AyalaLand

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, 05 April 2006** 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 **23 February 2006** 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 **23 February to 02 March 2006**, inclusive.

Makati City, 07 February 2006.

FOR THE BOARD OF DIRECTORS

(Original Signed)
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 27 March 2006. You may use the enclosed reply envelope for this purpose. Validation of proxies shall be held on 29 March 2006 at 9:00 a.m. at the Office of the Corporate Secretary.

Thank you.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement
of
AYALA LAND, INC.
Pursuant to the Securities Regulation Code (SRC) Rule 20

1. **Check the appropriate box:**

    ________ Preliminary Information Sheet
    ___✔___ Amended 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) 848-5772/841-5675

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

Date	-	05 April 2006
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:**

    10 March 2006

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)

    No. of Shares Outstanding as of 31 December 2005

    Common Shares 10,795,524,873
    (net of 24,081 Treasury shares)

c. **Amount of Debt Outstanding as of 31 December 2005**

(interest-bearing payables; current and long-term; including bonds and commercial papers) P 10.7 billion

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

✔ Yes _____ No

10,759,891,173 Common shares have been listed with the Philippine Stock Exchange as of 31 December 2005, excluding the 35,657,781 underlying shares which have been approved for listing for the Company's P4 Billion Long Term Commercial Papers (LTCPs).

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INFORMATION REQUIRED IN THE INFORMATION STATEMENT

Date, time and place of meeting of security holders

Date	-	05 April 2006
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:

10 March 2006

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 31 January 2006: 10,801,267,785 Common Shares (net of 24,081 Treasury Shares)

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

b) All stockholders of record as of 23 February 2006 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 31 January 2006.

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	6,649,080,745	61.558%
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	3,046,939,657	28.209%
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	783,226,837	7.251%

2. Security Ownership of Directors and Management as of 31 January 2006.

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	0.00518%
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	8,538	(direct)	Filipino	0.00008%
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	0.01317%
Common	Aurelio R. Montinola, III	2,982	(direct & indirect)	Filipino	0.00003%
CEO and Most Highly Compensated Officers					
Common	Jaime I. Ayala	1	(direct)	Filipino	0.00000%
Common	Miriam O. Katigbak	153,672	(direct)	Filipino	0.00142%
Common	Vincent Y. Tan	1,258,419	(direct & indirect)	Filipino	0.01165%
Common	Angela DV. Lacson	0		Filipino	n/a
Common	Rex Ma. A. Mendoza	460,124	(direct & indirect)	Filipino	0.00426%
Common	John Philip S. Orbeta	0		Filipino	n/a
Common	Jaime E. Ysmael	457,499	(direct & indirect)	Filipino	0.00424%
Common	Jose Rene D. Almendras	0		Filipino	n/a
Common	Ma. Victoria E. Añonuevo	880,328	(direct & indirect)	Filipino	0.00815%
Common	Dinna G. Bayangos	123,762	(direct)	Filipino	0.00114%
Common	Bernard Vincent O. Dy	0		American	n/a
Common	Raul M. Irlanda	150	(direct)	Filipino	0.00000%
Common	Emilio J. Tumbocon	219,799	(direct)	Filipino	0.00203%
All Directors and Officers as a group		**5,557,562**			**0.05145%**

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 2,106,627,616 and 709,740,680 shares beneficially owned by HSBC and SCB, respectively, form part of the 3,830,166,494 shares registered in the name of PCD Non-Filipino and Filipino. The clients of HSBC and SCB have the power to decide how their 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 have been nominated to the Board of Directors of the Company for the ensuing year:

FERNANDO ZOBEL DE AYALA	JAIME AUGUSTO ZOBEL DE AYALA II
JAIME I. AYALA	MERCEDITA S. NOLLEDO
CORAZON S. DE LA PAZ	RAMON R. DEL ROSARIO, JR.
DELFIN L. LAZARO	LEANDRO Y. LOCSIN, JR.
AURELIO R. MONTINOLA III	

The aforementioned nominees were formally nominated to the Nominations Committee of Ayala Land, Inc. by a shareholder of the Company, Ms. Sylvia Felisa R. Maghirang. In addition, Messrs. Ramon R. del Rosario, Jr. and Leandro Y. Locsin, Jr., both incumbent directors, are being nominated as independent directors. Likewise, Ms. Corazon S. de la Paz is being nominated as independent director. Please refer to Annex "A" for the summary of their qualifications.

The nominees have served as directors of the Corporation for more than five years except for Messrs. Jaime I. Ayala and Aurelio R. Montinola III who have served as directors for two years and one year, respectively.

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 61.558% of the total issued and outstanding capital stock of the Company as of 31 January 2006.

Resignation of Directors

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.

None of the directors, in their personal capacity, has been contracted and compensated by the Company for services other than those provided as a director.

Officers. The Company adopts a performance-based compensation scheme as incentive. The total annual compensation of the President and Management Committee members of the Company amounted to P92.12 million in 2004 and P188.36 million for 2005. The projected total annual compensation for the current year is P207.19 million.

Name	Principal Position	2004 (Restated)	
		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		
Angela DV. Lacson	Senior Vice President		
Jaime E. Ysmael	Senior Vice President		
Jose Rene D. Almendras	Vice President		
Ma. Victoria E. Añonuevo	Vice President		
Raul M. Irlanda	Vice President		
Ma. Cynthia H. Poblador **	Vice President		
Emilio J. Tumbocon	Vice President		
All above-named Officers as a group		P77.93 Mn	P14.19 Mn

* *Resigned effective 31 December 2004*
** *Resigned effective 22 October 2005*

Name	Principal Position	2006 *		2005	
		Basic Pay	Other Variable Pay	Basic Pay	Other Variable Pay
Jaime I. Ayala	President				
Miriam O. Katigbak	Executive Vice President				
Vincent Y. Tan	Executive Vice President				
Angela DV. Lacson	Senior Vice President				
Rex Ma. A. Mendoza	Senior Vice President				
John Philip S. Orbeta **	Senior Vice President				
Jaime E. Ysmael	Senior Vice President				
Jose Rene D. Almendras	Vice President				

Ma. Victoria E. Añonuevo	Vice President				
Dinna G. Bayangos	Vice President				
Bernard Vincent O. Dy	Vice President				
Raul M. Irlanda	Vice President				
Ma. Cynthia H. Poblador ***	Vice President				
Emilio J. Tumbocon	Vice President				
All above-named Officers as a group		P102.45 Mn	P104.74 Mn	P93.14 Mn	P95.22 Mn

* *Projected Annual Compensation*
** *Compensation reported by Ayala Corporation*
*** *Resigned effective 22 October 2005*

Total compensation paid to all senior personnel from Manager and up amounted to P437.73 million in 2004 and P529.42 million in 2005. The projected total annual compensation for the current year is P582.36 million.

Name	2006 *		2005		2004 (Restated)	
	Basic Pay	**Other Variable Pay**	**Basic Pay**	**Other Variable Pay**	**Basic Pay**	**Other Variable Pay**
All Officers** as a Group	P359.96 Mn	P222.40 Mn	P327.24 Mn	P202.18 Mn	P336.78 Mn	P100.95 Mn

* *Projected Annual Compensation*
** *Managers and up*

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 exercise of Stock Option Plan).

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 16 million common shares exercised for the year 2005 by the following officers, to wit:

Name	No. of Shares	Date of Grant	Exercise Price	Market Price at Date of Grant
Bernard Vincent O. Dy		Various	Various	Various
Raul M. Irlanda		Various	Various	Various
Miriam O. Katigbak		Various	Various	Various
Angela DV. Lacson		Various	Various	Various
Vincent Y. Tan		Various	Various	Various
Jaime E. Ysmael		Various	Various	Various
All above-named Officers as a group	15,998,898		4.72 *	5.66 *

* 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.

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 the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV & Co. as external auditor of the Company, and Ms. Jessie D. Cabaluna has been the Partner In-charge for less than five years since 2002.

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 2005, 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 Philippine Financial Reporting Standards or PFRS (previously referred to as Statement of Financial Accounting Standards or SFAS) which became effective in 2005:

a. Philippine Accounting Standards (PAS) 19, *Employee Benefits*

Under PFRS, pension benefits are determined using the projected unit credit method and the resulting net pension asset or liability is recognized in the financial statements. Actuarial gains and losses that exceed a 10% "corridor" may be amortized over the expected average remaining working lives of participating employees or recognized immediately in the statements of income. Vested past service cost is recognized immediately. Also, under PFRS an entity is required to recognize short-term employee benefits when an employee has rendered service in exchange for those benefits.

b. PAS 21, *The Effects of Changes in Foreign Exchange Rates*

PFRS does not allow capitalization of foreign exchange differentials related to the acquisition of property and equipment.

c. PAS 32*, Financial Instruments: Disclosure and Presentation/* PAS 39*, Financial Instruments: Recognition and Measurement*

Under PFRS, financial instruments held for trading, available-for-sale investments and derivative financial instruments are recognized as assets or liabilities and subsequently measured at fair value. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost less any provision for impairment.

d. PAS 40*, Investment Property*

This standard prescribes the accounting treatment for investment property and related disclosure requirements. It permits the company to use either the fair value model or cost model in accounting for investment property. The fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. The cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. The Group has adopted the cost model and has continued to carry investment properties at depreciated cost less any accumulated impairment losses.

e. PFRS 2*, Share-Based Payment*

PFRS 2 sets out the measurement principles and accounting requirements for share-based payment transactions which are to be settled either in cash, other assets, or equity instruments of the entity. Under this standard, the Company is required to recognize in the statements of income, over the vesting period, the cost of share options granted.

f. PFRS 3, *Business Combinations*

PFRS 3 prohibits the amortization of goodwill and requires goodwill to be tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Any resulting excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost after performing a reassessment is credited to income (also known as negative goodwill). Moreover, pooling of interests in accounting for business combination will no longer be permitted.

g. PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

PFRS 5 specifies the accounting for assets held for sale and the presentation and disclosure requirements for discontinued operations. Under this standard, qualifying non-current assets or disposal groups held for sale shall be carried at fair value less cost to sell if this amount is lower than its carrying amount less accumulated impairment losses. A company shall not depreciate (or amortize) non-current assets (or disposal groups) while classified as held for sale. Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale shall be included in the profit or loss from continuing operations.

Ayala Land has also adopted the following revised standards during the year and comparative figures have been amended as required.

- PAS 1, *Presentation of Financial Statements;*
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors;*
- PAS 10, *Events After the Balance Sheet Date;*
- PAS 17, *Leases;*
- PAS 24, *Related Party Disclosures;*
- PAS 27, *Consolidated and Separate Financial Statements;*
- PAS 28, *Investments in Associates;*
- PAS 31, *Interests in Joint Ventures;*
- PAS 33, *Earnings Per Share*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets.*

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

External Audit Fees

Audit and Audit-Related Fees

Ayala Land and its subsidiaries paid its external auditors the following fees in the past two years: *(in P million; with VAT)*

	Audit & Audit-related Fees	Tax Fees	Other Fees
2005	6.9*	-	1.5***
2004	6.5*	-	1.1**

** Pertains to audit fees; no fees for other assurance and related services*
*** Pertains to fees paid for bank reconciliation services*
**** Pertains to fees for business process review and PAS/PFRS seminar conducted*

Tax Fees

Tax consultancy services are secured from entities other than the appointed external auditor.

Under paragraph D.3.1 of the ALI Audit Committee Charter, the ALI Audit Committee recommends to the Board and stockholders the appointment of the external auditor and the fixing of audit fees. The Board and stockholders approve the Audit Committee's recommendation.

Legal Proceedings

Ayala Land is not involved in any litigation it considers 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.

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. A number of these cases are at various stages of trial and appeal. Some of these cases have been finally decided by the Supreme Court in Ayala Land's favor. These include two decisions affirming the title of Ayala Land to approximately 21 hectares of these properties, which have been developed and offered for sale to the public as Sonera, Ayala Southvale.

Ayala Land does not intend to develop and sell the rest of the Las Piñas properties until litigation is resolved.

Action with Respect to Reports

a) Approval of the Minutes of the 2005 Annual Meeting of the Stockholders held on 06 April 2005 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 2004;
- 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 2005.

Other Proposed Actions

a) Ratification of all acts of the Board of Directors, Executive Committee and Management for the period covering 01 January 2005 through 31 December 2005.

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

- i) Approval of projects and investments;
- ii) Treasury matters including borrowings, 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 28th of February 2006.

AYALA LAND, INC.

