,311	0.44%
5.	Social Security System	18,873,388	0.17%
6.	Jose Luis Gerardo Yulo	12,176,572	0.11%
7.	Cygnet Development Corporation	12,131,320	0.11%
8.	BPI T/A #14016732	10,103,870	0.09%
9.	Pua Yok Bing	6,131,619	0.06%
10.	Elvira L. Yulo	6,020,000	0.06%
11.	BPI T/A #14016724	4,940,340	0.04%
12.	Abacus Capital & Investment Corp.	4,820,000	0.04%
13.	Estrellita B. Yulo	4,777,353	0.04%
14.	Rivercrest Realty Corporation	4,705,000	0.04%
15.	The Insular Life Assurance Co., Ltd.	4,521,800	0.04%
16.	BPI T/A #14016783	4,502,282	0.04%
17.	Carlos D. Apostol	4,285,840	0.04%
18.	Vincent Y. Tan	3,758,419	0.04%
19.	Maria Alexandra Q. Caniza	3,775,855	0.04%
20.	Apex Mgt. & Dev. Group, Inc.	3,600,600	0.03%

III. Recent Sale of Securities

Within the past three years, the Company issued 63.375 million common shares to Ayala Corporation on 28 November 2003 in exchange for the old Ayala Museum lot of Ayala Corporation. The following valuations were used in the exchange of the Company's shares for the old Museum lot, to wit:

1. ALI shares: P8.40 per share which is 29% above the 19 August 2003 closing price; and
2. Museum lot: P227,500 per sq.m. This is the average of the appraised values determined by Asian Appraisal Company, Inc. and Cuervo Appraisers as of 02 June 2003.

AB Capital and Investment Corporation was commissioned to determine the valuation that will be used in the exchange of the old Museum lot with an area of 2,340 sq.m. and the 63.375M new common shares of the Corporation.

An exemption from registration was claimed with the SEC under Section 10.1 (e) of the SRC, "The sale of capital stock of a corporation to its own stockholders exclusively, where no commission or other remuneration is paid or given directly or indirectly in connection with the sale of such capital stock."

There was a total of 12.8 million shares issued in 2004 representing exercise of stock options by the Company's executives. The aforesaid issuance of shares was covered by the Commission's approval of the Company's Stock Option Plan on July 1991.

IV. Compliance with leading practice on Corporate Governance

The Company adopted the Manual of Corporate Governance and full compliance with the same has been made since the adoption of the Manual, except for the following:

(i) Development of mechanisms to monitor the performance of the Board
(The Company is in the process of developing a mechanism to review the performance of the Board)

The Company is taking further steps to enhance adherence to principles and practices of good corporate governance.

Upon the written request of the stockholders, the Corporation undertakes to furnish said stockholder with a copy of SEC Form 17-A free of charge. Any written request for a copy of SEC Form 17-A shall be addressed to the following:

Ayala Land, Inc.
29/F Tower One Bldg.
Ayala Triangle
Ayala Avenue, Makati City

Attention: **Mr. Jaime E. Ysmael**
Senior Vice President & Chief Finance Officer

Nature and Scope of Business

The Company is engaged principally in the planning, development and marketing of large-scale communities having a mix of residential, office, commercial and other uses. The Company, through its various subsidiaries, is also engaged in the development and sale of industrial lots, as well as the development of hotels and serviced apartments. It also constructs office and/or residential condominiums and buildings for sale and/or lease. It has also begun to develop, high-end house-and-lot packages at its residential developments and, through its subsidiaries, continues to develop and sell core middle-income residential products, mass housing units and farm/hacienda lots.

The Company is also engaged in the development of commercial centers and leases to third parties retail space and land therein. Through its subsidiaries, it operates movie theaters in these commercial centers and has ventured into the operation of food court and entertainment facilities to complement its commercial center operations. The Company also operates myAyala.com, an online shopping venue.

The Company, through its subsidiary Makati Development Corporation, which is primarily responsible for the horizontal land development of its projects and those of its subsidiaries, also provides third party construction services for industrial building and government infrastructure projects. The Company is also into property management through subsidiary Ayala Property Management Corporation.

In support of its real estate business, ALI ventured into infrastructure development through its stake in MRT-3. The Company will also undertake leisure community development.

COVER SHEET

1 5 2 7 4 7

SEC Registration Number

A Y A L A   L A N D ,   I N C .   A N D   S U B S I D I A R I E S

(Company's Full Name)

T o w e r   O n e ,   A y a l a   T r i a n g l e ,   A y a l a

A v e n u e ,   M a k a t i   C i t y

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

Ma. Teresa S. Palma

(Contact Person)

848-5772

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Fiscal Year)

A A F S

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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AYALA LAND, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2004 and 2003
and Years Ended December 31, 2004, 2003 and 2002

and

Report of Independent Auditors

Report of Independent Auditors

The Stockholders and the Board of Directors
Ayala Land, Inc.

We have audited the accompanying consolidated balance sheets of Ayala Land, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

February 14, 2005

SGV & Co

■ SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

■ Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Ayala Land, Inc.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited the accompanying consolidated balance sheets of Ayala Land, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ayala Land, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Jessie D. Cabaluna
Partner
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SEC Accreditation No. 0012-F

Report of Independent Auditors
On Supplementary Schedules

Ayala Land, Inc.
Tower One, Ayala Triangle
Ayala Avenue, Makati City

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of Ayala Land, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated February 14, 2005. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rules 68 and 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 1195834, January 3, 2005, Makati City

February 14, 2005

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**₱6,360,187**	₱4,854,920
Accounts and notes receivable - net (Notes 4 and 14)	**7,451,087**	4,506,321
Subdivision land for sale	**3,103,188**	3,884,117
Condominium and residential units for sale	**2,900,011**	3,263,767
Other current assets (Note 5)	**1,054,097**	580,214
Total Current Assets	**20,868,570**	17,089,339
Noncurrent Assets		
Noncurrent accounts and notes receivable (Notes 4 and 14)	**6,444,706**	5,458,708
Land and improvements (Note 9)	**17,308,817**	19,065,290
Investments - net (Notes 6, 9, 11 and 22)	**25,935,443**	22,712,299
Property and equipment - net (Note 7)	**1,500,584**	1,514,522
Deferred tax assets (Note 13)	**649,478**	656,824
Other noncurrent assets	**641,007**	515,070
Total Noncurrent Assets	**52,480,035**	49,922,713
	₱73,348,605	₱67,012,052
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 8)	**₱5,738,741**	₱4,023,475
Short-term debt (Note 9)	**1,936,750**	1,457,000
Income tax payable	**165,869**	112,507
Current portion of:		
Long-term debt (Note 9)	**1,110,738**	1,335,995
Estimated liability for land and property development	**3,043,026**	2,445,702
Other current liabilities	**194,000**	249,820
Total Current Liabilities	**12,189,124**	9,624,499
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 9)	**10,389,295**	11,588,299
Deferred tax liabilities (Note 13)	**930,559**	784,052
Noncurrent liabilities and deposits (Note 10)	**3,117,716**	2,670,732
Estimated liability for land and property development - net of current portion	**2,225,086**	1,228,484
Total Noncurrent Liabilities	**16,662,656**	16,271,567
Total Liabilities	**28,851,780**	25,896,066
Minority Interest in Consolidated Subsidiaries	**6,771,370**	5,842,715
Stockholders' Equity (Notes 11 and 17)		
Paid-up capital	**14,368,670**	14,278,780
Retained Earnings	**23,357,342**	20,995,048
Treasury Stock	**(557)**	(557)
Total Stockholders' Equity	**37,725,455**	35,273,271
	₱73,348,605	₱67,012,052

