AYALA LAND, INC.

₱1,000,000,000 10.75% Fixed Rate Bonds due 2008

₱1,000,000,000 Floating Rate Bonds due 2008

Issue Price: 100%

Ayala Land, Inc. ("Ayala Land" or the "Issuer") is offering Bonds due November 28, 2008 with an aggregate principal amount of ₱2,000,000,000 (the "Offering") consisting of 10.75% fixed rate bonds with an aggregate principal amount of ₱1,000,000,000 (the "Fixed Rate Bonds") and floating rate bonds with an aggregate principal amount of ₱1,000,000,000 (the "Floating Rate Bonds"). The Fixed Rate Bonds and the Floating Rate Bonds are hereinafter collectively referred to as the "Bonds."

Interest in respect of the Fixed Rate Bonds will accrue at the rate of 10.75 percent per annum and is payable semi-annually on November and May of each year commencing on May 27, 2003. (See "*Description of the Bonds – Interest"*).

Interest in respect of the Floating Rate Bonds will accrue from and including November 27, 2003 to, but excluding November 28, 2008 at a rate equal to the Benchmark Rate (as defined herein) plus 1.25 percent per annum payable quarterly in arrears. (See "*Description of the Bonds – Interest"*).

The Bonds will be redeemed at their principal amount on November 28, 2008, subject to certain conditions, as set out in "*Description of the Bonds – Redemption and Purchase*". The Bonds will also be subject to redemption, subject to certain conditions, at the option of Ayala Land, in whole, but not in part, at their principal amount on any Interest Payment Date in the event of certain changes affecting taxes in the Republic of the Philippines, as set out in "*Description of the Bonds – Redemption and Purchase– Purchase and Cancellation*".

The Bonds will only be issued in registered certificate form in the denominations of ₱100,000 and integral multiples thereof.

Investing in the Bonds involves certain risks. See "Risk Factors" beginning on page 8 for a discussion of certain factors to be considered in respect of an investment in the Bonds.

The date of this Offering Memorandum is November 17, 2003.

Joint Lead Managers

HSBC **Land Bank of the Philippines**

Bookrunner

HSBC

Selling Agents

BDO Capital & Investment Corporation **First Metro Investment Corporation**

The Bonds will be unsecured obligations of Ayala Land and will rank pari passu without any preference amongst themselves and at least pari passu with all other unsecured and unsubordinated obligations of Ayala Land, present and future, other than obligations preferred by law. The Bonds will be effectively subordinated in right of payment to all secured debt of Ayala Land to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines. See "*Description of Bonds – Ranking*". As of June 30, 2003, after giving effect to the Offering and the application of the net proceeds from the Offering, Ayala Land shall have ₱4,001 million of secured indebtedness and ₱6,687 million of unsecured indebtedness evidenced by a public instrument under Article 2244(14).

Ayala Land expects that the net proceeds of the Offering will amount to approximately ₱1,970 million after fees and expenses of the Offering. Such proceeds are expected to fund payment of certain maturing obligations and capital expenditures. See "*Use of Proceeds*". The Joint Lead Managers will receive 0.50% flat on the final issue amount of the Fixed Rate Bonds and 0.625% flat on the final issue amount of the Floating Rate Bonds. Such amount shall be inclusive of underwriting, participation fees and fees of the Selling Agents. The commission shall be deductible from the net proceeds of the Offering on Issue Date.

The Securities and Exchange Commission of the Philippines (the ''SEC'') issued an Order of Effectivity with respect to the Offering on November 17, 2003. The issuance of such Order of Effectivity is permissive only and does not constitute a recommendation or endorsement of the Bonds to be offered for sale.

THE SEC HAS NOT APPROVED THESE BONDS OR DETERMINED IF THIS OFFERING MEMORANDUM IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE IMMEDIATELY REPORTED TO THE SEC.

Ayala Land confirms that this Offering Memorandum contains all information relating to the Bonds which is (in the context of the issue of the Bonds) material (including all information required by the applicable laws of the Republic of the Philippines). There are no other facts the omission of which would make any statement in this Offering Memorandum misleading in any material respect. Ayala Land confirms that it has made all reasonable enquiries in respect of the information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Offering Memorandum. Ayala Land, however, has not independently verified any such publicly available information, data or analysis.

Neither the delivery of this Offering Memorandum nor any sale made pursuant to the Offering shall, under any circumstance, create any implication that the information contained or referred to in this Offering Memorandum is accurate as of any time subsequent to the date hereof. The Bookrunner, Joint Lead Managers and Selling Agents do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Memorandum.

The contents of this Offering Memorandum are not to be considered as legal, business or tax advice. Each prospective purchaser of the Bonds receiving a copy of this Offering Memorandum acknowledges that he has not relied on the Bookrunner, any of the Joint Lead Managers or Selling Agents in his investigation of the accuracy of such information or his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of a purchase of the Bonds.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE

HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF AYALA LAND OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

No dealer, salesman or other person has been authorized by Ayala Land, the Bookrunner, Joint Lead Managers and Selling Agents to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by Ayala Land, the Bookrunner, Joint Lead Managers or Selling Agents.

The laws of certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the Bonds. Persons into whose possession this Offering Memorandum or any of the Bonds come must inform themselves about, and observe any such restrictions. Neither Ayala Land, the Bookrunner, the Joint Lead Managers and the Selling Agents, nor any of its or their respective representatives are making any representation to any prospective purchaser of the Bonds of the legality of any investment in the Bonds by such prospective purchaser under applicable legal investment or similar laws or regulations.

The Bonds are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Regulation Code. For a description of certain restrictions on transfers of the Bonds see "*Plan of Distribution*".

THIS OFFERING MEMORANDUM INCLUDES CERTAIN INFORMATION THAT IS SUBJECT TO CHANGE UPON COMPLETION. A FINAL OFFERING MEMORANDUM WILL BE DISTRIBUTED TO PURCHASERS OF THE SECURITIES OFFERED HEREBY PRIOR TO CLOSING.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN IS TRUE AND CURRENT.

Francisco H. Licuanan III
President

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Except as otherwise required by the context, references in this Offering Memorandum to "Ayala Land" refer to the combined business of Ayala Land, Inc. and its subsidiaries. See "Appendix A – Glossary of Terms" for definitions of certain terms used in this Offering Memorandum.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains certain "forward-looking statements". These forward-looking statements generally can be identified by use of statements that include words or phrases such as Ayala Land or its management "believes," "expects," "anticipates," "intends," "plans," "foresees" or other words or phrases of similar import. Similarly, statements that describe Ayala Land's objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of Ayala Land include, among others:

- general economic and business conditions in the Philippines
- changes in Philippine and international interest rates
- changes in the cost of goods that Ayala Land imports as part of its business
- increasing competition in the Philippine real estate industry
- Ayala Land's ability to grow its market share in the various segments of the Philippine real estate market
- demand for Ayala Land's projects in the Philippines
- Ayala Land's ability to enter into various financing programs
- changes in laws and regulations that apply to the Philippine real estate industry
- technical construction and other problems that Ayala Land may encounter in its development projects
- changes in political conditions in the Philippines
- changes in foreign exchange control regulations in the Philippines
- changes in the value of the Peso

For a further discussion of such risks, uncertainties and assumptions, see "Risk Factors." Prospective purchasers of the Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Offering Memorandum and Ayala Land undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

CURRENCY PRESENTATION AND EXCHANGE RATES

Ayala Land uses two different currencies in this Offering Memorandum:

- Philippine Pesos, which are referred to as “Pesos” and “₱.” and
- United States Dollars, which are referred to as “Dollars,” “U.S. dollars,” “US$” and “$,”

The closing exchange rate between the Peso and the U.S. dollar (the “Exchange Rate”), as stated by the Bangko Sentral Reference Exchange Rate Bulletin published by the Treasury Department of *Bangko Sentral ng Pilipinas*, the central bank of the Philippines (“Bangko Sentral”) on October 28, 2003 was ₱55.350= $1.00.