(Original Signed)
by: MERCEDITA S. NOLLEDO
Corporate Secretary

ANNEX "A"
Directors and Executive Officers
(as of 31 December 2005)

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

Fernando Zobel de Ayala, 45, Filipino, has served as Chairman of the Board of Directors of ALI since 1999. He is also an Executive Managing Director, 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., Anvaya Cove Beach and Nature Club, Inc. 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, 46, Filipino, 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. He is also Chairman of the Board of Directors of Globe Telecom, Inc., Bank of the Philippine Islands and Integrated Microelectronics, Inc. He is also a member of various international and local business and socio-civic organizations including the JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Harvard University Asia Center Advisory Committee, Board of Trustees of the Asian Institute of Management and a national council member of the World Wildlife Fund (US). He was a member of the World Economic Forum Global Leaders for Tomorrow and was a TOYM (Ten Outstanding Young Men) Philippine Awardee in 1999. 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, 43, Filipino, 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 and President of Makati Property Ventures, Inc.; Chairman of the Board of Directors of Ayala Property Management Corp, Cebu Holdings, Inc., Cebu Insular Hotel Co., Inc., Cebu Property Ventures & Dev't. Corp, Community Innovations, Inc., Makati Development Corp., Avida Land Corp., and Station Square East Commercial Corp.; Director & President of Ayala Hotels, Inc., Enjay Hotels, Inc., Roxas Land Corp., Anvaya Cove Beach and Nature Club, Inc. and Vesta Property Holdings, Inc., Director of Ayala Greenfield Development Corporation, Aurora Properties, Inc., Roxas Land Corporation, Ayala Land Sales, Inc., Alabang Commercial Corp., Fort Bonifacio Development Corporation, Bonifacio Land Corporation, Emerging City Holdings, Inc., Berkshire Holdings, Inc., Bonifacio Arts Foundation Inc., Astoria Investment 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, 55, Filipino, 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., 61, Filipino, has served as an Independent Director of ALI since 1994. He is President and Chief Executive Officer 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, 60, Filipino, has served as member of the Board of Directors of ALI since 1996. He is also the Chief Finance Officer and a member of the Management Committee of Ayala Corporation; Director and Chairman of the Executive Committee of Globe Telecom, Inc.; Director of Integrated Microelectronic, Inc. and Manila Water Corp. 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., 44, Filipino, 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.

Aurelio R. Montinola, III, 54, Filipino, is the President and CEO of Bank of the Philippine Islands. His other affiliations, among others, include: Vice Chairman of the Board of Directors of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; Chairman of East Asia Educational Foundation, Inc.; Chairman of the Board of Directors of Amon Trading Corporation; Regional Director of MasterCard International; Director of Manila Water Company; Director of the Bankers Association of the Philippines; President of BPI Foundation, Inc.; Director of Makati Business Club; and Member of Management Association of the Philippines. He graduated with BS Management Engineering at Ateneo de Manila University in 1973 and received his MBA at Harvard Business School in 1977.

Mercedita S. Nolledo, 64, Filipino, 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 Honda Cars Cebu, Inc., Honda Cars

Makati, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc., Ayala Automotive Holdings, Inc., Bank of the Philippine Islands and Anvaya Cove Beach and Nature Club, Inc.; Corporate Secretary and Member of the Board of Trustees of Ayala Foundation, Inc.; Director and Treasurer of Phil. Tuberculosis Society, Inc. 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.

Nominee to the Board of Directors for the ensuing year:

Corazon S. de la Paz, 64, Filipino, is the President and Chief Executive Officer of Social Security System since August 2001. Her other significant affiliations include: Member of the Board of ASEAN Social Security Association, Philippine Social Security Association, Philippine Health Insurance Corporation, San Miguel Corporation, Philippine Long Distance Telephone Company, Ionics, Inc., Equitable-PCIBank, Republic Glass Holdings and Philex Mining Corp.; President of International Social Security Association, Management Association of the Philippines, Financial Executives Institute of the Philippines, Philippine Institute of Certified Public Accountants, Cornell Club of the Philippines and the Philippine Fulbright Scholars Association. She received a Fulbright Achievement Award for Business Administration in 1988 and was one of The Outstanding Women in the Nation's Service Awardee for Management in 1983. She has a Masters in Business Administration degree from Cornell University, as a Fulbrighter and a University of the East scholar. She studied Business Administration at the University of the East, graduating magna cum laude. She placed first in the 1960 Philippine board examination for certified public accountants.

Management Committee Members / Key Officers

Jaime I. Ayala *	President
Mercedita S. Nolledo*	Corporate Secretary
Miriam O. Katigbak	Executive Vice President
Vincent Y. Tan	Executive Vice President
Angela DV. Lacson	Senior Vice President
Rex. Ma. A. Mendoza	Senior Vice President
John Philip S. Orbeta	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 effective 22 October 2005*

Miriam O. Katigbak, 52, Filipino, is Executive 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.; Director and President of Alabang Commercial Corporation; President of Station Square East Commercial Corporation; President of ALI-Concepcion Industries, Inc.; Board Vice-Chairman of Lagoon Development Corporation; Director and President of North Triangle Depot Commercial Corporation; Director of Monumento Rail Transit Development Corporation; Director and Vice-President of Leisure Allied Industries (Philippines), Inc.; Board Chairman of Ayala Theatres Management, Inc.; Chairman and President of Five-Star Cinema, Inc.; Director of South Innovative Theatres Management, Inc.; and Governor of Ayala Center Association. She graduated with Bachelor of Science in Education, Major in Mathematics, at Maryknoll College. She took the Management Development Program at Asian Institute of Management in 1993 and at University of Michigan in 1997.

Vincent Y. Tan, 55, Filipino, 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., myAyala.com, Inc., Metro Rail Transit Corporation, Metro Rail Transit Dev. Corp., Metro Rail Transit Holdings II, Inc., MRT Holdings, Inc., North Triangle Development Corporation and Anvaya Cove Beach and Nature Club, Inc. 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.

Angela de Villa-Lacson, 59, Filipino, joined ALI in July 1999. She is Senior Vice President & Head of the Ayala Land Premier Group, and Management Committee member of ALI. Her other significant positions include: Director & General Manager of Roxas Land Corporation, Director & President of Serendra, Inc., and Director of: Aurora Properties, Inc., Avida Land Corporation, Ayala Land Sales, Inc., Ayala Property Management Corporation, Ceci Realty, Inc., Community Innovations, Inc., Makati Development Corporation, and Vesta Property Holdings, Inc.. Prior to joining ALI, she was Vice President and Marketing Director of San Miguel Brewery Philippines and San Miguel Brewery International (1998-1999), Marketing Director of the San Miguel Food Group (1996-1997), VP and Division Head of J. Walter Thompson (1995). Before this, she was connected with Unilever Philippines, UK and Italy. She graduated with a degree of Bachelor of Liberal Arts, Major in Mathematics and English Literature (Magna Cum Laude) at the Assumption College.

Rex Ma. A. Mendoza, 43, Filipino, is Senior Vice-President and head of Corporate Sales and Marketing Group. He is a member of the Management Committee of Ayala Land, Inc. Concurrently, he is the President of Ayala Land International Sales, Inc.; Chairman and President of Rampver, Inc.; Marketing and Training Consultant for IMPACT and Mindbroker, Inc.; and Professor of De La Salle University, Graduate School of Business. Prior to joining Ayala Land, Inc., he was Executive Vice President and head of Sales, Marketing and Training in the Philippine American Life & General Insurance Company; Vice Chairman and CEO of Philam Asset Manangement; Vice Chairman and CEO of Philam Financials; Director of Philam Insurance Co., Security Philam, Philam Call Center and Philam Foundation. He graduated with a degree of Bachelor of Science in Business Administration, major in Marketing and Finance at the University of the Philippines, Diliman, Q.C., and took his Masters in Business Management, with distinction at the Asian Institute of Management.

John Philip S. Orbeta, 44, Filipino, is Senior Vice President and Head of Human Resources. He is a member of the Management Committee of Ayala Land, Inc. Concurrently, he is a Managing Director and Head of Strategic Human Resources and Organization Development of Ayala Corporation and Chairman of the Ayala Group Human Resources Council. He received his undergraduate degree in Economics from the Ateneo de Manila University where he also attended graduate studies in Industrial Psychology. He has also completed a Leadership Development Program at the Harvard Business School.

Jaime E. Ysmael, 45, Filipino, 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.; Director of Aurora Properties, Inc., Alabang Commercial Corp., Ceci Realty, Inc., Laguna Phenix Structures Corp., Makati Theatres, Inc., North Triangle Depot Commercial Corp., Station Square East Commercial Corp., Anvaya Cove Beach and Nature Club, Inc. 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, 45, Filipino, is Head of Corporate Initiatives Group of ALI, 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 the Director of City Sports Club Cebu, Cebu Insular Hotel, Inc., Laguna Properties Holdings, Inc., Anvaya Cove Beach and Nature Club, Inc., Trustee of the Ramon Aboitiz Foundation, Inc., Director of JDA Agro-Industrial Development Corp. Prior to joining ALI, 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, 55, Filipino, 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. and Director of Anvaya Cove Beach and Nature Club, 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, 41, Filipino, is Vice President and member of the Management Committee of ALI effective January 1, 2005. She is also the President of Avida Land Corporation (formerly Laguna Properties Holdings, Inc.) and its subsidiary, LPHI Sales, Inc. Her other significant positions include: Director of Community Innovations, Inc., Makati Development Corp. and Cebu Holdings, Inc. Before she became President of Avida Land Corp., she was an Assistant Vice President and Head of the Corporate Planning Division and a Senior Division Manager at the Residential Buildings Group of ALI. She graduated with a degree of A.B. Major in Economics and B.S.C. Major in Management of Financial Institutions (Cum Laude) at De La Salle University and took her Masteral in Business Management at the Asian Institute of Management and an Advanced Management Program at Wharton School of Business.

Augusto D. Bengzon, 42, Filipino, joined ALI in December 2004 as Vice President and Treasurer of ALI. His other significant positions include: Treasurer of Laguna Properties Holdings, Inc., Makati Development Corp., Aurora Properties, Inc., Vesta Properties Holdings, Inc., and CECI Realty, Inc. 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, 42, American, is Vice President & member of the Management Committee of Ayala Land, Inc. effective 01 January 2005 and currently President of Community Innovations, Inc. 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, 50, Filipino, is Vice-President, member of the Management Committee and Bidding Committee of Ayala Land Inc. He is also the President and board member of Ayala Property Management Corporation and a Director of Anvaya Cove Beach and Nature Club, Inc. 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, 52, Filipino, joined ALI in 1991. Prior to her resignation last October 2005, she was Vice-President, member of the Management Committee and Head of the Legal Division of ALI. She was also the Corporate Secretary of Serendra, Inc. and Buendia Land Holdings, Inc. She graduated Cum Laude from the University of the Philippines (UP) with a degree of Bachelor of Arts in Political Science in 1974. In 1978, she graduated Cum Laude from the UP College of Law.

Emilio J. Tumbocon, 49, Filipino, 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, a wholly owned construction subsidiary of ALI. He is also the President of the Philippine Constructors Association, Inc. (PCA), Director of the Anvaya Cove Beach and Nature Club, Inc., Construction Industry Authority of the Philippines (CIAP), and Department of Trade & Industry, Republic of the Philippines and a Trustee of the Construction Safety Foundation, Inc. He is also presently a 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 Construction Executive Program in 1987 at Stanford University, Palo Alto, California, U.S.A., the Senior Business Executive Program (SBEP "91) 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>**2005 vs. 2004**</u>

Results of Operations

Ayala Land delivered strong results in 2005, amidst the challenges faced by the real estate industry. Consolidated revenues of P22.06 billion were 22% higher than the P18.08 billion registered in 2004, due to improved performance across most business lines.

"Our record performance in 2005 reflects concerted efforts to strengthen the fundamentals of our businesses and more actively manage our portfolio. We are confident that these continuing initiatives will ensure sustained, profitable growth for the Company over the long haul," announced Jaime I. Ayala, President and Chief Executive Officer.

Revenue growth resulted from the steady expansion of the shopping center portfolio and sustained momentum of residential sales. Revenues from these two businesses increased by 22% and 10% and accounted for 16% and 43% of total, respectively.

Proceeds from the sale of the Company's interest in preferred redeemable shares of Astoria Investment Ventures, Inc. (AIVI), the holding company for its investment in MRT Holdings, Inc., amounted to P3.53 billion and further boosted revenues.

Net income amounted to P3.62 billion, 21% higher than the previous year, due to higher revenues and the P2.28 billion net gain from the AIVI transaction, offset by provisions and write-offs of P1.82 billion. It will be noted that the 2004 net income has been restated to P2.99 billion (from P3.01 billion) in order to reflect the impact of adjustments related to the adoption in 2005 of certain Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS).

Excluding the AIVI transaction and provisions and write-offs, net income from regular operations amounted to P3.16 billion, a growth of 12%. With the net gain from the AIVI transaction, but before provisions and write-offs, net income registered at P5.44 billion, 82% higher than comparable 2004 net income.

Revenues

The Company's five core business lines, consisting of shopping centers, corporate business, residential developments, Visayas-Mindanao, and the newly-created Strategic Landbank Management, contributed P14.31 billion in revenues or 65% of total. Revenues from support businesses, consisting of construction, hotels, property management and waterworks, amounted to P3.55 billion, accounting for 16% of total. The remaining balance of P4.20 billion represents interest and investment income, equity in net earnings and other income, the bulk of which are proceeds fom the divestment of non-core assets.

Residential Developments

Revenues from residential developments grew by 10% to P9.48 billion and contributed 43% to total revenues. Revenues were derived from sales and financing income of four residential operating units, as well as management and marketing fees from projects covered by joint development agreements.

Of the P9.48 billion, more than half of residential revenues were generated by Ayala Land Premier, which caters to the traditional high-end customers. Sales from middle-income market are also on the rise. Revenues from the sale of upper mid-income housing products of Community Innovations and affordable housing units of Avida Land grew by 75% and 12%, respectively.

Booked sales totaled 3,525 units, 20% higher than the previous year sales of 2,941 units. The increase largely consists of the sale of lots and club shares of 320-hectare Anvaya Cove in Bataan, the initial project of the Leisure group.