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2004	2003	2002
REVENUE			
Real estate (Notes 14 and 21)	**₱14,494,506**	₱11,602,680	₱9,860,057
Hotel operations	**1,549,217**	1,282,325	1,308,957
Equity in net earnings of investees, interest, fees, investment and other income (Notes 6 and 14)	**2,083,068**	1,738,927	1,045,119
	18,126,791	14,623,932	12,214,133
COSTS AND EXPENSES			
Real estate (Notes 12 and 14)	**9,341,652**	6,910,722	5,458,797
Hotel operations (Note 12)	**1,153,949**	1,068,433	1,080,195
General and administrative expenses (Notes 12 and 14)	**2,100,207**	1,540,510	1,313,540
Interest and other charges (Notes 9 and 12)	**1,327,665**	1,517,493	695,130
Provision for income tax (Note 13)	**1,252,526**	793,102	1,125,278
	15,175,999	11,830,260	9,672,940
INCOME BEFORE NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST	**2,950,792**	2,793,672	2,541,193
NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST	**(57,680)**	84,517	22,678
NET INCOME	**₱3,008,472**	₱2,709,155	₱2,518,515
Earnings Per Share (Note 16)			
Basic	**₱0.28**	₱0.25	₱0.24
Diluted	**0.28**	0.25	0.24

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Amounts in Thousands, Except Par Value and Cash Dividends Per Share)

	Years Ended December 31		
	2004	2003	2002
CAPITAL STOCK - ₱1 par value (Note 11)			
Issued			
Balance at beginning of year	**₱10,760,802**	₱10,691,879	₱10,691,832
Issuance of shares	**–**	63,375	47
Stock options exercised	**13,387**	5,548	–
Balance at end of year	**10,774,189**	10,760,802	10,691,879
Subscribed (Notes 11 and 17)			
Balance at beginning of year	**1,728**	1,842	1,499
Issuance of shares	**(547)**	(114)	–
Stock options exercised	**–**	–	343
Balance at end of year	**1,181**	1,728	1,842
ADDITIONAL PAID-IN CAPITAL (Note 17)			
Balance at beginning of year	**3,526,221**	3,018,990	3,013,769
Issuance of shares	**–**	468,975	–
Stock options exercised	**71,598**	38,256	5,221
Balance at end of year	**3,597,819**	3,526,221	3,018,990
SUBSCRIPTIONS RECEIVABLE (Note 17)			
Balance at beginning of year	**(9,971)**	(16,587)	(22,266)
Collections	**5,452**	6,616	5,679
Balance at end of year	**(4,519)**	(9,971)	(16,587)
TOTAL PAID-UP CAPITAL	**14,368,670**	14,278,780	13,696,124
RETAINED EARNINGS (Note 11)			
Appropriated for future expansion	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**14,995,048**	15,711,434	15,438,180
Cash dividends - ₱0.06 per share in 2004, ₱0.32 per share in 2003 and ₱0.21 per share in 2002	**(646,178)**	(3,425,541)	(2,245,261)
Net income	**3,008,472**	2,709,155	2,518,515
Balance at end of year	**17,357,342**	14,995,048	15,711,434
	23,357,342	20,995,048	21,711,434
TREASURY STOCK (Note 11)	**(557)**	(557)	(557)
	₱37,725,455	₱35,273,271	₱35,407,001

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and net earnings (loss) applicable to minority interest	**₱4,203,318**	₱3,586,774	₱3,666,471
Adjustments for:			
Depreciation and amortization	**937,465**	801,677	810,303
Interest expense - net of amount capitalized	**916,987**	878,939	685,085
Provision for doubtful accounts	**25,370**	12,210	37,003
Dividends received from investee	**19,035**	18,460	10,500
Interest income	**(659,442)**	(535,830)	(696,926)
Equity in net earnings of investees	**(295,941)**	(128,417)	(37,195)
Gain on sale of investments	**(220,377)**	(552,582)	-
Operating income before changes in working capital	**4,926,415**	4,081,231	4,475,241
Decrease (increase) in:			
Accounts and notes receivable - trade	**(3,442,917)**	(1,302,371)	(1,788,714)
Subdivision land for sale	**725,698**	(104,447)	406,244
Condominium and residential units for sale	**736,937**	229,843	1,728,329
Other current assets	**(473,883)**	(98,737)	99,992
Increase (decrease) in:			
Accounts payable and accrued expenses	**1,723,122**	243,016	(1,067,411)
Other current liabilities	**(55,820)**	25,559	64,309
Estimated liability for land and property development	**1,593,926**	1,514,998	656,338
Cash generated from operations	**5,733,478**	4,589,092	4,574,328
Interest received	**426,141**	349,674	390,461
Income tax paid	**(1,045,311)**	(1,328,544)	(911,576)
Interest paid - net of amount capitalized	**(925,328)**	(893,205)	(643,763)
Net cash provided by operating activities	**4,188,980**	2,717,017	3,409,450
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	**1,340,031**	289,899	–
Proceeds from disposal of property and equipment	**28,489**	69,599	36,541
Additions to:			
Land and improvements	**(72,896)**	(148,891)	(23,179)
Investments	**(2,547,667)**	(3,466,896)	(2,121,065)
Property and equipment	**(329,228)**	(369,449)	(413,143)
Decrease (increase) in:			
Accounts and notes receivable - non-trade	**(153,021)**	(500,017)	386,227
Other noncurrent assets	**(279,916)**	16,050	81,770
Net cash used in investing activities	**(2,014,208)**	(4,109,705)	(2,052,849)

(Forward)

	Years Ended December 31		
	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short and long-term debt	**₱2,547,480**	₱7,677,764	₱6,740,399
Payment of short and long-term debt	**(3,491,991)**	(4,170,968)	(6,785,929)
Increase (decrease) in:			
Noncurrent liabilities and deposits	**446,984**	318,780	21,854
Minority interest in consolidated subsidiaries	**383,825**	81,709	(122,804)
Proceeds from issuance of capital stock	**89,890**	50,306	11,289
Dividends paid	**(645,693)**	(3,423,478)	(2,245,246)
Net cash provided by (used in) financing activities	**(669,505)**	534,113	(2,380,437)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,505,267**	(858,575)	(1,023,836)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,854,920**	5,713,495	6,737,331
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱6,360,187**	₱4,854,920	₱5,713,495

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Ayala Land, Inc. (the Company) is incorporated in the Republic of the Philippines. The Company's registered office and its principal place of business is at Tower One, Ayala Triangle, Ayala Avenue, Makati City. The Company's parent is Ayala Corporation (AC).

The Company is incorporated to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, residential including, but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; to acquire, purchase, hold, manage, develop and sell subdivision lots, with or without buildings or improvements; to erect, construct, alter, manage, operate, lease, in whole or in part, buildings and tenements of the Company or of other persons; and to engage or act as real estate broker.