The following table sets forth the Exchange Rate for the periods listed:

Period	At Period End	Average(1)	High(2)	Low(3)
	(in Pesos per $1.00)			
1999	40.298	39.098	41.025	37.580
2000	49.986	44.228	51.535	39.775
2001	51.690	51.000	54.790	47.490
2002	53.254	51.606	53.841	49.336
2003 (through June 30, 2003)	53.455	53.480	54.520	52.550
2003 (through October 28, 2003)	55.350	53.957	55.350	52.550

(1) Average of monthly average exchange rates.
(2) Highest month-end exchange rate for the year.
(3) Lowest month-end exchange rate for the year.

Source: Bloomberg: Bankers’ Association of the Philippines reference rates..

This Offering Memorandum contains conversions of U.S. Dollar amounts into Pesos for your convenience. Unless otherwise specified, such conversions were made at the Exchange Rate on the relevant date. You should not assume that such Peso amounts actually represent such U.S. dollar amounts or could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate or at all.

See “Risk Factors– Decline in value of the Peso against the U.S. dollar increases certain of Ayala Land’s costs.”

Any discrepancies in the tables included herein between the amounts listed and the totals of such amounts are due to rounding.

SUMMARY

This summary highlights information contained elsewhere in this Offering Memorandum. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective purchasers should read the entire Offering Memorandum carefully, including the section entitled "Risk Factors" and the financial statements and the related notes to those statements included in this Offering Memorandum.

Ayala Land, Inc.

Ayala Land, one of the largest real estate conglomerates in the Philippines, is the real estate arm of Ayala Corporation. It was spun-off by Ayala Corporation in 1988 to enhance management focus on its existing real estate business and to highlight the value of the assets, management and capital structure of the real estate business. Ayala Land's shares were offered to the public in an initial public offering of primary and secondary shares in 1991 and subsequently listed on the Makati and Manila Stock Exchanges (predecessors of the Philippine Stock Exchange). The offering diluted Ayala Corporation's effective interest in Ayala Land to 88.2%. Since then, Ayala Corporation's effective interest has been further diluted to 65.2% as of June 30, 2003. Ayala Land's shares are listed on the PSE with a market capitalization of ₱68.47 billion as of November 3, 2003 based on the closing price of Ayala Land's common shares on the PSE as of that date.

Ayala Land is engaged principally in the planning, development and marketing of large-scale communities having a mix of residential, office, commercial and other uses. Ayala Land, through its various subsidiaries, is also engaged in the development and sale of industrial lots, as well as the development of hotels and serviced apartments. It also constructs office and/or residential condominiums and buildings for sale and/or lease. It has also begun to develop, for sale, high-end house-and-lot packages at its residential developments and, through its subsidiaries, continues to develop and sell mass housing units and farm/hacienda lots. Ayala Land, through its wholly owned subsidiary, Community Innovations, Inc. ("Community Innovations"), has also begun to tap the middle income urban residential segment of the real estate industry through its core-mid residential projects.

Ayala Land is also engaged in the development of commercial centers and leases to third parties retail space and land therein. Through its subsidiaries it also operates movie theaters in these commercial centers and has recently ventured into the operation of food court and entertainment facilities to complement its commercial center operations.

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

Ayala Land is also engaged in information technology-related ventures through Ayala Landnet.com, Inc., a 50-50 joint venture with Ayala Corporation's iAyala Company, Inc. The joint venture is responsible for the launch in June 2000 of myAyala.com, an online shopping mall.

In the first quarter of 2002, Ayala Land established a wholly-owned subsidiary, Ayala Land Sales Inc. ("Ayala Land Sales"), which now provides in-house sales and marketing support to Ayala Land. Ayala Land Sales has about 80 property specialists, who exclusively market and sell property and condominium projects developed by Ayala Land. Meanwhile, Community Innovations employs its own sales force and has accredited brokers. Its other wholly-owned subsidiary, Laguna Properties Holdings, Inc. (“Laguna Properties”) which is engaged in the development of mass housing projects, has accredited exclusive brokers.

In April 2003, Ayala Land, through a joint venture with Evergreen Holdings, Inc. (“Evergreen”), a Philippine corporation commonly controlled by the shareholders of United Laboratories, Inc., completed the acquisition, through Columbus Holdings Inc. (“Columbus”), of 50.38% of the total outstanding capital stock of Bonifacio Land Corporation (“Bonifacio Land”) from Metro Pacific Corporation. Ayala Land and Evergreen each owns 50% of the total outstanding capital of Columbus. Bonifacio Land owns 55% of Fort Bonifacio Development Corporation (“FBDC”) which owns 55-hectares of saleable land in Bonifacio Global City, a prime real estate development project adjacent to the Manila Golf Club and the residential subdivision of Forbes Park. Located nearby is Ayala Land’s Market! Market!, a 152,000-sqm value mall along C-5 Road, as well as the Ayala Center (in the Makati Central Business District) which houses hotels, retail establishments, cinemas and restaurants.

Total consolidated revenues for the first half of 2003 amounted to ₱6.45 billion, up by 23% year on year. Net income for the same period was ₱1.10 billion, about 3% higher than 2002 results.

Ayala Land’s rental properties generated ₱1.8 billion in revenues for the period ended 30 June 2003, or 28% of total revenues. Occupancy rates and sales at Ayala Center in Makati posted an occupancy level of 96%.

As of June 30, 2003, Ayala Land had ₱65.28 billion in assets. Its stockholders’ equity amounted to ₱36.19 billion. Ayala Land’s cash reserves stood at ₱3.87 billion with a current ratio of 1.81:1 as of such date. Bank debt-to-equity ratio was at 0.34:1 while net debt-to-equity was at 0.23:1.

Projects and capital expenditures during the first half of 2003 amounted to ₱4.0 billion. These disbursements included the investment in Bonifacio Land Corp described above, of ₱2.6 billion.

Projects

Ayala Land’s projects consist principally of land and condominium development, residential mass housing, retail, office space and land rentals, hotel operations and construction and property management. For the rest of 2003, Ayala Land has lined up a number of undertakings while it pursues the expansion of its investment in shopping center properties to strengthen its recurring revenue base.

In the fourth quarter of 2003, Greenbelt 4 is scheduled to soft open and the third tower of The Columns will be launched.

Ayala Land expects to continue to launch new high-end, middle-income and mass housing developments in the years ahead.

Ayala Land’s Principal Strengths

Ayala Land’s principal strength lies in the development of high-end subdivision lots and residential buildings, as well as in office and shopping center leasing, where it holds the dominant share of the market. It is also a leading mass housing developer.

Ayala Land's Business Strategy

Ayala Land's strategy is to maintain and enhance its position as the leading property developer in the Philippines. It intends to continue its traditional activity of developing large-scale, mixed-used integrated communities while diversifying its revenue base. Ayala Land hopes to achieve this by: (i) increasing its rental activities and (ii) expanding its real estate business into different markets and geographic areas in the country where it believes there are significant growth opportunities or where proposed developments will complement its existing real estate business.