High-end residentials. A total of P5.00 billion was generated from the sale of lots and units by newly-formed Ayala Land Premier which caters to high-end customers. Booked sales consist of 480 residential lots, mostly from Ayala Westgrove Heights, Ayala Greenfield Estates and Sonera, and 359 residential units, mostly from The Residences at Greenbelt (San Lorenzo Tower) and Serendra District 1.

As construction progresses, the two condominium projects in Makati and Bonifacio Global City continue to experience good take-up. As of year-end, 73% of total 486 units at Serendra District 1 had been taken up. With respect to the Residences at Greenbelt, Laguna Tower's 249 units had a 94% take-up while 54% of the 383 units at San Lorenzo Tower launched in May were taken up.

Leisure. Anvaya Cove, Ayala Land's first high-end seaside residential community in Bataan, was well received by the market. Six months after launch in July 2005, the project had a take up rate of 111 or 47% of 237 residential lots and 558 or 23% of 2,450 club shares which were offered in two tranches. The second tranche of club shares was put on the market with a 6% price increase in August, two months after initial offering in July.

Despite brisk sales, revenues amounted to only P173 million due to minimal construction accomplishment.

Development and sales activities are proceeding as planned. In January 2006, 17 villa units priced at P20 million to P25 million were offered for sale.

Upper-mid income housing. Community Innovations' (CII) revenue contribution of P2.15 billion grew by 75% from the previous year. The rapid rise in revenues from P508 million in its first nine months of operation in 2002 attest to its successful penetration of the upper mid-income market.

Bookings of CII decreased to 575 units from 637 in 2004 given the timing of project launches towards the end of the year. The bulk of booked units were from Serendra District 2 and The Columns at Ayala Avenue, which were almost sold out at year-end.

Despite the 10% decline in bookings, revenue growth was strong due to construction accomplishments at Serendra and The Columns at Ayala Avenue, and accelerated revenue recognition following the sale of CII's installment receivables.

In November, The Columns at Legazpi Village, consisting of 390 units, was soft launched, followed by the launch in December of Celadon Residences, consisting of 114 townhouse units, at the site of the former San Lazaro racetrack in Manila. By year-end, 25 units at The Columns at Legazpi Village and 35 units at Celadon Residences were taken up.

Affordable housing. Revenue contribution of Avida Land Corporation, the new corporate name for Laguna Properties Holdings, Inc., increased to P2.15 billion or 12% from P1.93 billion in 2004 as a result of construction accomplishments at Avida Towers in Sucat and New Manila.

Sales volume amounted to 1,538 booked units, with affordable lots, house-and-lot packages and condominium units accounting for about 80% of total.

Bookings of affordable condominium units more than doubled to 560 from the previous year's 222 units, reflecting the continued success of its high-density, affordable residential product. Three towers launched during the year, namely Avida Towers Sucat- Tower 3, Avida Towers New Manila-Tower 2 and Avida Towers San Lazaro, consisting of 1,052 units, enjoyed brisk sales.

Indicative of strong market interest is the 33% take-up rate for the 390-unit Avida Towers San Lazaro one month after launch in December. This tower is part of the Company's mixed-use development in San Lazaro which includes the Celadon Residences of CII also launched at the same time.

Shopping Centers

Revenues from shopping centers, mostly from land and building rentals, amounted to P3.53 billion, an increase of 22%, and contributed 16% of total revenues. The robust growth in revenues can be attributed to the full year operations of

Market! Market! Phase 1A and SM Expansion coupled with improved merchant sales, particularly from replacement tenants at Ayala Center. A 5%-12% percent increase in basic rent also contributed to revenue growth.

Although same-store sales were almost flat, total retail sales from all malls were up 10% as a result of year-round efforts to enhance each property's value propositions to shoppers and merchants. Occupancy levels continued to rise across all malls and retail areas and averaged at 91%. Market! Market!, including newly-opened Phase 1B, was already 65% occupied, with 81% of leasable area leased/committed as of end-2005.

During the year, Ayala Land steadily increased its shopping center portfolio. Phase 1B of Market! Market, consisting of nearly 34,000 sqms, soft opened in October. The retail areas at PeopleSupport Center and Convergys, totaling around 2,300 sqms, also opened and were fully let by December.

Construction of North Triangle Commercial Center, with its leasable area of nearly 200,000 sqms, would expand current retail portfolio by 26%. Given strong merchant interest, lease out is on schedule. An anchor tenant, Landmark Department Store, has already been engaged. The shopping center is expected to be operational in the second half 2007.

Corporate Business

In 2005, revenues from corporate business amounted to P632 million or 3% of total revenues. This represents a 5% decline from the previous year's level because of the absence of any office space sale compared to sale of 1,773 sqms at Ayala Life-FGU Makati in 2004.

The decline in revenues was partly offset by the start of operations of PeopleSupport Center and Convergys, which added 36,000 sqms to the Company's office rental portfolio, and the sale of 6.25 hectares at Laguna Technopark compared to 3.7 hectares sold in 2004.

Occupancy of ALI's traditional office buildings, namely Tower One, 6750, MSE, Ayala Life-FGU Makati, and Ayala Life-FGU Alabang, averaged at 93% during the year. Average occupancy level improved to 98% towards year-end following closure of deals with replacement tenants.

Strategic Landbank Management

A newly created business line formalized to actively manage the Company's landbank, the Strategic Landbank Management Group generated revenues of P485 million, consisting of its share of sales at The Columns at Ayala Avenue and Avida projects. This new group contributed 2% to consolidated revenues.

Compared to 2004, revenues declined by 32% owing to the absence of a Makati lot sale in 2005. Revenue decline was, however, partly offset by additional construction accomplishment at The Columns at Ayala Avenue and Avida Towers Sucat where ALI has override units.

During the year, significant progress was made in developing a long-term vision for the Company's key properties and identifying initiatives to catalyze their development. A masterplan review process was initiated for certain strategic parcels in Makati such as Ayala Center and the Ayala Triangle. Also during the year, a redesign of the masterplan for Fort Bonifacio's City Center core was undertaken. South of Metro Manila, the Canlubang properties likewise underwent a masterplanning review process aimed at developing the area into a complete and integrated township.

Visayas-Mindanao

Projects in the Visayas and Mindanao areas, primarily Plantazionne Verdana Homes and Ayala Northpoint in Bacolod, contributed P183 million or 1% to consolidated revenues. This grew by 16% year-on-year on account of higher unit bookings at Plantazionne.

Support Businesses

Ayala Land's support businesses, consisting of construction, property management, waterworks and hotels, collectively generated revenues of P3.55 billion or 16% of total and grew by 6%. Each of these businesses is a source of competitive advantage.

Construction. Growth of service revenues was driven by Makati Development Corporation (MDC) revenues of P1.06 billion, 7% higher than 2004 revenues, net of inter-segment eliminations. Higher revenues from infrastructure projects, equipment rentals and concrete products accounted for MDC's strong performance.

Before inter-segment eliminations, MDC revenues totaled P3.67 billion, up 5%. Net income likewise increased and amounted to P268 million.

Property Management. Revenues of Ayala Property Management Corporation (APMC), net of inter-segment eliminations, grew by 6% to P486 million due to new facilities management contracts with third parties, notably for the NAIA Terminals 2 & 3 and International School Manila.

Prior to inter-segment eliminations, total APMC revenues of P717 million increased by 3%.

Waterworks. Operation of water facilities at Company-developed projects Ayala Alabang Village and Laguna Technopark amounted to P270 million, up 10% year-on-year,

Hotels. The Company's properties, namely Hotel InterContinental, Cebu Marriott and Oakwood Premier Ayala Center, benefited from increased visitor arrivals and investor interest, such as BPO companies, in terms of occupancy and room rates.

Total revenues of P1.74 billion were up 5% due to higher room rates and revenues per available room across all Company-owned properties. Average occupancy rate was up at 82%, with Oakwood and Marriott outperforming their respective markets in terms of occupancy, room rates and revenues per available room.

Interest and Other Income

Interest and other income amounted to P4.20 billion, a significant increase from P1.71 billion in 2004 largely because of the P2.28 billion gain from sale of AIVI shares. Of the P4.20 billion, equity in net earnings contributed P221 million, up by 6% as a result of the improved performance of Alabang Commercial Corporation and Cebu Holdings, Inc.

Expenses

Total costs and expenses grew to P18.08 billion, up 19%, compared to P15.14 billion in 2004. Of the P18.08 billion, interest and other charges accounted for P3.36 billion, up from P1.33 billion, mainly due to provisions and write-offs.

General and administrative expenses, which amounted to 13% of real estate and hotel revenues, grew by 13% given increased payroll costs due to CBA adjustments and subsidiaries' expansion, and higher stock option availments.

Net Operating Income (NOI) and NOI Margins.

Net operating income amounted to P6.12 billion, with residential developments and shopping centers as key contributors. Residential developments contributed P2.35 billion or 38% of total NOI. Shopping centers generated P2.11 billion or 34% of total.

Overall NOI margin fell slightly to 34% from 36% due to Market! Market! which pulled down shopping center margins and the rental commencement at BPO buildings. The absence of a Makati land sale in 2005 also pulled margin lower.

Project and Capital Expenditures

2005 consolidated project and capital expenditures amounted to P6.8 billion, or 50% of the P13.6 billion budgeted for the year. Residential developments accounted for 75% of the disbursements while 17% was spent for shopping centers. About 6% was used for office building projects of the corporate business group. The balance was spent for projects of the Visayas-Mindanao and strategic landbank management groups and for support businesses.

Actual 2005 consolidated expenditures was below budget due to the timing of closing of negotiations for acquisition and subsequent development of properties.

For 2006, the Company's consolidated project and capital expenditures budget amounts to P16.1 billion, more than double 2005 actual expenditures.

Financial Condition

Due to improved operating results, the Company ended the year with a strong balance sheet, a solid platform for future growth.

Liquidity was enhanced by cash inflows from operations and sale of non-core assets and receivables. In 2005, the Company sold a total of P1.1 billion installment receivables. Total interest-bearing debt was reduced by 20% to P10.7 billion, bringing debt-to-equity and net debt-to-equity ratios down to 0.28:1and 0.10:1, respectively. While prepaying debt, the Company managed to pay out a total of P3.2 billion in regular and cash dividends, representing a 108% pay-out. By year-end, cash reserves amounted to P6.8 billion.

Key Financial Performance Indicators

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

	End-2004	*End-2005*
Current ratio [1]	1.82:1	1.56:1
Debt-to-equity ratio [2]	0.35:1	0.28:1
Net debt-to-equity ratio [3]	0.19:1	0.10:1
	FY 20004	*FY 20005*
Return on assets [4]	4.2%	4.7%
Return on equity [5]	8.1%	9.4%

[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 (average)*
[5] *Net income / stockholders' equity (average)*

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

<u>Income Statement items</u> – 2005 versus 2004

10% increase in real estate revenues
Principally due to higher revenues from shopping centers, residential developments and support businesses such as construction, property management and waterworks.

5% increase in hotel operations revenues
Mainly due to higher room rates across all Company-owned hotels/serviced apartments and improved average occupancy rate.

145% increase in equity in net earnings of investees, interest, fees, investment and other income
Primarily due to the gain on sale of Astoria Investment Ventures, Inc. (AIVI) preferred shares and swap of Oxbury Realty Corporation shares; and higher equity earnings due to improved performance of Cebu Holdings, Inc. and Alabang Commercial Corporation.

14% increase in real estate costs and expenses
Mainly due to higher real estate revenues and increased depreciation and direct operating expenses given Market! Market! opening.

13% increase in general and administrative expenses
Primarily due to higher payroll costs given the CBA adjustments and subsidiaries' expansion; and higher stock option availments.

153% increase in interest and other charges
Principally due to provisions for decline in value of assets intended to be sold and write-off of deferred charges.

51% decline in provision for income tax
Mainly due to capital gains in AIVI and Oxbury transaction subjected to final tax at lower rate.

1,017% increase in net income attributable to minority interest
Largely due to increased income of Ayala Hotels, Inc., Laguna Technopark, Inc., and lower loss of Roxas Land Corporation (given the one-time project cost adjustment at One Roxas Triangle in 2004).

<u>Balance Sheet items</u> – End-2005 versus End-2004

6% increase in cash and cash equivalents
Mainly due to proceeds from the sale of AIVI preferred shares, partly offset by payment of debt and special cash dividends.

12% decline in accounts and notes receivable
Mainly due to sale of receivables of about P1.1 billion.

19% increase in real estate inventories
Primarily due to reclass of a Makati property to inventories.

27% increase in other current assets
Mainly due to higher creditable withholding taxes.

26% increase in non-current accounts and notes receivable
Largely due to increase in installment sales at various projects.

10% decline in land and improvements
Primarily due to reclass of a Makati lot to real estate inventories.

70% decline in available-for-sale financial assets
Mainly due to sale of AIVI preferred shares and fair value losses on some club share investments.

7% increase in investment properties
Largely due to investments in new office and shopping center projects.

9% decline in property and equipment
Mainly due to write-off of some capitalized costs.

218% increase in deferred tax assets
Mainly due to the deferred tax assets related to provisions made.

95% increase in other non-current assets
Mainly due to deposit made for Manila Jockey Club's 6.5-hectare property in Manila.

37% increase in accounts and other payables
Primarily due to higher payables to contractors for various projects.

26% decrease in short-term debt
Largely due to payment of short-term loans and STCPs.

32% decline in income tax payable
Mainly due to lower income that is subject to 32%/35% corporate income tax.