The number of employees of the Company and its subsidiaries averaged to 1,315 in 2004 and 1,488 in 2003.

The consolidated financial statements of Ayala Land, Inc. and Subsidiaries for the years ended December 31, 2004 and 2003 were authorized for issue by the Audit Committee and Board of Directors on February 14, 2005.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis.

Use of Estimates
The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the Philippines which requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Adoption of New Accounting Standards

On January 1, 2004, the Company and its subsidiaries adopted the following Statements of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS):

- SFAS 12/IAS 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred income taxes. The adoption of SFAS 12/IAS 12 resulted in the reclassification of the current deferred tax assets and liabilities to noncurrent deferred tax assets and liabilities, and in additional disclosures in the consolidated financial statements.

- SFAS 17/IAS 17, *Leases*, which prescribes the accounting policies and disclosures applicable to finance and operating leases. Adoption of this standard has no material effect on the consolidated financial statements. Additional disclosures were made in 2004.

Basis of Consolidation

Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

The consolidated financial statements represent the consolidation of the financial statements of the Company and the following wholly owned and majority-owned subsidiaries:

	Effective Percentages of Ownership	
	2004	2003
Real Estate:		
Amorsedia Development Corporation and subsidiaries	**100%**	100%
OLC Development Corporation	**100**	100
Ayala Greenfield Development Corporation (AGDC)	**50**	50
Ayala Land Sales, Inc.	**100**	100
Buendia Landholdings, Inc.	**100**	100
Community Innovations, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Laguna Properties Holdings, Inc. and subsidiaries	**100**	100
Regent Time International, Limited (Regent)	**100**	100
Red Creek Properties, Inc.	**100**	100
Station Square East Commercial Corporation - formerly Liberty Real Holdings Corporation - (SSECC)	**72**	80
Aurora Properties Incorporated	**70**	70
Vesta Property Holdings, Inc.	**70**	70
Serendra, Inc. - formerly First South Properties, Inc. - (Serendra)	**67**	100
Ceci Realty, Inc.	**62**	100
Laguna Technopark, Inc.	**61**	61
CMPI Holdings, Inc.	**60**	60
ALI-CII Development Corporation (ALI-CII)	**50**	50
Roxas Land Corporation (RLC)	**50**	50
Construction:		
Makati Development Corporation	**100**	100

(Forward)

	Effective Percentages of Ownership	
	2004	2003
Hotels:		
Ayala Hotels, Inc. (AHI) and subsidiaries	**50%**	50%
Property Management:		
Ayala Property Management Corporation	**100**	100
Ayala Theatres Management, Inc. and subsidiaries	**100**	100
Entertainment:		
Five Star Cinema, Inc.	**100**	100
Leisure and Allied Industries Philippines, Inc. (LAI)	**50**	50
Others:		
ALInet.com, Inc. (ALInet)	**100**	100
Ayala Infrastructure Ventures, Inc.	**100**	100
Food Court Company, Inc.	**100**	100

AC owns the other 50% of AHI and subsidiaries. The Company exercises control over AHI and subsidiaries. Likewise, the Company, through its 50% effective ownership and by virtue of a management contract or shareholders' agreement, exercises control over the operations and management of RLC, AGDC, ALI-CII and LAI. Accordingly, the accounts of AHI, RLC, AGDC, ALI-CII and LAI are consolidated with the accounts of the Company.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in consolidation.

Cash and Cash Equivalents

Cash includes cash on hand and cash in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Trade Receivables

Trade receivables are recognized and carried at the original contract price or invoice amount less any unrealized gain, as applicable, and allowance for any uncollectible amounts. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Subdivision Land for Sale and Condominium and Residential Units for Sale

Subdivision land for sale and condominium and residential units for sale are carried at the lower of cost or net realizable value (estimated selling price less cost to complete and sell). Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs.

Land and Improvements
Land and improvements are carried at the lower of aggregate cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs. The aggregate net realizable value on a per location basis is substantially in excess of costs.

Investments
Investments in associates and joint ventures are accounted for under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is an entity, not being a subsidiary or an associate, in which the Company exercises joint control together with one or more other partners.

Investments in associates and joint ventures are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Company and its subsidiaries' share in the net assets of the investees, less any impairment in value. The consolidated statements of income reflect the Company and its subsidiaries' share on the results of operations of these investees. Unrealized gains arising from intercompany transactions are eliminated to the extent of the Company and its subsidiaries' interest thereon. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction in the carrying value of the investments.

The Company and its subsidiaries discontinue applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Company and its subsidiaries have guaranteed certain obligations of the associate. When the associate subsequently reports net income, the Company and its subsidiaries will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The Company's investments in associates include goodwill on acquisition (net of accumulated amortization and any impairment in value). Goodwill represents the excess of the cost of acquisition over the fair value of identifiable net assets of the associate at the date of acquisition. Goodwill is amortized on a straight-line basis over a ten-year period. Goodwill is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Company and Regent's acquisition of Bonifacio Land Corporation (BLC) shares (see Note 6) was accounted for using the purchase method. Negative goodwill representing the excess, as at the date of acquisition, of the Company and Regent's interest in the fair value of identifiable net assets of BLC over the cost of acquisition is amortized to income as the underlying lots are sold.

Investments in shares of stock in which the Company and certain subsidiaries do not exercise significant influence and investments in land are carried at cost less any substantial and presumably permanent decline in aggregate carrying value of the related investments.

Investments in real properties consisting of land improvements, buildings and hotel property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. All costs that are directly attributable to the construction of the building and hotel property and equipment are capitalized, including interest during construction period. Amortization and depreciation are computed on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives of investments in land improvements, buildings and hotel property and equipment are as follows: land improvements - 5 years; buildings - 20 to 40 years; and, hotel property and equipment - 10 to 50 years.

The cost of significant additions, renewals and betterments are capitalized while minor expenditures for repairs and maintenance are directly charged to operations. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is credited or charged to operations.

Property and Equipment

Property and equipment, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements - 20 to 40 years; machinery and construction equipment - 5 years; furniture, fixtures and equipment - 3 to 10 years; and, transportation equipment - 3 to 5 years.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period of depreciation and amortization and methods are consistent with the expected pattern of economic benefits from items of property and equipment.

Impairment of Assets

An assessment is made at balance sheet date to determine whether there is any indication of impairment of any long-lived assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Provisions
Provisions are recognized when the Company and subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Subsequent Events
Post year-end events that provide additional information about the Company and subsidiaries' position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Revenue and Cost Recognition
Income from sales of substantially completed projects where collectibility of sales price is reasonably assured is accounted for using the full accrual method while income from sales of projects where collectibility of sales price is not reasonably assured is recognized using the installment method. Realized income on installment sales is computed based on collections multiplied by the gross profit rates of individual sales contracts. The percentage of completion method is used to recognize income from sales of projects where the Company and certain subsidiaries have material obligations under the sales contract to complete the project after the property is sold. Under this method, the gain on sale is recognized as the related obligations are fulfilled.

Cost of subdivision land sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the contractors and technical staff of the Company and certain subsidiaries. Cost of condominium and residential units sold before completion of the project is determined based on actual costs and project estimates of building contractors and technical staff. The estimated future expenditures for the development of the sold portion of the subdivision land and condominium and residential units are shown under the "Estimated Liability for Land and Property Development" account in the consolidated balance sheets with the portion expected to be incurred within the succeeding year presented as a current liability.