Ayala Land's Principal Shareholder

Ayala Land's principal shareholder is Ayala Corporation, which directly and indirectly owns approximately 65% of Ayala Land, is one of the Philippines' oldest conglomerates, with diversified operations in the telecommunications, financial services, electronics, information technology and trade and distribution businesses.

Ayala Land's Principal Executive Offices

Ayala Land's executive offices are at the 31st Floor, Tower One, Ayala Triangle, Ayala Avenue, Makati City and the telephone number at this address is (632) 848-5643 and the fax number is (632) 759-4566.

The Offering

The following is a summary of certain terms of the Offering. For a more complete description of the terms of the Bonds, see "Description of the Bonds" in this Offering Memorandum.

Issuer	Ayala Land, Inc.
Offering	₱1,000,000,000 aggregate principal amount of Fixed Rate Bonds and ₱1,000,000,000 aggregate principal amount of Floating Rate Bonds registered with the Securities and Exchange Commission.
Use of Proceeds	The net proceeds of the issue will be used by Ayala Land for general corporate purposes including, but not limited to, debt servicing and various capital expenditures.
Issue Price	100% of nominal amount (at par).
Redemption..................	The Bonds have an indicative maturity date of five years and one day from the Issue Date. Unless previously redeemed or cancelled, the Bonds will be redeemed on November 28, 2008. See "Description of the Bonds –Redemption and Purchase– Final Redemption." The Issuer may purchase the Bonds at any time in the open market or by tender or by contract at any price without any obligation to make pro-rata purchases from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.
Issue Date....................	Expected to be on or about November 27, 2003. For the avoidance of doubt, the Issue Date shall at any time be a date which is within the validity of the SEC approval.
Interest/Coupon Rate....	Fixed Rate Bonds: 10.75 percent per annum, payable semi-annually in arrears. Floating Rate Bonds: Benchmark Rate plus a margin of 1.25 percent, payable quarterly in arrears. The Benchmark Rate for the First Interest Payment Date shall generally be the rate of the 91-day Treasury Bill yield as shown on the Bloomberg "MART 1" page on the Issue Date, and for subsequent Interest Payment Dates, the Benchmark Rate shall generally be the rate of the 91-day Treasury Bill yield as shown on the Bloomberg "MART 1" page on the relevant Interest Determination Date. See "Description of the Bonds-- Interest."
Interest Payment Dates	Interest on the Fixed Rate Bonds will be calculated on a 30/360 day basis and will be paid on May 27 and November 27 of each year commencing on May 27, 2004.

Interest on the Floating Rate Bonds will accrue on the basis of the actual number of days elapsed in a 360-day year from and including November 27, 2003 and interest will be payable quarterly in arrears on the 27th day of February, May, August and November of each year commencing on 27 February 2004.

Manner of Payment of Interest and Bond Principal	The principal of, interest on, and all other amounts payable on the Bonds will be payable to the Bondholders through (a) direct credit to a designated account of a Bondholder with Equitable PCI Bank; or (b) checks issued by the Paying Agent and made available for such Bondholder at the office of the Paying Agent at the 16th Floor, Equitable PCI Bank Tower 1, Makati Avenue, Makati City. Unless Bondholders advise the Paying Agent otherwise, the Paying Agent shall make all payments through checks. The principal of, and interest on, the Bonds will be payable in Philippine Pesos.
Taxation	Except as otherwise provided, all payments of principal and interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to, issue, registration, or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer. *Provided, however*, that the Issuer shall not be liable for:

(a) the twenty percent (20%) applicable final withholding tax applicable on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations (the "Tax Code"). A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit the following requirements to the Registrar: (i) certified true copy of the tax exemption certificate issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed from, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities, provided further, that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

(b) gross receipts tax under Section 121 of the Tax Code;

(c) taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding.

(d) value added tax ("VAT") of any persons or entities other than: banks, non-bank financial intermediaries, quasi-banks and finance companies and other financial intermediaries not performing quasi-banking functions (excluding insurance companies) that are VAT registered, liable for VAT under the Tax Code and are able to present the following documents to the satisfaction of the Registrar: (i) a certified true copy of their VAT certificate of registration; and (ii) in respect of interest payments, the relevant VAT official receipts or an undertaking to provide such receipts within three (3) Business Days from the relevant Interest Payment Date.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

Form and Denomination of the Bonds.................	The Bonds will be in registered form, serially numbered, and issued in certificated format in minimum denominations of ₱100,000 and in integral multiples thereof.
Status...........................	The Bonds constitute general unsecured, unsubordinated and unconditional obligations of Ayala Land, and will rank equally with all of its other general unsecured, unsubordinated and unconditional indebtedness.
Title and Transfer..........	Upon any assignment, title to the Bonds shall pass by endorsement and delivery to the transferee and registration in the Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the Bondholder.
Trustee..........................	The Bonds are constituted under a Trust Agreement dated November 17, 2003 between the Issuer and the Rizal Commercial Banking Corporation, which is duly authorized and eligible under the relevant laws and regulations to perform its duties and functions as Trustee in the Trust Agreement. See "Description of the Bonds."
Certain Other Debt........	Aside from the Bonds, ₱1.0 billion in short term commercial papers and ₱3.0 billion in bonds were registered with the SEC and issued by Ayala Land in 2003 and 2002, respectively.
Other Features.............	The Bonds will not be convertible to any other security or equity of the Issuer. The Issuer will not set up any sinking fund for the redemption of the Bonds. Substitution of the Bonds with another type of security of the Issuer will not be permitted.

Tax Redemption............	If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days' notice) at par plus accrued interest.
Rating............................	Philippine Rating Services Corporation ("PhilRatings") has assigned a PRS Aaa rating on the Bonds, having considered Ayala Land's financial condition and results of operations, among others. A rating is not a recommendation to buy, sell or hold securities and is subject to, reevaluation, change, suspension or withdrawal at any time by PhilRatings.
Risks of Investing..........	Prospective purchasers should consider carefully all of the information set forth in this Offering Memorandum and, in particular, prospective purchasers should evaluate the specific factors set forth under "Risk Factors" for risks involved with a purchase of the Bonds. Such risks include, but are not limited to, the following: • general economic and business conditions in the Philippines • changes in Philippine and international interest rates • changes in the cost of goods that Ayala Land imports as part of its business • increasing competition in the Philippine real estate industry • Ayala Land's ability to grow its market share in the various segments of the Philippine real estate market • demand for Ayala Land's projects in the Philippines • Ayala Land's ability to enter into various financing programs • changes in laws and regulations that apply to the Philippine real estate industry • technical construction and other problems that Ayala Land may encounter in its development projects • changes in political conditions in the Philippines • changes in foreign exchange control regulations in the Philippines • changes in the value of the Peso

Summary Financial and Operating Data

The following table sets forth financial and operating information and other data of Ayala Land. Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements, including the notes thereto, included in this Offering Memorandum and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial data for the three years ended December 31, 2002 are derived from Ayala Land's audited financial statements, including the notes thereto, which are included in this Offering Memorandum beginning on page F-1.

Ayala Land's financial statements are prepared in accordance with generally accepted accounting principles in the Philippines ("Philippine GAAP").