27% decrease in current portion of long-term debt
Largely due to prepayment of FXCN and other long-term loans.

27% increase in current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

55% increase in current portion of unrealized gain on real estate sales
Primarily due to new sales at existing and new projects.

6% decline in other current liabilities
Mainly due to lower deposits in 2005.

18% decline in long-term debt (net of current portion)
Largely due to prepayment of FXCN and other long-term loans.

77% decline in pension liabilities
Mainly due to high 2004 base following set up in subsidiaries of transitional liability representing benefit obligation and funding of retirement fund deficiency at parent company level.

13% increase in deferred tax liabilities
Primarily due to deferred tax liabilities booked by a new subsidiary.

23% increase in non-current liabilities and deposits
Largely due to higher deposits from shopping center and office tenants and residential buyers.

27% decline in non-current portion of unrealized gain on real estate sales
Primarily due to reclass to current portion of unrealized gain on real estate sales.

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 Affordable Residential 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 affordable housing markets, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing. Ayala Land is also actively tapping the growing OFW market.

Office Space, Retail and Land Rental

For 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. The Company is addressing the growing demand from BPOs and call centers through its build-to-suit office buildings.

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 growing. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers.

Industrial Property Business

The industrial property business is affected by an oversupply which limits industrial expansion. The entry of China into the World Trade Organization in 2003 poses strong competition for foreign direct investment. Overall, the industrial property segment is not likely to show significant demand improvement in the near term.

Hotel Operations

The local hotel sector experienced growth in occupancy, rental rates and revenues per available room. The Company's hotels, known for their premium value and service, performed strongly in each of their respective markets. Any slowdown in tourism could potentially limit growth of the Company's hotels.

Construction

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 residential and retail sectors. Any slowdown in the construction business could potentially cap growth of the Company's construction arm.

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

- Changes in Philippine and international interest rates
- Changes in the value of the Peso
- Changes in construction material and labor costs, power rates and other costs
- Changes in laws and regulations that apply to the Philippine real estate industry
- Changes in the country's political and economic conditions

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.

2004 vs. 2003

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 2004	*FY 2003*
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

Income Statement items - *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.

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

Market Price

Philippine Stock Exchange
Prices (in PhP/share)

	High		Low		Close	
	2005	2004	2005	2004	2005	2004
First Quarter	10.00	6.50	7.20	4.90	8.30	5.30
Second Quarter	8.80	5.90	7.20	5.20	7.80	5.80
Third Quarter	8.60	6.60	6.80	5.20	8.00	6.50
Fourth Quarter	10.00	7.30	7.90	6.30	9.90	7.30

The market capitalization of ALI as of end-2005, based on the closing price of P9.90/share, was approximately P106.9 billion.

The price information as of the close of the latest practicable trading date, 28 February 2006, is P11.25.

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	December 5, 2003	December 23, 2003	January 16, 2004
0.03	July 27, 2004	August 13, 2004	August 27, 2004
0.03	December 7, 2004	December 28, 2004	January 25, 2005
0.10	February 14, 2005	March 14, 2005	March 30, 2005
0.17	August 11, 2005	September 9, 2005	October 3, 2005
0.03	November 16, 2005	December 16, 2005	January 6, 2006

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.

Special cash dividends are declared depending on the availability of cash, taking into account the Company's CAPEX and project requirements and the progress of its ongoing asset rationalization program.

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. In addition, the payment of stock dividends is likewise subject to the approval of the SEC and PSE.

Holders

There are approximately 12,837 holders of common equity security of the Company as of 31 January 2006 (based on number of accounts registered with the Stock Transfer Agent). 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	6,649,080,745	61.56%
2.	PCD Nominee Corp. (Non-Filipino)	3,046,939,657	28.21%
3.	PCD Nominee Corp. (Filipino)	783,226,837	7.25%
4.	Social Security System	18,873,388	0.17%
5.	The Insular Life Assurance Co. Ltd.	14,189,877	0.13%
6.	Jose Luis Gerardo Yulo	11,976,572	0.11%
7.	BPI T/A #14016732	10,103,870	0.09%
8.	Cygnet Development Corporation	8,200,000	0.08%
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.	Estrellita B. Yulo	4,777,353	0.04%
13.	Rivercrest Realty Corporation	4,705,000	0.04%
14.	Xavier P. Loinaz	4,684,659	0.04%
15.	Maria Alexandra Q. Caniza	3,775,855	0.03%
16.	Apex Mgt. & Dev. Group, Inc.	3,600,600	0.03%
17.	Abacus Capital & Investment Corporation	3,420,000	0.03%
18.	Maria Cristina V. Yulo	3,359,628	0.03%
19.	Pan Malayan Management & Investment Corp.	3,335,624	0.03%
20.	Ma. Angela Y. La O'	3,107,184	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 were a total of 44.4 million shares issued in 2005 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 has adopted in the Manual of Corporate Governance the leading practices and principles of good corporate governance, and full compliance therewith has been made since the adoption of the Manual.

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

Ayala Land is the largest and most diversified real estate company in the Philippines. It has organized its operations into several core businesses and support businesses.

Core Businesses

- Shopping centers - development of commercial centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these commercial centers; management and operations of malls which are co-owned with partners;

- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory buildings;

- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential units; marketing of residential developments;

- Strategic landbank management - acquisition, development and sale of large, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center;

- Visayas-Mindanao - development, sale and lease of the Company and subsidiaries' product offerings in key cities in the Visayas and Mindanao regions

Support Businesses

- Construction – land development and construction of ALI and third-party projects

- Hotels – development and management of hotels and serviced apartments; lease of land to hotel tenants

- Property management – facilities management of ALI and third-party projects

- Waterworks operations – operation of water and sewage treatment facilities in some ALI projects

In addition to above business lines, Ayala Land also derives other income from its investment activities and sale of non-core assets.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Ayala Land, Inc. and its subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2005 and 2004. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

JAIME I. AYALA
President

JAIME E. YSMAEL
Chief Finance Officer

SUBSCRIBED AND SWORN to before me this FEB 14 2006 at Makati City, affiants exhibiting to me their respective Community Tax Certificates, to wit:

Name	CTC No.	Date & Place of Issue
Jaime I. Ayala	24801716	10 January 2006 – Makati City
Jaime E. Ysmael	24796823	06 January 2006 – Makati City

Doc. No. 97 ;
Page No. 21 ;
Book No. LVI ;
Series of 2006.

RENAN R. OSERO
Notary Public-Until 31 Dec. 2006
PTR No. 4186930 E-06 Jan. 2006
Issued at Makati City
TIN: 132-204-930

COVER SHEET

152747

SEC Registration Number

AYALA LAND, INC. AND SUBSIDIARIES

(Company's Full Name)

TowerR One, Ayala Triangle, Ayala AvenUe, Makati City

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

Leovigildo D. Abot

(Contact Person)

848-5772

(Company Telephone Number)

12 31

Month *Day*

(Fiscal Year)

AAFS

(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

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

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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, 2005 and 2004, and the related consolidated statements of income, changes in equity and cash flows for the years then ended. 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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-A
Tax Identification No. 102-082-365
PTR No. 4180816, January 2, 2006, Makati City

February 13, 2006

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	December 31	
	2005	2004 (As Restated)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱6,756,038**	₱6,360,187
Accounts and notes receivable - net (Note 5)	**9,152,477**	10,375,191
Real estate inventories (Notes 6 and 15)	**6,754,425**	5,671,019
Other current assets (Note 7)	**1,342,241**	1,054,097
Total Current Assets	**24,005,181**	23,460,494
Noncurrent Assets		
Noncurrent accounts and notes receivable (Note 5)	**8,252,614**	6,575,455
Land and improvements	**17,578,187**	19,542,074
Investments in associates and jointly controlled entities - net (Note 8)	**6,812,216**	6,692,509
Available-for-sale financial assets (Note 21)	**442,491**	1,475,413
Investment properties - net (Notes 9, 12 and 15)	**13,208,712**	12,310,377
Property and equipment - net (Notes 10, 12 and 15)	**5,073,186**	5,567,241
Deferred tax assets - net (Note 16)	**767,104**	241,430
Other noncurrent assets	**1,279,913**	657,825
Total Noncurrent Assets	**53,414,423**	53,062,324
	₱77,419,604	₱76,522,818
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Note 11)	**₱7,891,135**	₱5,742,628
Short-term debt (Note 12)	**1,427,000**	1,936,750
Income tax payable	**112,344**	165,869
Current portion of:		
Long-term debt (Note 12)	**811,697**	1,110,738
Estimated liability for land and property development	**3,876,745**	3,043,026
Unrealized gain on real estate sales	**1,111,825**	719,551
Other current liabilities	**182,145**	194,000
Total Current Liabilities	**15,412,891**	12,912,562
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 12)	**8,484,137**	10,389,295
Pension liabilities (Note 18)	**110,283**	475,775
Deferred tax liabilities - net (Note 16)	**272,967**	242,238
Noncurrent liabilities and deposits (Note 13)	**3,844,636**	3,117,716
Unrealized gain on real estate sales - net of current portion	**1,731,815**	2,365,031
Estimated liability for land and property development - net of current portion	**2,223,697**	2,225,086
Total Noncurrent Liabilities	**16,667,535**	18,815,141
Total Liabilities	**32,080,426**	31,727,703

(Forward)

	December 31	
	2005	2004 (As Restated)
Equity (Note 14)		
Equity Attributable to Equity Holders of Ayala Land, Inc.		
Paid-up Capital	**₱14,385,091**	₱14,320,773
Stock Options Outstanding (Note 20)	**119,953**	115,087
Unrealized Loss on Available-for-sale Financial Assets	**(7,508)**	–
Retained Earnings	**23,950,660**	23,685,310
Treasury Stock	**(557)**	(557)
	38,447,639	38,120,613
Minority interests	**6,891,539**	6,674,502
	45,339,178	44,795,115
	₱77,419,604	₱76,522,818

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	
	2005	2004 (As Restated)
REVENUE		
Real estate	**₱16,126,880**	₱14,724,906
Hotel operations	**1,738,163**	1,649,217
Equity in net earnings of investees, interest, fees, Investment and other income (Notes 8 and 15)	**4,195,650**	1,710,130
	22,060,693	18,084,253
COSTS AND EXPENSES		
Real estate (Note 15)	**10,622,305**	9,329,441
Hotel operations (Note 15)	**1,116,379**	1,149,834
General and administrative expenses (Notes 15 and 18)	**2,359,896**	2,081,560
Interest and other charges (Note 15)	**3,359,876**	1,327,665
Provision for income tax (Note 16)	**616,806**	1,249,866
	18,075,262	15,138,366
NET INCOME	**₱3,985,431**	₱2,945,887
Net Income (Loss) Attributable to:		
Equity holders of Ayala Land, Inc.	**₱3,616,673**	₱2,986,119
Minority interests	**368,758**	(40,232)
	₱3,985,431	₱2,945,887
Earnings per Share (Note 19)		
Basic	**₱0.34**	₱0.28
Diluted	**0.33**	0.28

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands, Except Par Value and Cash Dividends Per Share)

	Years Ended December 31	
	2005	2004 (As Restated)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF AYALA LAND, INC.		
CAPITAL STOCK - ₱1 par value (Note 14)		
Issued		
Balance at beginning of year	**₱10,774,189**	₱10,760,802
Issuance of shares	**65**	547
Stock options exercised	**20,285**	12,840
Balance at end of year	**10,794,539**	10,774,189
Subscribed		
Balance at beginning of year	**1,181**	1,728
Issuance of shares	**(65)**	(547)
Balance at end of year	**1,116**	1,181
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year, as previously reported	**3,597,819**	3,526,221
Effect of change in accounting for stock options (Note 2)	**(47,897)**	(14,882)
Balance at beginning of year, as restated	**3,549,922**	3,511,339
Stock options exercised	**43,235**	38,583
Balance at end of year	**3,593,157**	3,549,922
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of year	**(4,519)**	(9,971)
Collections	**798**	5,452
Balance at end of year	**(3,721)**	(4,519)
TOTAL PAID-UP CAPITAL	**14,385,091**	14,320,773
STOCK OPTIONS (Note 20)		
Effect of change in accounting for stock options	**115,087**	43,338
Cost of stock options	**68,386**	121,862
Stock options exercised	**(63,520)**	(50,113)
Balance at end of year	**119,953**	115,087
TREASURY STOCK (Note 14)	**(557)**	(557)

(Forward)