Revenue from construction contracts of a subsidiary are recognized using the percentage of completion method, measured principally on the basis of the estimated physical completion of the contract work.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Rental income from investment properties is recognized in the statements of income either on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Revenue from hotel operations of a subsidiary are recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

Management fees from administrative, property management and other fees are recognized when earned.

Interest is recognized as it accrues.

Stock Option Plans

The Company has stock option plans for the granting of nontransferable options to key officers and employees, whereby they are granted an option to purchase a fixed number of shares of stock at a stated price during a specified period. Options exercised are recorded at the option price.

Retirement Costs

The Company and its subsidiaries determine their retirement costs using the projected unit credit method. The projected unit credit method sees each year of service as giving rise to an additional unit of pension entitlement and values each unit separately to build up a total retirement benefit obligation. Under this method, the annual normal cost for an equal unit of benefit increases each year because the period to the employee's retirement continually shortens, and the probability of reaching retirement increases. Retirement costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected remaining working lives of the covered employees.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs (included in "Subdivision land for sale," "Condominium and residential units for sale," "Land and improvements" and "Investments" accounts in the consolidated balance sheets). Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on applicable weighted average borrowing rate.

Income Tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Foreign Currency Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates prevailing at balance sheet dates. Exchange gains or losses arising from foreign exchange transactions are credited or charged to operations for the year.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

Segments
The Company and subsidiaries' operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 18.

New Accounting Standards Effective in 2005

New accounting standards based on revised IAS and new International Financial Reporting Standards (IFRSs) referred to as Philippine Accounting Standards (PASs) and Philippine Financial Reporting Standards (PFRSs), respectively, will become effective in 2005.

The Company and its subsidiaries will adopt beginning January 1, 2005, the following new accounting standards that are relevant to the Company and its subsidiaries:

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits, including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits. For post-employment benefits classified as defined benefit retirement plans, the standard will require the use of projected unit credit method in measuring the retirement benefit expense and will result in change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. The adoption of PAS 19 will result in recognition of the unfunded defined benefit obligation (see Note 15) which will increase the liabilities in the consolidated financial statements and will be charged against 2005 beginning retained earnings.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, will result in the elimination of the capitalization of foreign exchange losses. As of December 31, 2004, the Company's share in the undepreciated capitalized foreign exchange losses included in hotel property and equipment amount to ₱56.2 million. Upon adoption of PAS 21 in 2005, any undepreciated capitalized foreign exchange losses will be adjusted against beginning retained earnings and prior years' financial statements presented will be restated.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The Standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The Standard also requires financial instruments to be classified as either liabilities or equity in accordance with its substance and not its legal form. Disclosures required by PAS 32 will be included upon adoption in 2005.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring a Company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value. PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualify as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. A company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment. Certain procedures need to be further performed by management to assess the impact of PAS 39.

- PAS 40, *Investment Property,* prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits a company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, the Company and certain subsidiaries will adopt the cost model and will continue to carry their investment properties at depreciated cost less any accumulated impairment losses. Adoption of PAS 40 will result in additional disclosures in the consolidated financial statements.

- PFRS 2, *Share-Based Payments*, sets out the measurement principles and accounting requirements for share-based payment transactions, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. Under this standard, the Company is required to recognize the cost of share options granted after November 7, 2002 in the statements of income. The Company currently does not recognize an expense from share options granted but discloses required information for such options.

  Upon adoption of PFRS 2 in 2005, the estimated cost as of December 31, 2004 of share options issued to the employees will be adjusted against 2005 beginning retained earnings with a credit to additional paid in capital and prior years' consolidated financial statements presented will be restated.

- PFRS 3, *Business Combination*, which will result in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. Upon adoption of PFRS 3 in 2005, goodwill on investments in shares will no longer be amortized, and the Company's share on the negative goodwill relating to the acquisition of BLC shares amounting to ₱693.3 million (see Note 6) will be adjusted against beginning retained earnings and prior years' consolidated financial statements will be restated.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the balance sheet and the results of discontinued operations to be presented separately in the statements of income. The adoption of PFRS 5 will not have an effect in the consolidated financial statements.

The Company and its subsidiaries will also adopt in 2005 the following revised standards*:*

- PAS 1 (revised 2003), *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in statement of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies. It also requires changes in the presentation of minority interest in the balance sheet and statement of income. The adoption of PAS 1 would result in additional disclosures and presentation changes in the consolidated financial statements.

- PAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error. The adoption of PAS 8 will not have a material effect on the consolidated financial statements.

- PAS 10 (revised 2003), *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date. The adoption of PAS 10 will not have a material effect on the consolidated financial statements.

- PAS 16 (revised 2003), *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The adoption of PAS 16 will not have a material effect on the consolidated financial statements.

- PAS 17 (revised 2003), *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors. The adoption of PAS 17 will not have a material effect on the consolidated financial statements.

- PAS 24 (revised 2003), *Related Party Disclosures*, provides additional guidance and clarity in the scope of the Standard, the definitions and disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type. The adoption of PAS 24 will result in additional disclosures in the consolidated financial statements.

- PAS 27 (revised 2003), *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances. The adoption of PAS 27 will not have a material effect on the consolidated financial statements.

- PAS 28 (revised 2003), *Investments in Associates*, reduces alternatives in accounting for associates in consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances. The adoption of PAS 28 will not have a material effect on the consolidated financial statements.

- PAS 31 (revised 2003), *Interests in Joint Ventures*, reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements and in accounting for investments in the separate financial statements of a venturer. Interests in joint ventures will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. The adoption of PAS 31 will not have a material effect on the consolidated financial statements.

3. Cash and Cash Equivalents

This account consists of:

	2004	2003
	(In Thousands)	
Cash on hand and in banks	**₱719,747**	₱1,389,378
Short-term investments	**5,640,440**	3,465,542
	₱6,360,187	₱4,854,920

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company and its subsidiaries, and earn interest at the respective short-term investment rates.

4. Accounts and Notes Receivable

Accounts and notes receivable are summarized as follows:

	2004	2003
	(In Thousands)	
Trade - net of unrealized gain of ₱3,084,583 in 2004 and ₱1,476,038 in 2003 (see Note 9)	**₱10,583,797**	₱7,384,541
Related parties (see Note 14)	**1,015,773**	934,002
Advances	**1,189,631**	1,107,563
Advances to contractors	**452,068**	195,346
Accrued receivable	**168,022**	248,215
Dividends receivable	**110,263**	71,488
Others	**498,467**	158,802
	14,018,021	10,099,957
Less allowance for doubtful accounts	**122,228**	134,928
	13,895,793	9,965,029
Less noncurrent portion	**6,444,706**	5,458,708
	₱7,451,087	₱4,506,321

5. Other Current Assets

This account consists of:

	2004	2003
	(In Thousands)	
Prepaid expenses	**₱445,573**	₱138,188
Value-added input tax	**369,229**	64,535
Others	**239,295**	377,491
	₱1,054,097	₱580,214

6. Investments

This account consists of investments in:

	2004	2003
	(In Thousands)	
Shares of stock:		
At equity:		
Acquisition cost	**₱5,409,982**	₱5,181,183
Accumulated equity in net earnings:		
Balance at beginning of year	**707,338**	597,381
Equity in net earnings during the year	**295,941**	128,417
Disposal of equity investment	**(396,379)**	–
Dividends received during the year	**(19,035)**	(18,460)
Balance at end of year	**587,865**	707,338
	5,997,847	5,888,521

(Forward)

	2004	2003
	(In Thousands)	
At cost:		
MRT Holdings, Inc.	**₱855,702**	₱855,702
Others	**617,010**	881,505
	1,472,712	1,737,207
	7,470,559	7,625,728
Land and improvements - net of amortization	**4,669,990**	2,443,257
Buildings and improvements - net of accumulated depreciation and amortization of ₱3,107,730 in 2004 and ₱2,731,582 in 2003	**10,515,325**	9,231,624
Hotel property and equipment - net of accumulated depreciation of ₱1,521,318 in 2004 and ₱1,362,857 in 2003 (see Note 9)	**3,279,569**	3,411,690
	₱25,935,443	₱22,712,299

The Company and its subsidiaries' equity in the net assets of associates and joint ventures and the related percentages of ownership are shown below.

	Percentages of Ownership		**Equity in Net Assets**	
	2004	2003	**2004**	2003
			(In Thousands)	
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	47	**₱1,657,537**	₱1,622,079
Emerging City Holdings, Inc. (ECHI)	**50**	50	**1,667,735**	1,564,576
Pilipinas Makro, Inc. (PMI)	**–**	28	**–**	1,125,720
North Triangle Depot Commercial orporation (NTDCC)	**49**	16	**1,014,884**	–
Berkshires Holdings, Inc. (BHI)	**50**	50	**714,740**	670,527
Alabang Commercial Corporation (ACC)	**50**	50	**471,702**	444,667
BLC (through Regent)	**4**	4	**390,270**	378,273
Lagoon Development Corporation	**30**	30	**70,418**	77,717
MyAyala.com, Inc.	**50**	50	**2,626**	4,962
Ayala Port, Inc. (Ayala Port)	**50**	50	**7,935**	–
			₱5,997,847	₱5,888,521

On April 17, 2003, the following transactions have been consummated pursuant to the terms and conditions of the Assignment Agreement, dated February 8, 2003, among the Company, Evergreen Holdings, Inc. (EHI), Greenfield Development Corporation and Larouge, B.V. (Larouge), as amended, and the Agreement, dated November 23, 2002, among the Company, EHI and Metro Pacific Corporation (MPC) as amended:

(a) The assignment to the Company and EHI of the rights and obligations of Larouge under the loan agreement between Larouge and MPC, pursuant to which, Larouge extended MPC a loan in the principal amount of US$90 million, together with all the rights, title and interests of Larouge in the pledge constituted on 50.38% of the outstanding shares in BLC. The consideration paid by the Company and EHI for such assignment was approximately US$90 million, subject in part to foreign exchange adjustment.

(b) The assignment to the Company and EHI (acting in this instance through the joint venture corporation, Columbus Holdings, Inc.) of the controlling interest in BLC representing 50.38% of BLC's outstanding capital stock. This assignment was effected by MPC under a dacion en pago arrangement, and included an assignment of payables of BLC in the principal amount of ₱655 million together with its underlying security in the form of shares in Fort Bonifacio Development Corporation (FBDC) representing 5.55% of its outstanding capital stock.

The Assignment Agreement, as amended, also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representation and warranties. The pledge lien over the 5% BLC shares shall continue to subsist until the third anniversary of the closing date.

The Company and EHI now jointly hold the 50.38% (56.19% beneficial interest) equity interest in BLC through ECHI and BHI. The Company and EHI assigned the notes receivable from MPC to ECHI and BHI, which acquired the shares of stock of Columbus Holdings, Inc. (Columbus). Columbus directly owns the 50.38% interest in BLC. BLC owns 55% interest in FBDC, the primary developer of certain areas in Fort Bonifacio Global City for residential, commercial and business development.

Columbus accounted for the acquisition of the 50.38% interest in BLC using the purchase method. The fair value of the identifiable consolidated assets and liabilities of BLC as at April 17, 2003, the date of acquisition, amounted to about ₱5.6 billion resulting in a negative goodwill of ₱1.4 billion. Columbus' amortization of negative goodwill based on FBDC lots sold amounted to ₱92.2 million and ₱27.4 million in 2004 and 2003, respectively, of which the Company shares 50% through its equity share in the net earnings of ECHI and BHI.

Regent also owns 3.9% of BLC shares which it accounted for using the equity method. Regent's negative goodwill arising from the acquisition amounted to ₱57.6 million. Negative goodwill amortization amounted to ₱3.4 million in 2004 and ₱1.1 million in 2003.

In 2004, the Company acquired additional 30.89% interest in NTDCC in exchange for the Company's interest in two companies valued at ₱320.1 million and cash amounting to ₱280.0 million. The Company infused additional cash to NTDCC amounting to ₱112.0 million for an additional 1.85% equity interest in the latter.

NTDCC was granted development rights by MRT Development Co. to construct and operate a commercial center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years.

The Company divested its equity shareholdings in PMI in 2004.

Certain parcels of land are leased to several individuals and corporations. Some of the lease contracts provide, among others, that within a certain period from the expiration of the contracts, the lessee will have to demolish and remove any and all improvements (like buildings) introduced or built within the leased properties. Otherwise, the lessor will cause the demolition and removal thereof and charge the cost to the lessee unless the lessor occupies and appropriates the same for its use and benefit.

Consolidated depreciation on buildings and improvements amounted to ₱417.6 million in 2004, ₱314.2 million in 2003 and ₱330.0 million in 2002. Consolidated depreciation on hotel property and equipment amounted to ₱169.7 million in 2004, ₱179.4 million in 2003 and ₱206.6 million in 2002. Consolidated amortization of land improvements amounted to ₱8.9 million in 2004, ₱13.4 million in 2003 and ₱16.2 million in 2002.

7. Property and Equipment

This account consists of:

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	2004 Total	2003
			(In Thousands)			
Cost						
January 1	**₱920,567**	**₱952,485**	**₱615,173**	**₱252,298**	**₱2,740,523**	₱2,495,578
Additions	**38,217**	**157,447**	**71,677**	**61,887**	**329,228**	369,449
Disposals	**(45,311)**	**(27,002)**	**(13,271)**	**(41,447)**	**(127,031)**	(124,504)
December 31	**913,473**	**1,082,930**	**673,579**	**272,738**	**2,942,720**	2,740,523
Accumulated Depreciation and Amortization						
January 1	**186,382**	**463,517**	**423,094**	**153,008**	**1,226,001**	1,001,188
Depreciation	**40,333**	**97,570**	**127,386**	**48,831**	**314,120**	279,718
Disposals	**(30,833)**	**(25,075)**	**(5,234)**	**(36,843)**	**(97,985)**	(54,905)
December 31	**195,882**	**536,012**	**545,246**	**164,996**	**1,442,136**	1,226,001
Net Book Value	**₱717,591**	**₱546,918**	**₱128,333**	**₱107,742**	**₱1,500,584**	₱1,514,522

Consolidated depreciation and amortization of property and equipment (charged to various accounts) amounted to ₱314.1 million in 2004, ₱279.7 million in 2003 and ₱240.6 million in 2002.