(in million Pesos)	2003 June 30 UNAUDITED	2002 December 31 AUDITED	2001 December 31 AUDITED	2000 December 31 AUDITED
Income Statement Data				
Revenues	6,453	12,227	11,693	10,306
Costs and expenses				
Real estate	2,987	5,459	5,617	4,903
Hotel operations	533	1,080	1,055	945
General & Administrative	749	1,333	1,065	1,030
Interest and other charges	844	695	784	800
Provision for income tax	210	1,123	919	632
Income Before Net Earnings applicable to minority interest	1,130	2,537	2,253	1,995
Net Income	1,102	2,520	2,287	1,844
Unappropriated retained earnings,				
Beginning	15,780	15,506	13,860	14,386
Stock Dividends - 20%	-	-	-	(1,782)
Cash dividends	(321)	(2,246)	(642)	(588)
Prior period adjustment	(82)	-	-	-
Unappropriated retained earnings, end	16,479	15,780	15,506	13,860
Earnings per share	*0.10	*0.24	*0.21	0.17

**Based on 10,693, 608,000 weighted average number of shares as of December 31 2002, 10,693,190,000 as December 31, 2001 and 10,693,696,793 as of June 30, 2003.*

Balance Sheet Data				
Cash and cash equivalents	3,873	5,713	6,737	4,109
Land and improvements	19,375	19,262	19,888	19,524
Investments	21,554	18,903	17,279	16,005
Total assets	65,278	61,858	61,708	57,954
Long-term debt-current portion	555	310	6,419	376
Long-term debt (net of current portion)	9,482	8,623	3,741	7,704
Total liabilities (including minority interests)	29,090	26,382	26,517	24,394
Stockholders' Equity	36,188	35,476	35,190	33,560

RISK FACTORS

An investment in the Bonds offered hereby involves a high degree of risk. A prospective purchaser of the Bonds should carefully consider the following factors, in addition to the other information contained in this Offering Memorandum, in deciding whether to invest in the Bonds. This Offering Memorandum contains forward-looking statements that involve risks and uncertainties. Ayala Land adopts what it considers conservative financial and operational controls and policies to manage its business risks. Ayala Land's actual results may differ significantly from the results discussed in the forward-looking statements. See "Forward-Looking Statements." Factors that might cause such differences include those discussed below.

Ayala Land faces a highly competitive business environment

Ayala Land is subject to significant competition in each of its principal businesses. Competitive pressure is expected to remain as large property developers focus on the value-conscious middle market. Sustained demand growth is not likely to occur without real improvement in employment and real incomes. 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.

Ayala Land competes with other developers and developments to attract purchasers of land and condominiums, retail and office tenants, and clientele for the retail outlets, restaurants and hotels in its commercial centers. With respect to 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. With respect to its office buildings and residential developments, Ayala Land competes with a number of other developers. For the mass housing market, Ayala Land competes for buyers based on quality of projects, affordability of units, and availability of in-house financing.

With respect to its retail rental 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. With respect to its office rental properties, Ayala Land competes for tenants primarily based upon the quality and location of the relevant building, the reputation of the building's owner, the quality of support services provided by the property manager, and rental and other charges. Ayala Land's office space rates are presently under downward pressure given the weak lease rates in the market, with rate difference between grade A and grade B office spaces getting narrower. Competition has intensified as property owners are under pressure to improve building occupancies, resulting in aggressive rental discounts implemented by many office landlords.

The market for shopping centers has become especially competitive and the number of competing properties is expected to grow. Some competing shopping centers are located within relatively close proximity of each of Ayala Land's commercial centers (including the commercial center constructed by its affiliate, Cebu Holdings, Inc. in Cebu Business Park).

The industrial property business is affected by an oversupply as well as limited industrial expansion and declining foreign investments. The entry of China into the World Trade

Organization last year is expected to pose a stronger competition for foreign direct investment. Overall, the industrial property segment is not likely to show significant demand improvement in the medium term.

With regard to its hotel operations, the local hotel sector continues to suffer from reduced tourist arrivals due to the global economic slowdown as well as security concerns.

Ayala Land's construction business is exposed to the sector-wide slowdown in construction activities. No growth in this sector is expected this year as government infrastructure spending is limited by a substantial fiscal deficit while private construction is tempered by the oversupply situation in the office market.

Decline in Peso value against the U.S. dollar increases certain of Ayala Land's costs

The depreciation of the Peso increases the acquisition cost of certain dollar-denominated construction materials and equipments. It also increases the cost of servicing dollar-denominated loans of two companies owned by its subsidiary, Ayala Hotels, Inc. ("Ayala Hotels") The total dollar-denominated loans of these two companies amounted to $18.56 million (approximately ₱993.4 million) which constitutes 8% of Ayala Land's consolidated loans as of June 30, 2003. See "Description of Other Debt." The weaker Peso may also contribute to a slowdown of the Philippine economy, which in turn could weaken demand for Ayala Land's developments and services. The continuance or worsening of these and other economic developments in the Philippines could adversely affect Ayala Land's business, financial condition and results of operations. During the last decade, the Philippine economy has from time to time experienced devaluations of the Peso and limited availability of foreign exchange. As of October 28, 2003, the Peso closed at ₱55.35 to the U.S. dollar. See "Currency Presentation and Exchange Rates."

Ayala Land's leverage creates a number of operating risks and affects its ability to repay the Bonds

Increased Amount of Debt

Assuming that the Bonds were outstanding at June 30, 2003, Ayala Land would have had the following capital structure under Philippine GAAP:

	Without the Bonds	**Pro-Forma, Including the Bonds**
Total debt	₱12.34 billion	₱14.34 billion
Shareholders' equity	₱ 36.19 billion	₱ 36.19 billion
Borrowed Debt to equity ratio	0.34:1	0.40:1

Consequences of Debt

The increase in debt of Ayala Land could have certain adverse consequences. For example it could:

- reduce Ayala Land's ability to service its existing debt obligations, including the Bonds;

- limit Ayala Land's ability to obtain additional financing for working capital, capital expenditures, debt service and other purposes;
- require Ayala Land to divert a substantial portion of its cash flow from operations to debt service;
- limit Ayala Land's flexibility in reacting to and taking advantage of developments and opportunities in the Philippine economy, the Philippine property development industry and its business; or
- place Ayala Land at a competitive disadvantage to its competitors that have less debt.

Ayala Land's ability to refinance or repay its debt depends on its successful financial and operating performance, which will be affected by a number of factors, many of which are beyond its control. If Ayala Land is unable to refinance its debt, obtain necessary waivers or obtain new financing under these circumstances, Ayala Land would have to consider various other financing options such as sale of assets, procuring additional capital and other options available to Ayala Land under applicable law. Ayala Land might also have to modify, delay or abandon its development and expansion plans. See "Management's Discussion and Analysis of Financial Condition and Results of Operation" and "Description of Certain Debt."

Ayala Land is subject to certain debt covenants

The Trust Agreement for the Bonds and agreements for certain of Ayala Land's other debt contain covenants that limit its ability to, among other things:

- incur additional long-term debt to the extent that such additional indebtedness results in a breach of a required financial ratio;
- materially change its nature of business;
- merge, consolidate, or dispose of substantially all its assets;
- materially change its ownership and control of its capital stock; and
- encumber, mortgage or pledge its assets.

Complying with these covenants may cause Ayala Land to take actions that it otherwise would not take or not take actions that it otherwise would take. Ayala Land's failure to comply with these covenants would cause a default, which, if not waived, could result in the debt becoming immediately due and payable. In this event, Ayala Land may not be able to repay or refinance such debt on terms that are acceptable to Ayala Land or at all. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Description of Certain Debt" and "Description of Bonds."