	Years Ended December 31	
	2005	2004 (As Restated)
RETAINED EARNINGS		
Appropriated for future expansion	**₱6,000,000**	₱6,000,000
Unappropriated:		
Balance at beginning of year, as previously reported	**17,357,342**	14,995,048
Effect of change in accounting policies (Note 2)	**327,968**	350,321
Balance at beginning of year, as restated	**17,685,310**	15,345,369
Cumulative effect of change in accounting policy for financial instruments as of January 1, 2005	**(114,802)**	–
Balance at beginning of year, as adjusted	**17,570,508**	15,345,369
Cash dividends - ₱0.30 per share in 2005 and ₱0.06 per share in 2004	**(3,236,521)**	(646,178)
Net income	**3,616,673**	2,986,119
Balance at end of year	**17,950,660**	17,685,310
	23,950,660	23,685,310
UNREALIZED LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		
Cumulative effect of change in accounting policy for financial instruments as of January 1, 2005	**(89,267)**	–
Net unrealized gains for the year recognized in equity	**81,759**	–
Net income	**3,616,673**	2,986,119
Total income and expense recognized for the year	**3,698,432**	2,986,119
Less net income	**3,616,673**	2,986,119
Net income recognized directly in equity	**81,759**	–
Balance at end of year	**(7,508)**	–
Total equity attributable to equity holders of Ayala Land, Inc.	**38,447,639**	38,120,613
MINORITY INTERESTS		
Balance at beginning of year, as previously reported	**6,771,369**	5,842,715
Effect of change in accounting policies (Note 2)	**(96,867)**	(114,315)
Balance at beginning of year, as restated	**6,674,502**	5,728,400
Cumulative effect of change in accounting policy for financial instruments as of January 1, 2005	**(56,185)**	–
Balance at beginning of year, as adjusted	**6,618,317**	5,728,400
Net income (loss)	**368,758**	(40,232)
Increase in minority interests	**78,684**	994,288
Dividends paid to minority interests	**(174,220)**	(7,954)
Balance at end of year	**6,891,539**	6,674,502
	₱45,339,178	₱44,795,115

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31	
	2005	2004 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,602,237**	₱4,195,753
Adjustments for:		
Depreciation and amortization (Notes 9, 10 and 15)	**1,020,548**	933,350
Interest expense - net of amount capitalized	**827,830**	916,987
Dividends received from investee (Note 8)	**94,275**	19,034
Cost of share-based payments	**68,386**	121,862
Gain on sale of investments (Note 15)	**(3,047,578)**	(168,342)
Interest income	**(662,235)**	(659,442)
Equity in net earnings of investees (Note 8)	**(227,267)**	(253,403)
Operating income before changes in working capital	**2,676,196**	5,105,799
Decrease (increase) in:		
Accounts and notes receivable - trade	**(1,632,463)**	(3,387,819)
Real estate inventories	**885,776**	1,803,914
Other current assets	**(288,144)**	(473,883)
Increase (decrease) in:		
Accounts and other payables	**2,427,251**	1,676,232
Pension liabilities	**(365,492)**	(52,432)
Other current liabilities	**(11,855)**	(55,820)
Estimated liability for land and property development	**832,330**	1,593,926
Cash generated from operations	**4,523,599**	6,209,917
Interest received	**622,294**	426,141
Income tax paid	**(1,165,276)**	(1,045,311)
Interest paid - net of amount capitalized	**(1,107,179)**	(925,328)
Net cash provided by operating activities	**2,873,438**	4,665,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from:		
Sale of investments	**3,752,298**	1,340,031
Sale of available-for-sale financial assets	**169,712**	–
Disposal of property and equipment	**–**	29,049
Additions to:		
Land and improvements	**(5,295)**	(140,077)
Investments in associates and jointly controlled entities	**–**	(739,614)
Investment properties	**(157,445)**	(324,224)
Property and equipment (Note 10)	**(832,626)**	(2,097,219)
Decrease (increase) in:		
Accounts and notes receivable - non-trade	**625,765**	(143,914)
Other noncurrent assets	**(633,629)**	(279,916)
Net cash provided by (used in) investing activities	**2,918,780**	(2,355,884)

(Forward)

	Years Ended December 31	
	2005	2004 (As Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short and long-term debt	**₱870,000**	₱2,547,480
Payment of short and long-term debt	**(3,583,949)**	(3,491,991)
Increase (decrease) in:		
Noncurrent liabilities and deposits	**726,920**	446,984
Minority interest in consolidated subsidiaries	**–**	340,144
Proceeds from capital stock subscriptions	**798**	6,762
Dividends paid to minority	**(174,220)**	(7,954)
Dividends paid to equity holders of Ayala Land, Inc.	**(3,235,916)**	(645,693)
Net cash used in financing activities	**(5,396,367)**	(804,268)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**395,851**	1,505,267
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**6,360,187**	4,854,920
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱6,756,038**	₱6,360,187

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 consolidated financial statements of Ayala Land, Inc. and Subsidiaries for the years ended December 31, 2005 and 2004 were authorized for issue by the Audit Committee and Board of Directors (BOD) on February 13, 2006.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Company and its subsidiaries (the Group) have been prepared in accordance with accounting principles generally accepted in the Philippines, as set forth in Philippine Financial Reporting Standards (PFRSs). These are the Group's first consolidated financial statements prepared in accordance with PFRS.

The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the consolidated financial statements, with January 1, 2004 as the date of transition. The Group applied the accounting policies set forth below to all the years presented, except those relating to financial instruments. An explanation of how the transition to PFRS has affected the reported financial position, financial performance and cash flows of the Group is provided below.

The consolidated financial statements have been prepared using the historical cost basis, except for available-for-sale financial assets that have been measured at fair value.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a high degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of Ayala Land, Inc. and its subsidiaries as of December 31, 2005 and 2004. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-company balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company transactions that are recognized in assets are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company and its subsidiaries obtain control, and continue to be consolidated until the date that such control ceases.

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	
	2005	2004
Real Estate:		
Amorsedia Development Corporation and subsidiaries	**100%**	100%
OLC Development Corporation	**100**	100
Ayala Greenfield Development Corporation (AGDC)	**50**	50
Ayala Land International Sales, Inc.	**100**	–
Ayala Land Sales, Inc.	**100**	100
Buendia Landholdings, Inc.	**100**	100
Community Innovations, Inc.	**100**	100
Crimson Field Enterprises, Inc.	**100**	100
Avida Land Corporation (formerly Laguna Properties Holdings, Inc.) and subsidiaries	**100**	100
Regent Time International, Limited (Regent)	**100**	100
Red Creek Properties, Inc.	**100**	100
Aurora Properties Incorporated	**70**	70
Vesta Property Holdings, Inc.	**70**	70
Station Square East Commercial Corporation (SSECC)	**69**	72
Serendra, Inc.	**67**	67
Ceci Realty, Inc.	**62**	62
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
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

(Forward)

	Effective Percentages of Ownership	
	2005	2004
Entertainment:		
Five Star Cinema, Inc.	**100%**	100%
Leisure and Allied Industries Philippines, Inc. (LAI)	**50**	50
Others:		
ALInet.com, Inc. (ALInet)	**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 to the accounts of the Company.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not wholly owned and are presented separately in the statements of income and changes in equity and within equity in the consolidated balance sheets, separately from the Company's equity.

Explanation of Transition to PFRS

The transition to PFRSs resulted in certain changes to the Group's previous accounting policies. The comparative figures for the 2004 financial statements were restated to reflect the changes in policies except those relating to financial instruments. The Group availed of the exemption under PFRS 1 and as allowed by Securities and Exchange Commission (SEC) applied PAS 32 and PAS 39, the standards on financial instruments, from January 1, 2005. The cumulative effect of adopting PAS 39 was charged to the January 1, 2005 retained earnings.

The effects of the transition to PFRS are discussed below:

a. PFRS 1 *First Time Adoption of PFRS*

   PFRS 1 requires an entity to comply with each PFRS effective at the reporting date for its first PFRS financial statements. The Group has adopted PFRS for these financial statements as of and for the year ended December 31, 2005 and has also restated the comparative amounts for the year ended December 31, 2004, except for PAS 32 and PAS 39 based on the exemption provided by PFRS 1 and as allowed by SEC. In addition, the following courses of action have been taken as allowed under PFRS 1:

   Share-based payment transactions

   The Group has applied *PFRS 2*, *Share-based Payment*, only to equity-settled awards granted after November 7, 2002 that have not vested on January 1, 2005, similar to the transitional provisions under PFRS 2 of equity-settled transactions.

For stock options that have vested as of the later of the transition date (January 1, 2004) and January 1, 2005 herein referred to as "pre-PFRS 2 options", the SEC resolved that a first-time adopter covered by the PFRS 1 exemption is strongly encouraged to recognize, on a retroactive basis, the intrinsic value of stock options (the difference between the fair value of the underlying shares and the exercise price of the option) determined as of grant date as employee benefits over the vesting period. The Group adopted the accounting for pre-PFRS 2 stock options which resulted in the increase in retained earnings by ₱26.3 million and ₱7.8 million as of January 1, 2005 and 2004, respectively; and the increase in consolidated net income in 2004 by ₱18.5 million. Previously, the Group recognized the intrinsic value of these pre-PFRS 2 options when exercised.

Post retirement benefits - Defined benefit schemes
The Group has chosen not to recognize using the "corridor approach" cumulative actuarial gains or losses that resulted from the measurement of such schemes in accordance with PAS 19, *Employee Benefits*, at the date of transition. Instead, the Group has elected to recognize all cumulative actuarial gains and losses at the date of transition to PFRS.

b. PAS 19, *Employee Benefits*

Under PAS 19, pension benefits are determined using the projected unit credit method and the resulting net pension asset or liability is recognized in the consolidated financial statements. Actuarial gains and losses that exceed a 10% "corridor" may be amortized over the expected average remaining working lives of participating employees or recognized immediately in the statements of income. Vested past service cost is recognized immediately. Also, under PAS 19, an entity is required to recognize short-term employee benefits when an employee has rendered service in exchange for those benefits.

The adoption of this standard decreased retained earnings at January 1, 2004 by ₱358.7 million; increased the employee benefits to ₱579.0 million and by ₱509.4 million at January 1, 2005 and 2004, respectively; and decreased general and administrative expenses by ₱69.6 million in 2004.

c. PAS 21, *The Effects of Changes in Foreign Exchange Rates*

PAS 21 does not allow capitalization of foreign exchange differentials related to the acquisition of property and equipment. Thus, effective January 1, 2004, the undepreciated balance of capitalized foreign exchange losses included in hotel property and equipment of AHI, were adjusted retroactively to beginning retained earnings.

The adoption of this standard decreased retained earnings by ₱56.2 million and ₱58.1 million as of January 1, 2005 and 2004, respectively; decreased hotel property and equipment by ₱170.0 million and ₱174.1 million as of January 1, 2005 and 2004, respectively; and, decreased costs of hotel operations by ₱4.1 million in 2004.

d. PAS 32, *Financial Instruments: Disclosure and Presentation/* PAS 39, *Financial Instruments: Recognition and Measurement*

PAS 32 covers the disclosure and presentation requirements for financial instruments. The adoption of this standard resulted to more comprehensive disclosures about the Group's financial assets and liabilities.

Under PAS 39, financial instruments held for trading, available-for-sale financial assets and derivative financial instruments are recognized as assets or liabilities and subsequently measured at fair value. Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost less any provision for impairment. As allowed by the SEC, the effect of adopting PAS 39 did not result to a restatement of prior period's financial statements. The cumulative effect of the standard was charged to the January 1, 2005 retained earnings.

The adoption of this standard decreased retained earnings as of January 1, 2005 by ₱114.8 million; increased available-for-sale financial assets by ₱1,386.1 million at January 1, 2005; and, decreased receivables, liabilities, and investments in associates by ₱490.7 million, ₱316.8 million, and ₱12.4 million, respectively at January 1, 2005.

e. PAS 40, *Investment Properties*

PAS 40 prescribes the accounting treatment for investment property and related disclosure requirements. It permits the company to use either the fair value model or cost model in accounting for investment property. The Group has adopted the cost model and has continued to carry investment properties at depreciated cost less any accumulated impairment losses. Additional disclosures required by this standard have been included in the consolidated financial statements.

The adoption of this standard resulted in the reclassification of certain properties under construction from investment properties to property, plant and equipment amounting to ₱957.0 million and ₱1,526.8 million as of January 1, 2005 and 2004, respectively.

f. PFRS 2, *Share-Based Payments*

PFRS 2 sets out the measurement principles and accounting requirements for share-based payment transactions which are to be settled either in cash, other assets, or equity instruments of the entity. Under this standard, the Company is required to recognize in the statements of income, over the vesting period, the cost of share options granted.

The adoption of this standard resulted in the decrease in the consolidated statements of income by ₱29.2 million in 2004 and a decrease in retained earnings by ₱29.2 million as of January 1, 2005.

g. PFRS 3, *Business Combinations*

PFRS 3 prohibits the amortization of goodwill and requires goodwill to be tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. Any resulting excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost after performing a reassessment is credited to income (also known as negative goodwill). Moreover, pooling of interests in accounting for business combination will no longer be permitted. As allowed by PFRS 1, the Group elected to apply the optional exemption on the retroactive application of PFRS 3 on its business combinations that occurred before January 1, 2004. Negative goodwill arising from the acquisition of BLC shares was recognized, resulting in an adjustment to retained earnings amounting to ₱759.3 million as at January 1, 2004. Further, amortization of negative goodwill amounting to ₱42.5 million in 2004, was reversed to income with corresponding adjustment to investments in associates and jointly controlled entity account in the consolidated balance sheets. Comparative consolidated statements of income in 2004 was restated which resulted in the net increase in "Equity in net earnings of investees, interest, fees, investment and other income" account.

h. PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*

PFRS 5 specifies the accounting for assets held for sale and the presentation and disclosure requirements for discontinued operations. Under this standard, qualifying noncurrent assets or disposal groups held for sale shall be carried at fair value less cost to sell if this amount is lower than its carrying amount less accumulated impairment losses. A company shall not depreciate (or amortize) non-current assets (or disposal groups) while classified as held for sale. Any gain or loss on the remeasurement of a non-current asset (or disposal group) classified as held for sale shall be included in the profit or loss from continuing operations.

As of December 31, 2005 and 2004, the Group has no qualifying non-current assets held for sale.