8. Accounts Payable and Accrued Expenses

This account consists of:

	2004	2003
	(In Thousands)	
Accounts payable and accrued expenses	**₱4,411,035**	₱3,308,771
Taxes payable	**990,373**	370,195
Dividends payable	**325,480**	322,875
Retentions payable	**11,853**	21,634
	₱5,738,741	₱4,023,475

9. **Short-term and Long-term Debt**

In 2004 and 2003, short-term debt consists of bank loans and short-term commercial papers (STCPs).

The Company issued STCPs in 2004 with an aggregate face value of ₱814.8 million at par with fixed and floating interest rates. The STCPs are payable lump sum at various maturity dates in 2005. The fixed-rate STCPs bear interest at 10.25% per annum (p.a.) while the floating STCPs bear interest at 50 basis points (bps) over the benchmark MART1 rate and are repriceable every three months.

STCPs in 2003 had an aggregate face value of ₱1.0 billion at par with fixed and floating interest rates. The STCPs are payable lump sum at various maturity dates in 2004. The fixed-rate STCPs bear interest at 8.20% and 8.59% p.a. while the floating STCPs bear interest at 25 bps over the benchmark 91-day rate and are repriceable every three months.

The Philippine Rating Service Corporation (PhilRatings) assigned a PRS 1 rating on the STCPs issued in 2004 and 2003, indicating the Company's strong capacity to meet its financial commitment on these issuances.

The bank loans of ₱722.0 million in 2004 and ₱457.0 million in 2003 represent unsecured peso-denominated short-term borrowings by the Company's subsidiaries with interest rates ranging from 7.2% to 9.7% p.a in 2004 and 5.75% and 10.75% p.a. in 2003. The ₱400.0 million loan drawn by the Company in 2004 is secured by a mortgage on certain parcels of land with a carrying value of ₱ 10.3 million. The ₱50.0 million loan drawn by a subsidiary in 2003 from an affiliate bank is subject to the Directors, Officers, Stockholders and Related Interest rules of the Bangko Sentral ng Pilipinas.

Long-term debt consists of:

	2004	2003
	(In Thousands)	
Parent Company:		
Bonds		
Due 2007	**₱3,000,000**	₱3,000,000
Due 2008	**2,000,000**	2,000,000
Bank loans - with interest rates ranging from 7.5% to 11.4% p.a.	**1,683,333**	3,358,333
Fixed rate corporate notes (FXCNs)	**1,060,000**	1,060,000
	7,743,333	9,418,333
Subsidiaries:		
Bank loans - with interest rates ranging from 8.0% to 12.0% p.a.		
Philippine peso	**3,049,057**	2,585,457
Foreign currency	**707,643**	920,504
	3,756,700	3,505,961
	11,500,033	12,924,294
Less current portion	**1,110,738**	1,335,995

	₱10,389,295	₱11,588,299

In 2002, the Company issued ₱3.0 billion bonds due in 2007 at par, with interest at 200 bps over benchmark 91-day T-Bills based on secondary market bids (MART 1).

In 2003, the Company issued ₱2.0 billion bonds due in 2008 with fixed and floating rate tranches. The fixed-rate bonds carry a coupon of 10.75% p.a. and have a nominal principal amount of ₱1.0 billion. The floating rate bonds, also worth ₱1.0 billion, bear a margin of 125 bps over benchmark 91-day T-Bills based on secondary market bids (MART 1) and is re-priced quarterly.

PhilRatings assigned a PRS Aaa rating on both the Company's ₱2.0 billion bond issue in 2003 and the ₱3.0 billion bond issue in 2002, indicating the Company's strong capacity to meet its financial commitment on the bond issues.

The Company's long-term bank loans will mature on various dates up to 2008. These borrowings are unsecured except for a ₱594.2 million loan drawn by the Company in 2003, which is secured by a mortgage on certain parcels of land with a carrying value of ₱10.3 million as of 2004.

The FXCNs consist of 3-, 5-, 7- and 10-year notes issued to various financial institutions and will mature on various dates up to 2012. The FXCNs bear fixed interest rates ranging from 11.875% to 14.875% depending on the term of the loan. The Company may redeem all (but not part only) of the FXCNs on the 2nd, 3rd, 4th and 7th anniversaries, respectively, of the 3-, 5-, 7- and 10-year FXCNs.

The subsidiaries' loans will mature on various dates up to 2011. Certain subsidiaries' loans are collateralized by trade receivables amounting to ₱52.3 million in 2003; and mortgages on real estate properties, hotel property and equipment and leasehold rights with a total carrying value of ₱ 3.0 billion and ₱3.2 billion as of 2004 and 2003, respectively.

The Company pledged its investment in shares of stock of SSECC with a carrying value of ₱1.4 billion and ₱1.1 billion as of 2004 and 2003, respectively, as collateral to secure the latter's bank loans.

The loan agreements contain some or all of the following restrictions: material changes in nature of business; payment of dividends; merger or consolidation; guaranties, investments or advances; encumbrance for borrowed money; sale of substantially all of assets and additional loans maturing beyond a year, except under certain conditions. These restrictions and requirements were complied with by the Company and its subsidiaries.

Interest capitalized amounted to ₱533.2 million in 2004, ₱333.4 million in 2003 and ₱288.4 million in 2002. The capitalization rates used in 2004, 2003 and 2002 ranged from 9.60 to 12.65%.

10. Noncurrent Liabilities and Deposits

Noncurrent liabilities and deposits consist of:

	2004	2003
	(In Thousands)	
Deposits	**₱2,367,935**	₱2,097,751
Retentions payable	**479,930**	411,349
Other liabilities	**269,851**	161,632
	₱3,117,716	₱2,670,732

11. Stockholders' Equity

The details of the number of shares (in thousands) follow:

	2004	2003	2002
Authorized	**12,000,000**	12,000,000	12,000,000
Issued	**10,774,189**	10,760,802	10,691,879
Subscribed	**1,181**	1,728	1,842
Treasury	**(24)**	(24)	(24)
	10,775,346	10,762,506	10,693,697

No transfer of stock or interest which will reduce the ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the books of the Company.

In 2004, the Board of Directors (BOD) approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.06 per share.

In 2003, the BOD approved the issuance of 63.4 million new common shares to AC in exchange for land at a transfer price of ₱532.3 million recorded under the investments account in the consolidated balance sheets.

Retained earnings include undistributed net earnings amounting to ₱4,431.1 million, ₱3,908.7 million, and ₱3,300.1 million as of December 31, 2004, 2003 and 2002, respectively, representing accumulated equity in the net earnings of subsidiaries, associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the investees.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury.

12. Costs and Expenses

Depreciation and amortization expense included in consolidated statements of income are as follows:

	2004	2003	2002
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱565,915**	₱457,473	₱430,801
Hotel operations	**169,741**	179,389	206,648
General and administrative expenses	**201,809**	164,815	172,854
	₱937,465	₱801,677	₱810,303

General and administrative expenses consists of:

	2004	2003	2002
		(In Thousands)	
Manpower cost (see Note 15)	**₱1,201,631**	₱857,011	₱733,985
Depreciation and amortization	**201,809**	164,815	172,854
Utilities	**74,290**	62,920	58,031
Others	**622,477**	455,764	348,670
	₱2,100,207	₱1,540,510	₱1,313,540

Interest expense on short and long-term debt amounted to ₱917.0 million, ₱878.9 million and ₱685.1 million in 2004, 2003, and 2002, respectively.