The triggering of certain events of default under Ayala Land's other debt could make it difficult for Ayala Land to repay the Bonds.

A significant portion of the debt of Ayala Land contains terms which allow a lender to accelerate Ayala Land's debt if any event or change in circumstances occurs which, in the sole opinion of such lender, would materially impair Ayala Land's ability to repay its debt. If any amount outstanding were to be accelerated, it could potentially trigger a cross-default under substantially all of Ayala Land's debt, in which case Ayala Land may not be able to perform its payment obligations under the Bonds.

The Bonds will be effectively subordinated to other debt

The Bonds will be effectively subordinated in right of payment to all secured debt of Ayala Land to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines. As of June 30, 2003, after giving effect to the offering of the Bonds and the application of the net proceeds from the offering, Ayala Land would have had ₱4,001 million of secured indebtedness and ₱6,687 million of unsecured indebtedness evidenced by a public instrument under Article 2244(14).

Debt notarized under Philippine law could have effective priority over the Bonds

Under Philippine law, in the event a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt not evidenced by a public instrument. Debt becomes evidenced by a public instrument when it has been acknowledged by the creditor and the debtor before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a *jurat* (a statement by one party of the circumstances in which an affidavit was made) may also be sufficient to make a document a public instrument. Accordingly, it may be possible for debt to become evidenced by a public instrument through the unilateral action of a creditor without the knowledge of the borrower.

As of June 30, 2003, ₱10,688 million of Ayala Land's consolidated indebtedness of ₱12,339 million was evidenced by a public instrument. Under current legal and commercial practice, it is possible for debt to become evidenced by a public instrument without the knowledge of Ayala Land. Any such debt may, by mandatory provision of law, rank ahead of the Bonds in the event of the liquidation of Ayala Land.

Ayala Land from time to time considers business combination alternatives

Although covenants in the Trust Agreement for the Bonds contain certain restrictions on business combinations and changes of control, Ayala Land will be able to engage in certain types of combinations. Business combinations involve financial and operational risks and could result in significant changes to Ayala Land's operations, management and financial condition. These changes could adversely affect Ayala Land's ability to fulfill its obligations under the Bonds and reduce the value of the Bonds. The return from Ayala Land's recent investment in Columbus, which acquired a controlling interest in Bonifacio Land, may not be realized prior to maturity of the Bonds.

Successful development of Ayala Land's projects is dependent on various factors

There is no certainty that Ayala Land's current and future projects will be implemented as planned and within the projected timetable. Real estate developments are subject to risks such as delays in obtaining financing and/or finalizing project plans and/or obtaining approvals, increases in construction costs, natural calamities and/or market downturns. Ayala Land's future financial performance may be significantly affected by factors that limit its ability to finance and complete its current and future projects in a timely and cost-effective manner and to market them successfully.

Ayala Land's business is affected by regulation in the Philippines

Ayala Land operates a material part of its businesses in a regulated environment. Ayala Land is subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety. These include laws and regulations governing air emissions, water and wastewater discharges, odor emissions and the management of, disposal of and exposure to hazardous materials.

Ayala Land cannot predict what environmental or health and safety legislation or regulations will be amended or enacted in the future; how existing or future laws or regulations will be enforced, administered or interpreted; or the amount of future expenditures that may be required to comply with these environmental or health and safety laws or regulations or to respond to environmental claims.

Restrictions on foreign ownership limit our access to foreign equity

The Constitution of the Philippines prohibits non-Philippine nationals from owning more than 40% of any entity that owns land in the Philippines, such as Ayala Land. It also provides that representation of non-Philippine citizens on the board of directors of any such corporation is limited to their proportionate share of the corporation's capital stock. As of June 30, 2003, non-Philippine persons, owned approximately 21.5% of Ayala Land's outstanding shares. This restriction limits Ayala Land's ability to obtain financing through the direct issuance of equity outside of the Philippines or to non-Philippine investors.

Foreign exchange controls

Certain companies owned by a subsidiary of Ayala Land make principal and interest payments under the certain of their indebtedness in U.S. dollars. The government has restricted Philippine companies in the past from using foreign exchange revenues or converting Pesos into foreign currencies to pay foreign currency denominated obligations. Ayala Land cannot assure prospective purchasers of the Bonds that the government will maintain its current foreign exchange policy. The government could impose foreign exchange restrictions which would prohibit or restrict Ayala Land from paying amounts owed to its creditors in U.S. dollars.

Ayala Land is controlled by a major shareholder

As of June 30, 2003, Ayala Corporation beneficially owned approximately 65 % of Ayala Land's outstanding capital stock. Accordingly, Ayala Corporation plays an important role in Ayala Land, particularly:

- it controls the Board of Directors;
- it influences business strategy; and
- it has historically provided shareholder support.

Market for the Bonds

There is no active secondary market for the Bonds. Ayala Land cannot assure investors that an active market will develop for the Bonds. Even if an active market for the Bonds developed, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, Ayala Land's operations, the overall market for debt securities and other factors. Accordingly, no assurance can be given as to the liquidity of, or trading market for, the Bonds. In addition, the purchase of a significant proportion of the Bonds by parties affiliated or related to the Ayala Land may affect the liquidity and/or trading of the Bonds in the secondary market.

Natural catastrophes may affect Ayala Land's businesses adversely

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, volcanic eruptions and earthquakes, which may materially disrupt and adversely affect the business operations of Ayala Land. While Ayala Land maintains a comprehensive insurance against natural catastrophes, there can be no assurance that it will be adequately compensated for all damages and economic losses resulting from natural catastrophes.

Government and Economic Factors

The growth and profitability of Ayala Land will be influenced by the general political situation in, and the state of the economy of, the Philippines. Any political or economic instability in the future may have a negative effect on the financial results of Ayala Land and the level of dividends paid and distributions made by Ayala Land's subsidiaries.

Political Considerations

The Philippines has from time to time experienced political and military instability. In February 1986, a peaceful civilian and military uprising ended the 21-year rule of President Ferdinand Marcos and installed Corazon Aquino as President of the Philippines. Between 1986 and 1989, there were a number of attempted *coups d'etat* against the Aquino administration, none of which was successful. Political conditions in the Philippines were generally stable during the 1990s following the election of Fidel V. Ramos as President in 1992.

However, during 2000 his successor, Joseph Estrada, was subject to allegations of corruption, culminating in impeachment proceedings, mass public protests in Manila, withdrawal of support of the military and his removal from office. The Vice President, Gloria Macapagal-Arroyo, was sworn in as President on 20th January 2001. Although Joseph Estrada questioned the legitimacy of the Arroyo administration, the Supreme Court on March 2, 2001 rendered a unanimous decision confirming the legitimacy of President Arroyo's assumption of office. In May 2001, violent clashes between government forces and Estrada loyalists occurred when former President Estrada was imprisoned to face charges of plunder. The trial on charges of plunder is ongoing. Although President Macapagal-Arroyo announced in December 2002 that she would not be seeking a new term in the 2004 elections, she has since declared that she would in fact run for a full six year term in the elections scheduled for May 2004.

A number of armed groups have been active in the Philippines, some of which are ideologically motivated. These groups have periodically engaged in armed conflict with the military, and have been allegedly responsible for several recent bomb explosions in the southern Philippines, assassinations of political and law enforcement figures, and other acts of violence. In addition, the extremist Abu Sayyaf group has been responsible for a spate of kidnapping and terrorist activities in Mindanao, and is the subject of ongoing military operations.