The increasing (decreasing) effects of transition to PFRS, including the effect of the pre-PFRS 2 options, follow:

December 31, 2004

	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Equity	January 1, 2004 Retained Earnings	Net Income
PAS 19	₱161,607	₱36,415	₱472,976	(₱347,784)	(₱358,665)	₱45,510
PAS 21	(134,948)	–	–	(134,948)	(58,058)	2,798
PFRS 2	10,903	–	–	10,903	–	(29,213)
PFRS 3	716,742	–	–	716,742	759,279	(42,538)
PAS 8 (pre-PFRS 2 options)	53,377	–	–	53,377	7,765	18,538
	₱807,681	₱36,415	₱472,976	₱298,290	₱350,321	(₱4,905)

The reconciliation of the effects of these new and revised accounting standards as they apply on the consolidated equity section as of December 31, 2004 and net income and earnings per share for the year then ended are set out below:

	Equity*	Net Income	Basic Earnings Per Share
	(In Thousands)	(In Thousands)	
As previously reported	₱44,496,825	₱2,950,792	₱0.28
PAS 19	(347,784)	45,510	–
PAS 21	(134,948)	2,798	–
PFRS 2	10,903	(29,213)	–
PFRS 3	716,742	(42,538)	–
PAS 8 (pre-PFRS 2 options)	53,377	18,538	–
As restated	₱44,795,115	₱2,945,887	₱0.28

* Includes minority interest.

The Group has also adopted the following revised accounting standards during the year and comparative figures have been amended as required. The adoption of the following revised accounting standards does not have any effect on equity as of January 1, 2004.

- PAS 1, *Presentation of Financial Statements*;
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- PAS 10, *Events After the Balance Sheet Date*;
- PAS 17, *Leases*;
- PAS 24, *Related Party Disclosures*;
- PAS 27, *Consolidated and Separate Financial Statements*;
- PAS 28, *Investments in Associates*;
- PAS 31, *Interests in Joint Ventures*;
- PAS 33, *Earnings Per Share;*
- PAS 36, *Impairment of Assets;*
- PAS 38, *Intangible Assets*

Financial Reporting Standards Effective in 2006 and 2007

The Group did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*. The revised disclosures from the amendments will be included in the Group's financial statements when the amendments are adopted in 2006.

- PFRS 7, *Financial Instruments: Disclosures*. The revised disclosures on financial instruments provided by this standard will be included in the Group's financial statements when the standard is adopted in 2007.

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 placement and that are subject to an insignificant risk of changes in value.

Trade Receivables
Trade receivables are recognized and carried at the original contract price or invoice amount less any allowance for uncollectible amounts. An allowance for doubtful account is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is recognized in the statements of income.

Real Estate Inventories
Real estate inventories 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 consist of properties for future development and is carried at the lower of cost or net realizable value. Cost includes those costs incurred for development and improvement of the properties, including capitalized borrowing costs.

Investments in Associates and Jointly Controlled Entities
Investments in associates and jointly controlled entities (investee companies) are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Under the equity method, the investments in the investee companies are carried in the consolidated balance sheets at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The consolidated statements of income reflect the share of the results of the operations of the investee companies.

The Group discontinues applying the equity method when their investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group 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 reporting dates of the investee companies and the Group are identical and the investee companies' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investment Properties

Investment properties consist of properties that are held to earn rentals, and that is not occupied by the companies in the Group. Investment properties, 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.

Depreciation of investment properties are computed using the straight-line method over its useful life, regardless of utilization. The estimated useful lives of investments properties are as follows: land improvements - 5 years and buildings - 20 to 40 years.

Investment properties are derecognized when either they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when and only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Financial Assets

From January 1, 2005, financial assets in the scope of PAS 39 are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate except for assets designated at the onset of FVPL, re-evaluates this designation at each financial year-end.

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in trade and other receivables in the consolidated balance sheets.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Available-for-sale financial assets are those nonderivative financial assets that are designated as available-for- sale or are not classified as financial assets at fair value through profit or loss, held to maturity investments and loans and receivables. After initial recognition, available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired.

The fair values of available-for-sale financial assets that are actively traded in organized financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. Available-for-sale financial assets which are not actively traded are stated at cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from the consolidated statements of changes in equity to the consolidated statements of income. Reversals of impairment in respect of these financial assets are not recognized in the consolidated statements of income.

The Group has no financial assets at fair value through profit or loss and held to maturity investments.

From January 1, 2004 to December 31, 2004
Financial assets include investment in companies other than subsidiaries and associates and other securities. Financial assets are recorded at cost, including additional direct charges. A permanent impairment is provided as a direct reduction of the securities account.

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.

Construction-in-progress is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Subsequent costs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Depreciation and amortization of assets commences once the assets are available for use and 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; transportation equipment - 3 to 5 years; and, hotel property and equipment - 10 to 50 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.

When assets are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

<u>Impairment of Assets</u>
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Debt Issuance Costs
Effective January 1, 2005, debt issuance costs are amortized using the effective interest rate method. The unamortized debt issuance costs are netted against the related carrying value of debt instrument. The cumulative effect of change is not material.

Short-term and Long-term Debts
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, short-term and long-term debts are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Provisions
Provisions are recognized when the Group has 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income net of any reimbursement. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimates.

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 consolidated 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 services are rendered.

Interest is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend income is recognized when the Group's right to receive the payment is established.

Share-based Payments

The Company and its subsidiaries have equity-settled, share-based compensation plans with its employees.

PFRS 2 Options

For options granted after November 7, 2002 that have not vested on or before January 1, 2005, the cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in Note 20. In valuing equity-settled transactions, no account is taken of any performance conditions (market conditions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instrument that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Pre-PFRS 2 Options
For options that have vested before January 1, 2005, the intrinsic value of stock options determined as of grant date is recognized as expense over the vesting period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 19).

Pension Cost
Pension cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailment or settlement.

The liability recognized in the consolidated balance sheets in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are immediately charged or credited to the consolidated statements of income.

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 "Real Estate Inventories," "Land and Improvements" and "Investment Properties" 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.

Deferred Income Taxes

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred 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 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 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 tax assets to be utilized.

Deferred 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 to or charged against 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 over the lease term while the variable rent is recognized as an expense based on the terms of the lease contract.

Earnings Per Share (EPS)

Basic 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.

Segment Reporting
The Group's 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 22.

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. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments and Estimates

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition
Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer and completion of development.

Operating Lease Commitments - Group as Lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Distinction Between Investment Properties and Owner-occupied properties
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating allowance for doubtful accounts

The Group maintains allowances for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management based on collection experience and other factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers, the customers' payment behavior and known market factors. The amount and timing of recorded expenses for any period would therefore differ depending on the judgments and estimates made for each year. See Note 5 for the related balances.

Evaluation of asset impairment

The Group reviews land and improvements, investments in associates and jointly controlled entities, property and equipment and investment properties for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in discounting the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the asset's net selling price, except for investments where value in use computation is applied. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the investments. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Land and improvements amounted to ₱17.6 billion and ₱19.5 billion as of December 31, 2005 and 2004, respectively. See Notes 8, 9 and 10 for the other related significant balances.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect land and improvements, investments in associates and jointly controlled entities, available-for-sale financial assets, investment properties, property and equipment, deferred tax assets and other noncurrent assets.

Estimating useful lives of property and equipment and investment properties
The Group estimates the useful lives of its property and equipment and investment properties based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. See Notes 9 and 10 for the related balances.

Deferred tax assets
The Group reviews the carrying amounts of deferred income taxes at each balance sheet date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of deferred income tax assets to be utilized. The Group looks at its projected performance in assessing the sufficiency of future taxable income. See Note 16 for the related balances.

Estimating liability for land and property development
Obligations to complete development of real estate project are recognized in the consolidated balance sheets and are based on cost estimates made by the Group's technical staff. These estimated costs are reviewed at least annually and are updated if expectations differ from previous estimates. Changes are mainly due to adjustments in development plan, materials and labor prices. Estimated liability for land and property development amounted to ₱6.1 billion and ₱5.2 billion as of December 31, 2005 and 2004, respectively.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Group. See Note 20 for the related balances.

Estimating pension obligation and other retirement benefits
The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include among others, discount rates, expected returns on plan assets and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions materially affect retirement obligations. See Note 18 for the related balances.

Financial assets and liabilities
Philippine GAAP requires certain financial assets and liabilities to be carried at fair value, which requires use of extensive accounting estimates and judgements. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), the amount of changes in fair value would differ if we utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the consolidated statements of income and changes in equity. See Note 21 for the related balances.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 25).

4. **Cash and Cash Equivalents**

This account consists of:

	2005	2004
	(In Thousands)	
Cash on hand and in banks	**₱1,286,569**	₱719,747
Short-term investments	**5,469,469**	5,640,440
	₱6,756,038	₱6,360,187

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 Group, and earn interest at the respective short-term investment rates.

5. **Accounts and Notes Receivable**

Accounts and notes receivable are summarized as follows:

	2005	2004 (As Restated)
	(In Thousands)	
Trade	**₱14,022,325**	₱13,638,650
Related parties (see Note 17)	**1,034,064**	1,015,773
Advances	**694,899**	1,189,631
Advances to contractors	**501,568**	452,068
Accrued receivable	**75,866**	168,022
Dividends receivable	–	110,263
Others	**1,191,137**	498,467
	17,519,859	17,072,874
Less allowance for doubtful accounts	**114,768**	122,228
	17,405,091	16,950,646
Less noncurrent portion	**8,252,614**	6,575,455
	₱9,152,477	₱10,375,191

The sales contract receivables are collectible in monthly installments over a period of one to ten years and bear annual interest rates ranging from 10.25% to 14.25% computed on the diminishing balance of the principal.

6. Real Estate Inventories

This account consists of:

	2005	2004
	(In Thousands)	
Subdivision land for sale	**₱4,132,305**	₱3,101,273
Condominium, residential and commercial units for sale	**2,622,120**	2,569,746
	₱6,754,425	₱5,671,019

Real estate inventories carried at net realizable value amounted to ₱867.1 million as of December 31, 2005.

7. Other Current Assets

This account consists of:

	2005	2004
	(In Thousands)	
Prepaid expenses	**₱435,518**	₱445,573
Value-added input tax	**411,177**	369,229
Others	**495,546**	239,295
	₱1,342,241	₱1,054,097

8. Investments in Associates and Jointly Controlled Entities

	2005	2004 (As Restated)
	(In Thousands)	
Acquisition cost	**₱5,334,929**	₱5,407,281
Accumulated equity in net earnings:		
Balance at beginning of year, as previously reported	**587,865**	707,338
Change in accounting policy (Note 2)	**697,362**	739,900
Balance at beginning of year, as restated	**1,285,227**	1,447,238
Cumulative effect of change in accounting policy for financial instruments as of January 1, 2005	**(12,469)**	–
Balance at beginning of year, as adjusted	**1,272,758**	1,447,238
Equity in net earnings during the year	**227,267**	253,403
Disposal of equity investment	**71,537**	(396,379)
Dividends received during the year	**(94,275)**	(19,034)
Balance at end of year	**1,477,287**	1,285,228
	₱6,812,216	₱6,692,509

The Group's 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	
	2005	2004	**2005**	2004 (As Restated)
			(In Thousands)	
Emerging City Holdings, Inc. (ECHI)	**50%**	50%	**₱2,192,476**	₱2,132,282
Cebu Holdings, Inc. (CHI) and subsidiaries	**47**	47	**1,671,605**	1,635,457
North Triangle Depot Commercial Corporation (NTDCC)	**49**	49	**1,044,047**	1,014,884
Berkshires Holdings, Inc. (BHI)	**50**	50	**939,618**	913,832
BLC (through Regent)	**4**	4	**457,445**	443,373
Alabang Commercial Corporation (ACC)	**50**	50	**431,349**	471,702
Lagoon Development Corporation	**30**	30	**74,141**	70,418
MyAyala.com, Inc.	**50**	50	**1,535**	2,626
Ayala Port, Inc. (Ayala Port)	**50**	50	**–**	7,935
			₱6,812,216	₱6,692,509

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.

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.

The Company's share in negative goodwill arising from the purchase of BLC shares was recognized in income in the year of acquisition (see Note 2).

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 shopping center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years. NTDCC officially started the construction of the shopping center in 2005.

The Company divested its equity shareholdings in Pilipinas Makro, Inc. in 2004.

9. Investment Properties

The movements in this account are:

	2005	2004
	(In Thousands)	
Cost		
January 1	**₱15,426,007**	₱12,860,751
Additions	**744,319**	279,696
Transfers	**925,809**	2,369,498
Disposals	**(259,691)**	(83,938)
December 31	**16,836,444**	15,426,007
Accumulated Depreciation, Amortization and Impairment Losses		
January 1	**3,115,630**	2,730,007
Depreciation and amortization	**519,465**	442,795
Disposals	**(7,363)**	(57,172)
December 31	**3,627,732**	3,115,630
Net Book Value	**₱13,208,712**	₱12,310,377

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.

The Group's investment properties were valued by independent professionally qualified appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

The value of the land and condominium units was arrived at by the *Market Data Approach*. In this approach, the value of the land and condominium units is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishing of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject property.