13. Income Taxes

Components of the deferred tax assets and liabilities as of December 31, 2004 and 2003 are as follows:

	2004	2003
	(In Thousands)	
Deferred tax assets on:		
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**₱378,288**	₱382,711
Allowance for probable losses	**133,550**	86,296
NOLCO	**69,037**	92,141
MCIT	**23,538**	32,942
Others	**45,065**	62,734
	649,478	656,824

(Forward)

	2004	2003
	(In Thousands)	
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(₱664,810)**	(₱587,078)
Excess of financial realized gross profit over taxable realized gross profit	**(217,024)**	(160,002)
Unrealized foreign exchange gain	**(48,725)**	(36,972)
	(930,559)	(784,052)
	(₱281,081)	(₱127,228)

Certain subsidiaries of the Company have NOLCO amounting to ₱813.1 million and ₱626.2 million as of December 31, 2004 and 2003, respectively, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱153.3 million and ₱113.8 million as of December 31, 2004 and 2003, respectively, which were also not recognized. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The subsidiaries will recognize a previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

As of December 31, 2004, carryover NOLCO and MCIT (incurred in 2002 to 2004 and expires in 2005 to 2007) that can be claimed as deduction from future taxable income or used as deductions against income tax liabilities are as follows:

Year Incurred	Expiry Date	NOLCO	MCIT
		(In Thousands)	
2002	2005	₱357,512	₱2,841
2003	2006	90,245	19,877
2004	2007	581,084	820
		₱1,028,841	₱23,538

At December 31, 2004 and 2003, deferred income tax liabilities have not been recognized on the undistributed earnings of certain subsidiaries, associate or joint venture since such amounts are not taxable.

There are no income tax consequences attaching the payment of dividends by the Company and its subsidiaries to the shareholders of the Company.

Provision for income tax consists of:

	2004	2003	2002
		(In Thousands)	
Current	**₱1,098,673**	₱902,370	₱1,107,787
Deferred	**153,853**	(109,268)	17,491
	₱1,252,526	₱793,102	₱1,125,278

A reconciliation between the statutory and the effective income tax rates follows:

	2004	2003	2002
Statutory income tax rate	**32.00%**	32.00%	32.00%
Tax effect of:			
Equity in net earnings of investees	**(2.25)**	(1.15)	(0.32)
Income subjected to lower income tax rates (see Note 20)	**(1.00)**	(0.74)	(0.60)
Interest income and capital gains taxed at lower rates	**(2.70)**	(3.16)	(1.58)
Others - net	**3.75**	(4.84)	1.19
Effective income tax rate	**29.80%**	22.11%	30.69%

14. **Related Party Transactions**

The Company and its subsidiaries, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of advances and reimbursement of expenses, purchase and sale of real properties, construction contracts, and development, management, underwriting, marketing, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made at normal market prices.

Revenue from transactions with associates and other related parties amounted to ₱306.3million in 2004, ₱149.1 million in 2003 and ₱230.4 million in 2002.

The following are the outstanding balances of receivables from related parties resulting from the above transactions, as of December 31, 2004 and 2003 (see Note 4).

	2004	2003
	(In Thousands)	
BLC	**₱639,381**	₱505,754
FBDC	**173,413**	243,777
CHI and subsidiaries	**94,407**	78,876
Manila Water Company, Inc.	**58,887**	18,333
Ayalaport Makati, Inc.	**12,593**	24,606
ACC	**11,433**	13,226
MyAyala.com, Inc.	**8,880**	8,878
Others	**16,779**	40,552
	₱1,015,773	₱934,002

Receivables from BLC and FBDC consist of promissory notes issued by BLC, which were assigned by MPC to the Company and EHI; the advances subsequently made by the Company to FBDC to fund the completion of the Bonifacio Ridge project and to BLC to finance the costs to be incurred in relation to its restructuring program. These notes and advances are due and demandable and bear interest at the rate of 12% to 14% per annum.

15. Retirement Plan

The Company and its subsidiaries have funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service. The consolidated retirement costs charged to operations amounted to ₱335. 1 million in 2004, ₱118.9 million in 2003 and ₱76.8 million in 2002.

Based on the latest actuarial valuations of the Company and its subsidiaries, the aggregate actuarial present value of pension benefits amounted to ₱1,034.65 million. The aggregate fair value of their respective plan assets amounted to ₱522.07 million. The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. Actuarial valuations are made at least every one to three years. The Company's and its subsidiaries' annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

16. Earnings Per Share

The following table presents information necessary to compute EPS (in thousands except EPS):

	2004	2003	2002
Net income	**₱3,008,472**	₱2,709,155	₱2,518,515
Weighted average number of common shares for basic EPS	**10,766,243**	10,706,701	10,693,608
Dilutive shares arising from stock options	**26,510**	26,424	7,074
Adjusted weighted average number of common shares for diluted EPS	**10,792,753**	10,733,125	10,700,682
Basic EPS	**₱0.28**	₱0.25	₱0.24
Diluted EPS	**₱0.28**	₱0.25	₱0.24

17. Stock Option Plans

The Company has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 2.5% of the Company's authorized capital stock. The grantee is selected based on certain criteria like outstanding performance over a three-year period.

The qualified officers and employees may exercise in whole or in part his vested option in accordance with the vesting percentage and vesting schedule stated in the plan. Also, to exercise the vested option, the officers and employees are required to continue employment with the Company or any of its subsidiaries for the 10 year option period. In case the officer resigns, he is given 90 days to exercise his vested options, and, if the officer retires, he is given 3 years to exercise his vested and unvested option. In case the employee resigns and has met the 5-year holding period, he is given an option to fully pay the remaining unpaid balance of the subscribed shares or terminate in full the subscribed shares. If the 5-year holding period is not met, the subscribed shares will be cancelled and all payments made by the employee will be refunded to him. Stock dividends accruing from the original subscribed shares, if any, will be given to the employee.

Subscriptions receivable from the stock option plans are presented in the statements of changes in stockholders' equity.

In November 2001, the Company offered all its ESOWN subscribers with outstanding subscriptions the option to cancel the subscriptions within the 5-year holding period. In December 2001, the program for ESOWN was indefinitely suspended.

Movements in the number of stock options outstanding are as follows:

	ESOP		ESOWN	
	2004	2003	**2004**	2003
At January 1	**116,756,618**	100,680,653	**2,141,100**	2,141,100
Granted	**30,501,923**	37,592,500	–	–
Exercised	**(39,680,027)**	(21,402,256)	–	–
Cancelled	–	(114,279)	–	–
At December 31	**107,578,514**	116,756,618	**2,141,100**	2,141,100

The options that have been exercised had a weighted average exercise price of ₱4.48 or about ₱173.3 million in 2004 and ₱4.17 or about ₱88.6 million in 2003. The average fair market value of the shares as at exercise date was ₱6.50 or about ₱256.4 million in 2004 and ₱6.36 or about ₱135.5 million in 2003.