On 27 July 2003, a group of more than 200 armed soldiers took over and occupied the

Oakwood Premier Ayala Center, a serviced apartment project owned by Makati Property Ventures, Inc., a subsidiary of Ayala Hotels, and located in the Ayala Center at Makati City. The soldiers seized the premises and surrounded it with explosive devises. The group accused the Arroyo administration of corruption and terrorist acts. After hours of negotiations, the group agreed to return to barracks and the uprising ended peacefully less than twenty four hours after it had begun. The soldiers are facing prosecution in the civil courts and court martial proceedings before military tribunals.

No assurance can be given that present or future governments will adopt economic policies conducive to sustaining economic growth. Any future economic, political or social instability in the Philippines could adversely affect Ayala Land's business, financial condition or results of operations.

Economic Considerations

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency, imposition of exchange controls, debt restructuring and electricity shortages and blackouts.

From mid-1997 to 1998, the economic turbulence in Asia affected in the Philippine economy in a number of ways, including causing the depreciation of the Peso, increases in interest rates, increased unemployment and inflation, increased volatility and a decline in prices in the domestic stock market, the downgrading of the Philippines' local currency rating and the ratings outlook for the Philippine banking sector and the reduction of foreign currency reserves. These and other factors led to a slowdown in the growth of the Philippine economy in 1997 and 1998. Gross Domestic Product ("GDP") decreased by 0.6% in 1998.

Following the Asian financial crises, the Philippines suffered lower levels of economic disruption and reductions in growth and economic performance compared to certain other Asian countries. During 1999 and 2000, the economy recovered and GDP grew by 3.4% and 4.0%, respectively. However, in the second half of 2000 and the first quarter of 2001, the political developments relating to allegations of corruption in the Estrada administration as well as economic events, such as the growing Government fiscal deficit and global increase in oil prices, resulted in increased concerns about the political and economic stability in the Philippines, the depreciation of the Peso against the US dollar and volatility of the prices of shares traded on the domestic stock market. The GDP growth rate was 3.4% in 2001; however, it increased to 4.6% in 2002.

The Philippine economy continues to face significant budget deficits and on April 2003 the Government announced that the budget deficit for the first quarter of 2003 was approximately ₱58.9 billion, which was 6.7% above the Government target of ₱55.2 billion, largely due to declining tax revenue as a result of weak tax collection.

USE OF PROCEEDS

Ayala Land intends to use the estimated net proceeds of the Offering for the following purposes:

Payment of maturing obligations	₱	1,200 million
Capital Expenditure	₱	770 million
Expenses related to the Issue	₱	30 million
TOTAL	**₱**	**2,000 million**

Capital expenditures planned by Ayala Land for the last quarter of 2003 include funding of several ongoing and proposed development projects, comprised of: approximately ₱300 million for land development projects (Ayala Westgrove Heights, Ayala Hillside Estates, Ayala Northpoint, Plantazionne Verdana Homes and Ayala Heights); approximately ₱1 billion for residential projects (One Legazpi Park, Montgomery Place, the Residences at Greenbelt and Ferndale Homes); and approximately ₱900 million for commercial property development for lease (Greenbelt 4 and Market! Market! in Fort Bonifacio). Such capital expenditures are intended to be partially funded from the net proceeds of the Offering.

Furthermore, the debt expected to be repaid with the net proceeds of the Offering, represents portions of the following maturing loans as of June 30, 2003:

		Amount	Interest Rate
Short-term loans maturing in 2003	₱	700 million	7.7% - 8.0%
Short-term loans maturing in 2004	₱	1,041 million	7.5% - 8.9%
Portion of Term Loan maturing in 2004	₱	1,170 million	6.9 % - 9.6%
Total	₱	2,911 million	

CAPITALIZATION

Ayala Land was incorporated in June 1988 and was listed on the Philippine Stock Exchange in July 1991. As of the close of trade on the PSE on November 3, 2003, Ayala Land had a market capitalization of ₱ 68.47 billion.

Stock Price History

The following table sets out Ayala Land's share prices (adjusted for the effects of stock dividends) for the years 2000 to 2002 and first three quarters of 2003.

		2003			2002			2001			2000	
QUARTER	**HIGH**	**LOW**	**CLOSE**	**HIGH**	**LOW**	**CLOSE**	**HIGH**	**LOW**	**CLOSE**	**HIGH**	**LOW**	**CLOSE**
First	5.30	4.35	4.55	7.20	4.80	6.90	8.20	5.00	5.50	8.96	4.75	5.67
Second	6.60	4.50	6.00	7.50	5.20	5.60	6.00	4.50	5.40	6.20	4.00	5.50
Third	6.90	5.70	6.30	6.20	5.20	5.60	5.40	4.20	4.30	6.10	4.65	4.70
Fourth	---	---	---	5.60	4.15	4.55	5.00	3.55	4.85	5.70	3.90	5.40

Stockholders

Ayala Land had 14,305 shareholders as of September 30, 2003. Following is a list of 20 of its largest stockholders as of that date:

NAME	NATIONALITY	OWNERSHIP	% OWNERSHIP
(1) Ayala Corporation	Filipino	6,667,727,563	62.32%
(2) PCD Nominee Corporation	Non-Filipino	2,431,990,443	22.73%
(3) PCD Nominee Corporation	Filipino	920,982,353	8.61%
(4) AC International Finance, Ltd.	Filipino	113,782,150	1.06%
(5) The Insular Life Assurance Co., Ltd.	Filipino	47,354,311	0.44%
(6) SSS Loans & Investment Office	Filipino	18,873,388	0.18%
(7) Cygnet Development Corp.	Filipino	15,127,920	0.14%
(8) Jose Luis Gerardo Yulo	Filipino	12,576,572	0.12%
(9) BPI Trust Account #14016732	British	10,103,870	0.09%
(10) Apex Mgt. & Dev. Group Inc.	Filipino	6,600,600	0.06%
(11) Pua Yok Bing	Filipino	6,131,619	0.06%
(12) Elvira L. Yulo	Filipino	6,123,597	0.06%
(13) Ma. Angela Y. La O'	Filipino	6,100,955	0.06%
(14) Cesar C. &/or Librada T. Cruz	Filipino	6,000,002	0.06%
(15) BPI Trust Account #14016724	American	4,940,340	0.05%
(16) Abacus Capital & Investment Corp.	Filipino	4,820,000	0.05%
(17) Estrellita B. Yulo	Filipino	4,777,353	0.04%
(18) Rivercrest Realty Corporation	Filipino	4,705,000	0.04%
(19) The Insular Life Assurance Co., Ltd.	Filipino	4,521,800	0.04%
(20) BPI Trust Account # 14016783	American	4,502,282	0.04%

Dividends

Dividends declared by Ayala Land on its shares of stocks are payable in cash or in additional shares of stock. Since 1991 to 2001, Ayala Land has paid cash dividends ranging from ₱0.03 to

₱0.15 per year, and stock dividends ranging from 20% to 50%. In July 2002, Ayala Land declared a special cash dividend of ₱0.15 per share, in addition to Ayala Land's regular cash dividend of ₱0.03 per share per semester. In August 2003, Ayala Land declared another special cash dividend of ₱ 0.26 per share.