The value of the improvements was arrived at by the use of the *Cost Approach.* Under this approach, an estimate is made of the current Cost of Reproduction, New, of the improvements in accordance with prevailing market prices for materials, labor, and contractor's overhead, profit, and fees. Adjustments are then made to reflect depreciation resulting from physical deterioration, functional and economic obsolescence based on personal inspection of improvements and comparison with similar new properties.

In estimating the Cost of Reproduction, New, of the improvements, the valuers have adopted the *Modified Quantity Survey Method*. This method requires an analysis of the improvements by breaking them down into major components such as foundation, columns, beams, floorings, walls, roofings, etc. Bills of quantities for each building component using the appropriate basic unit are prepared and related to the unit cost of each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs such as contractors' profits, overhead, taxes, fees, and other related expenses are then added.

For imported items, the pricing process gave full consideration to all expenditures normally incurred in importation such as packing and crating charges, inland and ocean freight, insurance, duties and taxes, bank charges and commissions, wharfage, and brokerage and handling.

The aggregate fair value of the Group's investment properties amounted to ₱121.8 billion as of December 31, 2005.

Consolidated rental income from investment properties amounted to ₱4.2 billion in 2005 and ₱3.5 billion in 2004. Consolidated direct operating expenses arising from investment property amounted to ₱2.0 billion in 2005 and ₱1.4 billion in 2004.

10. Property and Equipment

This account consists of (in thousands):

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Hotel Property and Equipment	Construction in Progress	2005 Total	2004 (As restated)
Cost								
January 1	**₱913,473**	**₱1,082,930**	**₱673,579**	**₱272,738**	**₱4,800,887**	**₱957,046**	**₱8,700,653**	₱9,043,796
Additions	**71,846**	**270,565**	**101,371**	**68,280**	**42,867**	**620,956**	**1,175,885**	2,097,219
Disposals/Write-off	**(316,564)**	–	**(19,849)**	**(39,554)**	**(19,417)**	–	**(395,384)**	(127,031)
Transfers	–	–	–	–	–	**(837,139)**	**(837,139)**	(2,313,331)
December 31	**668,755**	**1,353,495**	**755,101**	**301,464**	**4,824,337**	**740,863**	**8,644,015**	8,700,653
Accumulated Depreciation and Amortization								
January 1	**195,882**	**536,015**	**545,246**	**164,996**	**1,691,273**	**–**	**3,133,412**	2,758,813
Depreciation	**37,465**	**147,796**	**85,794**	**49,869**	**168,618**	**–**	**489,542**	472,581
Disposals	**(2,034)**	**–**	**(13,464)**	**(27,252)**	**(9,375)**	**–**	**(52,125)**	(97,982)
December 31	**231,313**	**683,811**	**617,576**	**187,613**	**1,850,516**	**–**	**3,570,829**	3,133,412
Net Book Value	**₱437,442**	**₱669,684**	**₱137,525**	**₱113,851**	**₱2,973,821**	**₱740,863**	**₱5,073,186**	₱5,567,241

Consolidated depreciation and amortization of property and equipment (included under various income statement accounts) amounted to ₱489.5 million in 2005 and ₱472.6 million in 2004.

11. Accounts and Other Payables

This account consists of:

	2005	2004
	(In Thousands)	
Accounts payable	**₱4,586,569**	₱3,119,549
Accrued expenses	**2,238,142**	1,295,373
Taxes payable	**715,670**	990,373
Dividends payable	**338,085**	325,480
Retentions payable	**12,669**	11,853
	₱7,891,135	₱5,742,628

12. Short-term and Long-term Debt

In 2005 and 2004, 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. The STCPs were fully paid in 2005.

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

The bank loans of ₱1,427.0 million as of December 31, 2005 and ₱722.0 million as of December 31, 2004 represent unsecured peso-denominated short-term borrowings by the Company's subsidiaries with interest rates ranging from 6.8 % to 8.5% p.a. in 2005 and 7.2% to 9.7% p.a in 2004.

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 loan was fully paid in 2005.

Long-term debt consists of:

	2005	2004
	(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.	**166,667**	1,683,333
Fixed rate corporate notes (FXCNs)	**950,000**	1,060,000
	6,116,667	7,743,333
Subsidiaries:		
Bank loans - with interest rates ranging from 8.0% to 12.0% p.a.		
Philippine peso	**2,724,956**	3,049,057
Foreign currency	**454,211**	707,643
	3,179,167	3,756,700
	9,295,834	11,500,033
Less current portion	**811,697**	1,110,738
	₱8,484,137	₱10,389,295

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.

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. In 2005, the Company prepaid a total of ₱1.35 billion in long-term bank loans and ₱166.67 million in principal amortization. The remaining long-term bank loan is unsecured and will mature in 2006.

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 Company paid FXCNs that were due in 2005 and 2007. The remaining FXCNs are due in 2009 and 2012 and bear fixed interest rates of 14.50% and 14.875%, respectively.

The subsidiaries' loans will mature on various dates up to 2011. Certain subsidiaries' loans are collateralized by mortgages on real estate properties, hotel property and equipment and leasehold rights with a total carrying value of ₱3.5 billion and ₱3.0 billion as of 2005 and 2004, respectively.

The Company pledged its investment in shares of stock of SSECC with a carrying value of ₱2.1 billion and ₱1.4 billion as of 2005 and 2004, 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 Group.

Interest capitalized amounted to ₱297.0 million in 2005 and ₱533.2 million in 2004. The capitalization rates used ranged from 12.65% to 13.94% in 2005 and 2004.

13. Noncurrent Liabilities and Deposits

Noncurrent liabilities and deposits consist of:

	2005	2004
	(In Thousands)	
Deposits	**₱2,685,306**	₱2,367,935
Retentions payable	**540,341**	479,930
Other liabilities	**618,989**	269,851
	₱3,844,636	₱3,117,716

14. Equity

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

	2005	2004
Authorized	**12,000,000**	12,000,000
Issued	**10,794,539**	10,774,189
Subscribed	**1,116**	1,181
Treasury	**(24)**	(24)
Outstanding	**10,795,631**	10,775,346

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 2005, the BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.30 per share.

Retained earnings include undistributed net earnings amounting to ₱5,411.4 million and ₱5,061.2 million as of December 31, 2005 and 2004, 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.

15. Costs and Expenses

Net gain on disposal of investments included in net earnings of investees amounted to ₱3,047.6 million and ₱168.3 million in 2005 and 2004, respectively.

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

	2005	2004 (As Restated)
	(In Thousands)	
Included in:		
Cost of:		
Real estate	**₱711,555**	₱565,915
Hotel operations	**168,618**	165,626
General and administrative expenses	**140,375**	201,809
	₱1,020,548	₱933,350

General and administrative expenses consists of:

	2005	2004 (As Restated)
	(In Thousands)	
Manpower cost (see Notes 18 and 20)	**₱1,237,720**	₱1,170,773
Depreciation and amortization	**140,375**	201,809
Utilities	**78,645**	74,290
Others	**903,156**	634,688
	₱2,359,896	₱2,081,560

Interest and other charges consist of:

	2005	2004
	(In Thousands)	
Provisions and write-offs	**₱2,174,130**	₱–
Interest expense	**965,843**	917,450
Others	**219,903**	410,215
	₱3,359,876	₱1,327,665

Provisions and write-offs included those relating to inventories, property and equipment and investments. The Group used the net selling price in determining the recoverable amount.

16. **Income Taxes**

The components of net deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows:

	2005	2004 (As restated)
	(In Thousands)	
Deferred tax assets on:		
Allowance for probable losses	**₱627,256**	₱133,550
Unrealized gain, deposits and accruals for various expenses on real estate transactions	**386,423**	378,288
Retirement benefits	**204,862**	161,607
Outstanding share-based payments	**110,458**	64,280
NOLCO	**36,434**	69,037
MCIT	**11,365**	23,538
Others	**155,033**	45,065
	1,531,831	875,365
Deferred tax liabilities on:		
Capitalized customs duties, interest and other expenses	**(800,347)**	(610,424)
Excess of financial realized gross profit over taxable realized gross profit	**(237,202)**	(217,024)
Unrealized foreign exchange gain	**(145)**	(48,725)
	(1,037,694)	(876,173)
	₱494,137	(₱808)

Certain subsidiaries of the Company have NOLCO amounting to ₱808.9 million and ₱813.1 million as of December 31, 2005 and 2004, respectively, which were not recognized. Further, a subsidiary also has deductible temporary differences arising from unrealized gain on real estate sales amounting to ₱143.3 million and ₱153.3 million as of December 31, 2005 and 2004, 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, 2005, carryover NOLCO and MCIT (incurred in 2003 to 2005 and expires in 2006 to 2008) 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)	
2003	2006	₱71,897	₱3,726
2004	2007	536,322	5,023
2005	2008	304,867	9,886
		₱913,086	₱18,635

At December 31, 2005 and 2004, 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:

	2005	2004 (As Restated)
	(In Thousands)	
Current	**₱1,111,751**	₱1,098,673
Deferred	**(494,945)**	151,193
	₱616,806	₱1,249,866

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

	2005	2004 (As Restated)
Statutory income tax rate	**32.5%**	32.00%
Tax effect of:		
Equity in net earnings of investees	**(1.60)**	(2.25)
Income subjected to lower income tax rates (see Note 23)	**(0.68)**	(1.00)
Interest income and capital gains taxed at lower rates	**(15.64)**	(2.70)
Effect of change in statutory income tax rate	**(1.99)**	–
Others - net	**0.81**	3.74
Effective income tax rate	**13.40%**	29.79%

RA No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. On October 18, 2005, the SC has rendered its final decision declaring the validity of the RA No. 9337. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increase in VAT rate from 10% to 12% effective February 1, 2006 as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Provide thresholds and limitations on the amounts of VAT credits that can be claimed.

17. **Related Party Transactions**

The Group 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 estate 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.

As of December 31, 2005, the effect of the foregoing are shown under the appropriate accounts in the consolidated financial statements as follows:

2005

	Revenue	Amounts Owed by Related Parties	Amounts Owed to Related Parties
		(In Thousands)	
Parent Company	₱–	₱5,590	₱3,534
Associates and jointly-controlled entities	212,323	823,754	3,069
Other related parties	203,500	204,720	9,884
	₱415,823	₱1,034,064	₱16,487

2004

	Revenue	Amounts Owed by Related Parties	Amounts Owed to Related Parties
		(In Thousands)	
Parent Company	₱–	₱779	₱12,670
Associates and jointly-controlled entities	284,258	921,404	2,112
Other related parties	10,124	93,590	40,954
	₱294,382	₱1,015,773	₱55,736

Amounts owed by related parties 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.

Compensation of key management personnel by benefit type follows:

	2005	2004
	(In Thousands)	
Short-term employee benefits	**₱94,132**	₱85,231
Share-based payments (see Note 20)	**31,577**	30,016
Post-employment benefits	**29,609**	36,042
	₱155,318	₱151,289

18. **Retirement Plan**

The Group has funded, noncontributory tax-qualified defined benefit type of retirement plans covering substantially all of their employees. The benefits are generally based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service.

Actuarial valuations are made at least every one to three years. The Group's 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.

The components of pension expense (included in staff costs under "General and administrative expenses") in the consolidated statements of income are as follows:

	2005	2004 (As Restated)
	(In Thousands)	
Current service cost	**₱165,564**	₱175,066
Interest cost on benefit obligation	**55,238**	56,923
Expected return on plan assets	**(2,368)**	(4,335)
Net actuarial losses	**1,248**	17,297
Past service cost	**2,706**	–
Total pension expense	**₱222,388**	₱244,951

The funded status and amounts recognized in the consolidated balance sheets for the pension plan as of December 31, 2005 and December 31, 2004 are as follows:

	2005	2004 (As Restated)
	(In Thousands)	
Benefit obligations	**₱1,126,909**	₱957,526
Plan assets	**(1,016,626)**	(481,751)
Pension liabilities	**₱110,283**	₱475,775

Changes in the present value of the defined benefit obligation are as follows:

	2005	2004 (As restated)
Balance at January 1	**₱957,526**	₱974,470
Interest cost	**55,238**	56,923
Current service cost	**165,564**	175,066
Past service cost - vested benefits	**2,706**	–
Benefits paid	**(55,373)**	(265,370)
Actuarial losses	**1,248**	16,437
Balance at December 31	**₱1,126,909**	₱957,526

Changes in the fair value of plan assets are as follows:

	2005	2004 (As restated)
Balance at January 1	**₱481,751**	₱426,201
Expected return	**2,368**	4,335
Contributions	**587,880**	317,445
Benefits paid	**(55,373)**	(265,370)
Actuarial losses	**–**	(860)
Balance at December 31	**₱1,016,626**	₱481,751

The assumptions used to determine pension benefits for the Group for the years ended December 31, 2005 and December 31, 2004 are as follows:

	2005	2004
Discount rate	**11.0%**	9.5%
Salary increase rate	**10.0**	10.0
Expected rate of return on plan assets	**10.0**	10.0

The allocations of the fair value of plan assets are as follows:

	2005	2004
Investments in government instruments	**66.93%**	64.59%
Investments in equity securities	**30.09**	19.49
Others	**2.98**	15.92

19. Earnings Per Share

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

	2005	2004 (As Restated)
Net income	**₱3,616,673**	₱2,986,119
Weighted average number of common shares for basic EPS	**10,788,029**	10,766,243
Dilutive shares arising from stock options	**32,625**	26,299
Adjusted weighted average number of common shares for diluted EPS	**10,820,654**	10,792,542
Basic EPS	**₱0.34**	₱0.28
Diluted EPS	**0.33**	0.28

20. 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 ESOP grantees may exercise in whole or in part the vested allocation in accordance with the vesting percentage and vesting schedule stated in the ESOP. Also, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year option period. In case the grantee retires, he is given 3 years to exercise his vested and unvested options. In case the grantee resigns, he is given 90 days to exercise his vested options.