Outstanding options for the executives and key officers have the following terms:

Exercise Dates	Number of Options
2002 to 2011	8,109,559
2003 to 2012	17,511,871
2004 to 2013	25,945,821
2005 to 2014	29,241,577
2006 to 2015	17,619,109
2007 to 2016	9,150,577
	107,578,514

18. **Segment Information**

The industry segments where the Company and its subsidiaries and associates operate are as follows:

- Land, condominium and residential units - development and sale of lots for residential, business and industrial purposes, development of residential and office condominium projects and single-detached housing for high-end, middle income and low income markets;
- Rentals - development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts and entertainment facilities in these commercial centers; office units and carparks leasing;
- Hotel operations - development and operation of hotels and serviced apartments;
- Construction - engineering, design and construction of vertical and horizontal developments;
- Others - management services contracts and other investment activities

The Company and its subsidiaries and associates generally accounts for inter-segment rates and transfers as if the sales and transfers were to third parties at current market prices.

Business segments

The following tables regarding business segments present assets and liabilities as of December 31, 2004 and 2003 and revenues and income information for each of the three years in the period ended December 31, 2004 (in thousands).

2004

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenue	₱9,567,725	₱3,937,667	₱1,549,217	₱989,115	₱2,083,067	₱18,126,791
Operating expenses	7,631,993	1,142,267	1,184,097	733,132	966,854	11,658,343
Earnings before interest taxes, depreciation and amortization (EBITDA)	1,935,732	2,795,400	365,120	255,983	1,116,213	6,468,448
Depreciation and amortization	68,595	567,252	177,080	91,846	32,692	937,465
EBIT	₱1,867,137	₱2,288,148	₱188,040	₱164,137	₱1,083,521	₱5,530,983
Segment assets	₱36,053,822	₱18,332,632	₱4,227,844	₱1,281,637	₱12,803,192	₱72,699,127
Deferred tax assets						649,478
Total assets						₱73,348,605
Segment additions to property and equipment	₱98,003	₱50,539	₱658	₱133,474	₱86,775	₱369,449
Segment liabilities	₱13,556,558	₱4,741,101	₱3,455,774	₱854,108	₱12,085,050	₱34,692,591
Deferred tax liabilities						930,559
Total liabilities						₱35,623,150

2003

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenue	₱7,253,899	₱3,589,669	₱1,282,325	₱759,112	₱1,738,927	₱14,623,932
Operating expenses	5,553,322	1,103,412	926,653	589,262	545,339	8,717,988
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,700,577	2,486,257	355,672	169,850	1,193,588	5,905,944
Depreciation and amortization	67,308	403,546	186,470	72,713	71,640	801,677
EBIT	₱1,633,269	₱2,082,711	₱169,202	₱97,137	₱1,121,948	₱5,104,267
Segment assets	₱31,428,496	₱15,232,374	₱4,336,504	₱1,261,527	₱14,096,327	₱66,355,228
Deferred tax assets						656,824
Total Assets						₱67,012,052
Segment additions to property and equipment	₱89,742	₱18,306	₱1,684	₱101,656	₱117,840	₱329,228
Segment liabilities	₱10,030,591	₱3,434,089	₱3,179,197	₱984,413	₱13,326,439	₱30,954,729
Deferred tax liabilities						784,052
						₱31,738,781

2002

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenue	₱5,608,105	₱3,329,626	₱1,308,957	₱922,326	₱1,045,119	₱12,214,133
Operating expenses	4,149,660	823,869	904,557	715,318	448,825	7,042,229
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,458,445	2,505,757	404,400	207,008	596,294	5,171,904
Depreciation and amortization	50,409	432,755	213,862	56,213	57,064	810,303
EBIT	₱1,408,036	₱2,073,002	₱190,538	₱150,795	₱539,230	₱4,361,601

19. Note to Consolidated Statements of Cash Flows

The principal noncash transactions of the Company in 2003 are as follows:

- Issuance of shares to AC in exchange for land at a transfer price of ₱532.3 million (see Note 11).
- Assignment of ₱2.1 billion notes receivable from MPC in exchange for equity in ECHI and BHI (see Note 6).

20. Registration with Philippine Economic Zone Authority (PEZA)

A subsidiary is registered with PEZA on October 27, 1999 as a non-pioneer "ecozone developer/operator." The PEZA registration entitled the subsidiary to a four-year income tax holiday from the start of its commercial operations. At the expiration of its four-year tax holiday, the subsidiary shall pay income tax at the special tax rate of 5% on its gross income earned from sources within the PEZA economic zone in lieu of paying all national and local income taxes.

21. Leases

The Company and some of its subsidiaries enter into lease agreements with third parties covering retail space and land therein and office units. These leases have terms ranging from 1 to 25 years and generally provides for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. All leases include a clause to enable upward revision on its rental charge on annual basis based on prevailing market conditions.

22. Long-term Commitments and Contingencies

The Company has an existing contract with the BCDA to develop, under a lease agreement a mall with an estimated gross leasable area of 152,000 square meters on a 9.8-hectare lot inside Fort Bonifacio. The lease agreement covers 25 years, renewable for another 25 years subject to reappraisal of the lot at market value. The annual fixed lease rental amounts to ₱106.5 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company transferred its rights and obligations granted to or imposed under the lease agreement to SSECC, a subsidiary, in exchange for equity.

As part of the bid requirement, the Company procured a performance bond in 2003 from the Government Service Insurance System in favor of BCDA amounting to ₱3.9 billion to guarantee the committed capital to BCDA. Moreover, the Company obtained surety bonds to guarantee the payment of the fixed and variable rent as prescribed in the lease agreement. The surety bonds are secured by a mortgage on a property of certain subsidiary with a carrying value of ₱48.6 million in 2004.

Future minimum rental payables under the non-cancellable operating lease with BCDA as of December 31, 2004 are as follows: within one year - ₱106.5 million as of 2004 and 2003; after one year but not more than 5 years - ₱425.9 million as of 2004 and 2003; and, after more than 5 years - ₱1,703.7 million as of 2004 and ₱1,810.2 million as of 2003. Contingent rentals charged to operations amounted to ₱9.4 million in 2004.

On April 15, 2003, the Company entered into a Joint Development Agreement (JDA) with BCDA for development of another lot inside Fort Bonifacio with a gross area of 11.6 hectares for residential purposes. Pursuant to the agreement, BCDA shall contribute all its title and interest to the lot and the Company in turn shall provide the necessary cash and expertise to undertake and complete the implementation of the residential development. The Company commits to invest sufficient capital to complete the residential development.

The Company procured a surety bond with a face value of ₱122.9 million issued by an insurance company in favor and for the benefit of BCDA as beneficiary. The surety bond shall be continuing in nature and shall secure the obligation of the Company to pay BCDA annual minimum revenue share for each of the first 8 selling periods of the residential project.

On March 24, 2004, the Company assigned in favor of Serendra all of its development rights and interest under the JDA, as amended.

In 2002, the Company agreed to underwrite the subscription to North Triangle Depot Commercial Corporation (NTDCC) additional shares amounting to ₱1.4 billion over a 4-year equity schedule up to 2007 in exchange for a 5% underwriting fee (net of a 1.5% rebate to existing shareholders who subscribed).

The Company and its subsidiaries have various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect of the Company and its subsidiaries' financial position and results of operations. The information usually required by SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims and assessments. No provisions were made during the year.