Cash dividends are subject to approval by the Board of Directors. Property dividends, which may come in the form of additional shares of stock, are subject to approval by the Board of Directors, Ayala Land's stockholders, the SEC and the PSE.

Other than restrictions imposed by the Corporation Code of the Philippines, Ayala Land is also restricted by its negative covenants on its bonds and long term loans to pay cash dividends if it is suffering from any events of default and/or required financial ratio is violated and/or if loans are past due.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Prospective purchasers of the Bonds should read the following discussion together with Ayala Land's audited financial statements and the related notes thereto, beginning on page F-1, particularly in respect of a discussion of the changes from period to period presented in this section . Ayala Land's financial statements have been prepared in accordance with Philippine GAAP. Prospective purchasers of the Bonds should read the information under "Forward-Looking Statements" for special information about the presentation of Ayala Land's forward-looking information.

Results of Operations –the first six months of 2003

Against a backdrop of continued decline in local interest rates, Ayala Land posted modest growth in the first half. Consolidated revenues totaled ₱6.45 billion, up by 23% year-on-year. Net income grew by 3% to ₱1.10 billion.

Leasing operations continued to drive revenues, contributing ₱1.79 billion or 28% of total. Rental revenues grew by 17% year-on-year, with much of this growth coming from Greenbelt 2 & 3 as well as the 5-12% increase in Ayala Center's basic rental rates. The mall maintained a high occupancy rate of 96% even with its continuing expansion. Additional leasable area will come on stream when Greenbelt 4 opens in the fourth quarter of this year. Residential units for lease at One Roxas Triangle and at the 28-unit The Residences at Greenbelt also contributed to rental revenues. Meanwhile, office leasing contribution was fairly steady as Ayala Land's office buildings maintained high occupancy rates which averaged at 95%.

Land sales generated ₱1.11 billion in revenues, accounting for 17% of consolidated revenues. This represents a 57% year-on-year increase, primarily from sales of new projects launched in the second half last year, namely Ayala Hillside Estates and Plantazionne Verdana Homes, boosted by higher sales bookings at Ayala Westgrove Heights. Tamarind Cove, a joint venture pocket residential development in Alabang, was launched in May and offered 20 prime lots, 9 of which represent Ayala Land's share. At the end of June, 45% of the 20 lots have been taken up. In June, Ayala Land launched the second phase of Paseo de Magallanes, offering 17 residential lots and 6 commercial lots which at the end of the same month were 53% and 17% taken up, respectively. The sale of two business lots at the Madrigal Business Park and two industrial lots at the Laguna Technopark also contributed to higher land sale revenues.

New mass housing projects of Laguna Properties Holdings, Inc. ("Laguna Properties") in Dasmariñas, Cavite, Lipa, Batangas and Naga City enabled Ayala Land to book 557 units in the first half, 67% higher than the same period last year. This translated to an 81% increase in mass housing revenues to ₱ 817 million, representing 13% of consolidated revenues. In June, Laguna Properties further widened its product offerings and launched its first medium-rise residential building project in Parañaque, One Aeropolis, with the project's first of twelve towers offering 236 units for sale. In July, Ayala Land inaugurated Riego de Dios Village, an affordable housing project in Tanza, Cavite to cater to the housing needs of the soldiers of the Armed Forces of the Philippines.

Revenues from high-end residential unit sales contributed 11% to total revenues and grew by 37% to ₱736 million, primarily due to more unit bookings at One Roxas Triangle, as well as additional sales and recognition of completion of prior year's sales of One Legazpi Park, Ferndale Homes and Montgomery Place. In June, Ayala Land successfully launched the 249-unit The Residences at Greenbelt-Laguna Tower, the first of three towers that will rise in a prime residential condominium complex within Ayala Center. The project was well-received, with take up rate posted at 44% at the end of June, less than three weeks from launch.

The negative effect of SARS in the hotel sector was evident in generally lower occupancy rates which brought hotel revenues down by 8% to P596 million, which accounted for 9% of consolidated revenues. Hotel occupancy rates of Ayala Land's subsidiaries, however, continued to stay above industry averages. Hotel Intercontinental and Oakwood Premier were 59% and 70% occupied, respectively, higher than the Makati Commercial Business District's average of 58%. Meanwhile, Cebu City Marriott Hotel was 71% occupied, compared to Cebu hotels' average of 56%.

Given limited opportunities in the construction sector, revenues from construction projects of wholly owned subsidiary Makati Development Corporation declined by 46% to ₱291 million, and accounted for 5% of total revenues.

Ayala Land's newest business line which caters to the core-middle income residential segment performed well and contributed ₱200 million in revenues, representing 3% of total. With limited remaining inventory at the first tower of the Columns, a joint development of Ayala Land and its wholly owned subsidiary, Community Innovations, was launched in November 2002, another 284 units in the second tower were offered for sale in March 2003. At the end of June 2003, the first tower was 90% taken up while the second tower posted a 30% take-up rate. Meanwhile, Community Innovations's maiden project, Verdana Homes, had full take-up on its 468 lots, and a 97% take-up on its 88 house-and-lots.

Financial Condition- the first six months of 2003

During the first half, Ayala Land continued to allocate resources for strategic investments and further leveraged on its balance sheet with the expanded coverage of its in-house financing schemes.

Total disbursements for projects and capital expenditures amounted to ₱4.0 billion, about 51% of the ₱7.9B budget for the whole year. These disbursements include the ₱2.6 billion investment in Bonifacio Land Corporation.

Although new loans brought total borrowings up to ₱12.34 billion, bank debt-to-equity and net debt-to-equity remained at comfortable levels of 0.34:1 and 0.23:1, respectively. Liquidity was high with current ratio at 1.81:1. Cash flow is expected to improve with possible additional sales to be generated by the ongoing asset rationalization program.

Given favorable market response to new projects, Ayala Land will continue to launch the projects it had lined up for the rest of the year.

Results of Operations –Year 2002

By sharply focusing on new niche markets and strengthening its retail rental portfolio, Ayala

Land withstood the continued pressure on growth and profitability. Ayala Land ended 2002 with a net income of ₱2.52 billion, 10% higher than 2001, generated from ₱12.23 billion of consolidated revenues, which grew by 5% year-on-year.

Leasing operations continued to be the biggest revenue source, with rentals from shopping centers and office buildings contributing ₱3.33 billion or 27% to total revenues. Ayala Land opened Greenbelt 2 and 3 in May and immediately established the area as the preferred dining and entertainment center. At the end of the year, overall occupancy rate at the Ayala Center averaged at 92%. Without Greenbelt 2 and 3, the Center's occupancy rate averaged at 96%. The 28-unit Residences at Greenbelt was completed last December and is now being offered for lease to augment Ayala Land's rental income. In June, Ayala Land started to develop Market! Market!, a value mall near Fort Bonifacio. As in previous years, Ayala Land's office buildings showed above-market performance with an average occupancy rate of 92% versus Makati Central Business District's 85%. Ayala Land's office lease rates also continued to command a premium over those of competitors.