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

In 2005, the Company introduced a revised ESOWN and granted to qualified officers wherein grantees may subscribe in whole or in part to the shares awarded to them based on a 15% discounted market price as the offer price set at grant date. The grantees paid for the shares subscribed through installments over a maximum period of 10 years. The subscription is subject to a holding period in accordance with the vesting percentage and vesting schedule stated in the plan. To subscribe, the grantee must be an employee of the Company or any of its subsidiaries during the 10-year payment period. In case the grantee resigns, unsubscribed shares are cancelled, while the subscription may be paid on installment up to the extent of the vested portion and payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the vested shares anytime within the 10-year period. The plan does not allow sale or assignment of the shares. All shares acquired through the plan are subject to the Company's Right to Repurchase. Shares granted under the ESOWN totaled 21,011,405.

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

Pre-PFRS 2 Options

	2005	**Weighted average exercise price**	2004	Weighted average exercise price
At January 1	**77,076,591**	**₱4.78**	116,756,618	₱–
Exercised	**(38,448,054)**	**4.83**	(39,680,027)	4.29
At December 31	**38,628,537**	**₱4.84**	77,076,591	₱4.78

PFRS 2 Options

	2005	**Weighted average exercise price**	2004	Weighted average exercise price
At January 1	**37,924,187**	**₱4.78**	–	₱–
Granted	**3,215,300**	**6.75**	37,924,187	4.77
Exercised	**(5,968,211)**	**4.83**	–	–
Cancelled	**(1,091,177)**	**4.58**	–	–
At December 31	**34,080,099**	**₱4.84**	37,924,187	₱4.77

The options that have been exercised had a weighted average exercise price of ₱4.83 or ₱214.4 million in 2005 and ₱4.48 or about ₱173.3 million in 2004. The average fair market value of the shares at the exercise date was ₱8.93 or about ₱396.6 million in 2005 and ₱6.50 or about ₱256.4 million in 2004.

The fair value of stock options granted is estimated as at the date of grant using the Black-Scholes Merton Formula, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended December 31, 2005 and 2004.

	2005	2004
Weighted average share price	**₱8.36**	₱6.09
Exercise price	**₱6.75**	₱4.77
Expected volatility	**46.3%**	46.3%
Option life	**10 years**	10 years
Dividend yield	**3.21%**	3.02%
Interest rate	**12.6%**	12.0%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also necessarily be the actual outcome.

Total expense recognized in 2005 and 2004 in the consolidated statements of income arising from share-based payments amounted to ₱68.4 million and ₱62.3 million, respectively.

21. **Financial Assets and Liabilities**

The Group's financial assets consisting of shares of stock and liabilities are recognized initially at fair value. Transaction costs (debt issuance costs) are included in the initial measurement of all financial assets and liabilities. Subsequent to initial recognition, assets and liabilities are either valued at amortized cost using the effective interest rate method or at fair value depending on the classification.

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2005.

	Carrying Value	Fair Value
Current Financial Assets		
Cash and cash equivalents	₱6,756,038	₱6,756,038
Accounts and notes receivables	9,152,477	9,152,477
Total current financial assets	15,908,515	15,908,515
Noncurrent Financial Assets		
Available-for-sale investments	442,491	442,491
Accounts and notes receivables	8,252,614	8,928,261
Total noncurrent financial assets	8,695,105	9,370,752
Current Financial Liabilities		
Accounts and other payables	7,891,135	7,891,135
Short-term debt	1,427,000	1,427,000
Total current financial liabilities	9,318,135	9,318,135
Noncurrent Financial Liabilities		
Long-term debt	9,295,834	9,556,296
Deposits	2,685,306	2,622,628
Retentions payable	540,341	375,258
Total noncurrent financial liabilities	₱12,521,481	₱12,554,182

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

<u>Financial Assets</u>
Due to the short-term nature of the transactions, the fair value of cash and cash equivalents, short-term investments and receivables approximate the amount of consideration at the time of initial recognition. Market values have been used to determine the fair value of listed available for sale financial assets.

Financial Liabilities

Debt Type	Fair Value Assumptions
Fixed rate loans	
USD Php	Estimated fair value is based on the discounted value of future cash flows using the applicable rates for similar types of loans.
Variable rate loans	
Php	The carrying value approximated the fair value because of recent and regular repricing based on market conditions.
Deposits and retentions payable	Fair value is estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for instruments with similar tenor and terms.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash, short-term bank deposits and investments, bank loans, corporate notes and bonds. The financial debt instruments were issued primarily to raise financing for the Group's operations.

Exposure to credit, interest rate, liquidity and currency risks arise in the normal course of the Group's business activities. The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The use of financial derivative instruments (if any) is solely for management of the Group's financial risk exposures. It is the Group's policy not to enter into derivative transactions for speculative purposes.

The Group's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group.

Credit Risk

The investment of the Group's cash resources is managed so as to minimize risk while seeking to enhance yield. The Group's holding of cash and marketable securities expose the Group to credit risk of the counterparty if the counterparty is unwilling or unable to fulfill its obligations, and the Group consequently suffers financial loss. Credit risk management involves entering into financial instruments only with counterparties with acceptable credit standing. The treasury policy sets aggregate credit limits of any one counterparty and annually reviews the exposure limits and credit ratings of the counterparties.

The Group has credit management policies in place to ensure that rental contracts are entered into with customers who have sufficient financial capacity and good credit history.

The Group also has no significant concentrations of credit risk on its rental receivable. It has policies in place to ensure that rental contracts are made with customers with an appropriate credit history.

Real estate buyers are subject to standard credit check procedures, which are calibrated based on payment scheme offered. The Company and its subsidiaries' respective credit management units conduct a comprehensive credit investigation and evaluation of each buyer to establish paying capacity and creditworthiness.

Receivable balance are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

As of balance sheet date, there were no significant concentrations of credit risk.

Interest Rate Risk
The Group's interest rate exposure management policy centers on reducing the Group's overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate. The Group adopts a policy of managing its interest rate exposure by maintaining a debt portfolio mix of both fixed and floating interest rates.

The following table sets out the carrying amount (in thousands), by maturity, of our financial instruments that are exposed to interest rate risk:

							TOTAL	
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	In US Dollar	In Php
Liabilities:								
Long-term Debt								
Fixed rate								
US$ notes	$2,828	$2,860	$2,840	–	–	–	$8,528	₱452,506
Interest rate	8.550%	8.550%	8.550%					
Philippine Peso	₱142,591	₱172,858	1,227,783	₱713,711	₱30,236	₱798,399	–	3,085,578
Interest rate	10.11 to 12.00%	10.69% to 12.00%'	10.69% to 10.75%	10.69% to 14.50%	10.69% to 12.00%	10.69% to 14.87%		
Variable rate								
Philippine Peso	₱512,285	₱3,385,841	₱1,214,274	₱483,495	₱16,231	₱145,624	–	5,757,750
Interest rate	1.5% over 90-day MART1; 1.5% over 91-day Tbill	1.5% over 90-day MART1; 2.00% over 90-day MART1	1.25% over 90-day MART1; 1.5% over 90-day MART1	1.5% over 90-day MART1	1.5% over 90-day MART1	1.5% over 90-day MART1		
Total Dollar notes	$2,828	$2,860	$2,840	–	–	–	$8,528	
Total in Philippine Peso	₱654,876	₱3,558,699	₱2,442,057	₱1,197,206	₱46,467	₱944,023		₱9,295,834

Repricing of floating rate financial instruments are mostly done on intervals of three months or six months. Interest on fixed rate financial instruments is fixed until maturity of instrument.

Liquidity Risk
The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk. The Group maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt, to give financing flexibility while continuously enhancing the Group's businesses.

Foreign Currency Risk
Financial assets and financing facilities extended to the Group were mainly denominated in Philippine Peso. As such, the Group's foreign currency risk was minimal.

The following table shows our consolidated foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2005 and 2004:

	In Thousands			
	2005		2004	
	US Dollar	**Php Equivalent**	US Dollar	Php Equivalent
Financial Assets				
Current	**$11,431**	**₱642,744**	$12,283	₱683,352
Noncurrent	**800**	**42,450**	800	42,450
Total	**12,231**	**685,194**	13,083	725,802
Financial Liabilities				
Current	**4,122**	**219,617**	4,104	231,197
Noncurrent	**7,354**	**390,430**	8,680	489,021
	11,476	**610,047**	12,784	720,218
Net foreign currency denominated assets	**$755**	**₱75,147**	$299	₱5,584

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the exchange rates used were ₱53.062 to US$1.00 and ₱56.341 to US$1.00, the Philippine peso-U.S. dollar exchange rates as at December 31, 2005 and 2004, respectively.

As of December 31, 2005, approximately 4.2% of our total consolidated debts were denominated in foreign currencies.

22. Segment Information

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

Core business:
- Shopping centers - development of shopping centers and lease to third parties of retail space and land therein; operation of movie theaters, food courts, entertainment facilities and carparks in these shopping centers; management and operation of malls which are co-owned with partners

- Corporate business - development and lease or sale of office buildings; sale of industrial lots and lease of factory building
- Residential developments - sale of high-end and upper middle-income residential lots and units, affordable housing units and lots, and leisure community developments; lease of residential developments under joint venture
- Strategic landbank management - acquisition, development and sale of large-scale, mixed-use, masterplanned communities; sale of override units or Ayala Land's share in properties made available to subsidiaries for development; lease of gas station sites and carparks outside Ayala Center
- Visayas-Mindanao - development, sale and lease of the Group's product offerings in key cities in the Visayas and Mindanao regions

Support Businesses:
- Construction - land development and construction of the Group and third-party projects
- Hotels - development and management of hotels/received apartments & lease of land to hotel tenants
- Property management - facilities management of the Group and third-party projects

Others - other income from investment activities and sale of non-core assets

The Group and its associates generally account for inter-segment sales 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, 2005 and 2004 and revenue, operating expenses and earnings before interest and other charges, taxes, depreciation and amortization (EBITDA) information for each of the years ended December 31, 2005 and 2004 (in millions).

2005

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Total	Intersegment Adjustments	TOTAL
Revenue	₱3,974	₱632	₱9,774	₱599	₱235	₱6,376	₱4,913	₱26,503	(₱4,442)	₱22,061
Operating expenses	(1,415)	(341)	(7,863)	(354)	(176)	(5,057)	(1,146)	(16,352)	3,273	(13,079)
EBITDA	2,559	291	1,911	245	59	1,319	3,767	10,151		8,982
Depreciation and amortization	(547)	(81)	(59)	–	(2)	(271)	(62)	(1,022)		(1,021)
EBIT	2,012	210	1,852	245	57	1,048	3,705	9,129		7,961
Segment assets	17,600	11,486	39,975	11,694	3,179	7,504	6,432	97,870	(21,223)	76,647
Deferred tax assets	–	–	–	–	–	–	1,613	1,613	(840)	773
Total assets	17,600	11,486	39,975	11,694	3,179	7,504	8,045	99,483		77,420
Segment additions to property and equipment	729	177	8	–	–	176	86	1,176		1,176
Segment liabilities	4,806	888	13,373	2,387	82	4,462	15,544	41,542	(9,735)	31,807
Deferred tax liabilities	–	–	–	–	–	–	1,035	1,035	(762)	273
Total liabilities	₱4,806	₱888	₱13,373	₱2,387	₱82	₱4,462	₱16,579	₱42,577		₱ 32,080

2004

	Shopping Centers	Corporate Businesses	Residential Development	Strategic Landbank Management	Vismin	Support Businesses	Corporate	Total	Intersegment Adjustments	TOTAL
Revenue	₱3,340	₱657	₱8,767	₱825	₱200	₱6,087	₱2,266	₱22,142	(₱4,058)	₱18,084
Operating expenses	(983)	(353)	(7,257)	(11)	(162)	(5,025)	(941)	(14,732)	3,104	(11,628)
EBITDA	2,357	304	1,510	814	38	1,062	1,325	7,410		6,456
Depreciation and amortization	(411)	(67)	(29)	(35)	(2)	(288)	(101)	(933)	–	(933)
EBIT	1,946	237	1,481	779	36	774	1,224	6,477		5,523
Segment assets	14,954	10,988	40,060	11,597	3,289	7,322	11,374	99,584	(23,302)	76,282
Deferred tax assets	2	–	59	–	–	151	(194)	18	223	241
Total assets	14,956	10,988	40,119	11,597	3,289	7,473	11,180	99,602		76,523
Segment additions to property and equipment	1,570	267	41	–	–	150	69	2,097		2,097
Segment liabilities	2,967	1,231	12,591	(738)	231	1,765	12,693	30,740	746	31,486
Deferred tax liabilities	–	–	248	–	–	(9)	3	242	–	242
Total liabilities	₱2,967	₱1,231	₱12,839	(₱738)	₱231	₱1,756	₱12,696	₱30,982		₱31,728

23. 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.

24. 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 provide 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.

25. Long-term Commitments and Contingencies

The Company has an existing contract with the Bases Conversion Development Authority (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.

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 Group has 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 on the Group's financial position and results of operations. The information usually required by PAS 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.