Land sales, mostly from residential subdivisions, amounted to ₱2.58 billion, accounting for 21% of consolidated revenues. This represented a growth of 21% year-on-year, primarily due to new residential subdivision projects such as the Verdana Homes in Cavite and Ayala Hillside Estates in Quezon City. Targeting the core middle-income market, Verdana Homes offered a total of 457 lots in two phases and proved highly successful with a 99% take-up rate at the end of 2002. Ayala Hillside Estates, a high-end residential community built around a golf course, was launched in September and posted a year-end take-up rate of 87% on the 55 Ayala Land-owned lots in the initial phase of this subdivision. Continuing investments and project enhancements boosted sales at the Ayala South communities. Significantly adding value to Ayala Greenfield Estates was the launch in October of Ayala Greenfield Golf and Leisure Club which re-positioned the subdivision as a golf and leisure community and pushed sales take up to 80% of 363 lots. At Ayala Westgrove Heights, additional phases were offered for sale during the year, bringing cumulative offering to a total of 1,094 lots, 86% of which was taken up by year-end.

Residential unit sales, consisting of condominium, townhouse and single-detached units, contributed ₱1.57 billion of 13% of total revenues. Strong take-up at One Legaspi Park launched in March 2002 confirmed Ayala Land's assessment of the market prospects for relatively affordable condominium units. At the end of the year, this 369-unit condominium project was 73% taken-up. Additional unit offerings at Montgomery Place and Ferndale Homes continued to generate buyer interest. Three-fourths of the 270 townhouse units at Montgomery Place have been taken up at the end of 2002 while 83% of the 132 house-and-lots at Ferndale Homes were taken up. Despite the difficult market in the luxury condominium segment, sales at the 182-unit One Roxas Triangle improved to 63% at the end of 2002 from 50% in the previous year.

Brisk take-up at the newly-launched projects of Laguna Properties boosted mass housing revenues to ₱1.45% billion, representing 12% of consolidated revenues and a 77% year-on-year growth. This was a result of a significant increase in booked units sales to 1,121 units in 2002 versus 806 units in the previous year. Including reservations, take up during 2002 totaled to 1,464 units. New projects such as Sta. Catalina Village in Cavite, as well as St. Alexandra Estates and St. Gabriel Heights in Antipolo, outsold competition in their respective areas. Villa Sta. Monica and Hacienda Sta. Monica in Lipa, Batangas offered residential and farm lots during the year and were also well received. A new representative office in Rome was opened in October to tap overseas workers market in Italy.

Despite the low-rate strategy being adopted in the hotel sector, revenues from hotel operations was at ₱1.31 billion and contributed 11% to total revenues in 2002. Higher occupancy rates allowed Ayala Land to even out the effects of lower room rates. Hotel InterContinental and Oakwood Premier Ayala Center continue to post above-market occupancy rates, both averaging at 75% versus Makati Central Business District hotels' average of 66%. Cebu City Marriott Hotel's occupancy rate averaged at 65%, also above Cebu hotel market's 56%.

Construction revenues of ₱922 million made up 8% of total revenues. This represents a decrease of 41% year-on-year due to the completion in 2001 of Makati Development Corporation's ("MDC") big projects such as City Sports Club Cebu and Globe Telecom Building. MDC continued to serve the construction needs of Ayala Land and its subsidiaries which accounted for 64% of its revenues. The balance represented construction contracts, obtained through competitive bids, from both private and public sectors.

Financial Position- Year 2002

Ayala Land's sound fundamentals continued to be underscored by its strong balance sheet. Ayala Land readily serviced its obligations, including the ₱6.0 billion long-term commercial papers which matured in March and April 2002. The issuance of a ₱3.0 billion peso-denominated bond and ₱1.06 billion fixed rate corporate notes partly funded Ayala Land's requirements for debt servicing, project and capital expenditures, and working capital.

Maintaining its conservative view on borrowings, Ayala Land's interest-bearing debt remained low at ₱10.87 billion. As such, debt-to-equity and net debt-to-equity ratios were kept at comfortable levels of 0.31:1 and 0.15:1, respectively. Liquidity was well-preserved as seen in the high current ratio of 2.10:1 and cash reserves of ₱5.71 billion.

Actual project and capital expenditures for 2002 amounted to P2.64 billion, 5% higher than 2001 actual expenditures but 37% lower compared to the ₱4.2 billion budget for the year. The bulk of the 2002 disbursements was incurred for residential buildings and shopping center projects.

Results of Operations –Year 2001

Ayala Land ended the year with sound fundamentals despite the economic and business uncertainties that prevailed throughout the year. Ayala Land fortified its market presence as it maintained its position in traditional markets and tapped new markets. Thus, while 2001 was not a period of high growth for the real estate industry as a whole, Ayala Land managed to generate consolidated revenues of ₱11.7 billion, reflecting a 13% year-on-year growth. Corresponding net income of ₱2.3 billion was 24% higher than the previous year's comparative level. Changes in costs and expenses were largely a function of the sales mix as reflected in the level of revenues generated, inflationary increases in utilities and service fees and expansion of Ayala Land's various businesses during the year.

Rental operations remained a major revenue contributor, accounting for ₱3.1 billion or 27% of consolidated revenues. Rental revenues grew by 10% year-on-year as Ayala Land's shopping centers proved resilient in the face of the continuing economic slowdown, with Ayala Center's same store sales growing by 6% and occupancy rate remaining at a high 94%. During the year, Ayala Land continued to further improve and expand the Ayala Center with the re-development of Greenbelt into a premier urban retail entertainment center. The year also saw the start of operations of two mass transit-based retail projects, the MRT3-Ayala Station and the Metro Point, an 8,000-sqm mall at the intersection of LRT 1 and MRT 3 in EDSA and Taft Avenue in Pasay City. Ayala Land's office leasing portfolio likewise remained stable, posting a high average occupancy rate of 94% and slightly higher rental income amid the increasingly competitive environment in the office market.

Land sales contributed ₱2.1 billion in revenues or 18% of total as Ayala Land opened two new phases of Ayala Westgrove Heights in Silang, Cavite, bringing up total lots for sale to 971. By year-end, 81% of the lots have been sold. Take-up rate at Ayala Greenfield Estates was 55% out of 381 lots, including a new phase launched during the year. Another contributory factor to the increase was the successful launch during the second quarter of Paseo de Magallanes, a residential-commercial subdivision. By year-end, all of the 48 residential lots were sold, with about half of the 22 commercial lots taken up. Additionally, a new phase at Ferndale Homes in Quezon City consisting of 49 lots was opened in September 2001. The project was well received with an 84% take-up after only three months from launch date. In the industrial estate segment, Laguna Technopark was only one of the few industrial estate developments, which were able to close deals in 2001. A total of 13.2 hectares was sold to five new locators, bringing the project's total locators to 100 companies, 84 of which were operational as of year-end.

Residential unit sales contributed ₱1.5 billion or 13% to consolidated revenues in 2001. This figure was more than double previous year's level of ₱ 678 million due to the launching of Montgomery Place in February and the booking of 34 units at One Roxas Triangle. Brisk take-up of the initial 132-unit offering in Montgomery Place prompted the opening of the 90-unit second phase in July. By year-end, around 67% of the 222 units were taken-up. Despite the weak market for luxury residential condominiums, One Roxas Triangle posted a higher take-up rate of 50% by end-2001 compared to 38% at the end of the previous year. At Ferndale Homes, all house-and-lot units in the first two phases were taken up as of year-end.

Ayala Land's construction business generated ₱1.6 billion or 13% of total revenues, representing a 71% growth year-on-year. MDC actively pursued vertical projects such as the Globe Telecom Building and Globe Islacom Corporate Center in Cebu, in addition to its traditional land development projects.

Ayala Land's hotel operations grew by 11.4% year-on-year contributing roughly 11% or ₱1.3 billion to consolidated revenues. The increase was due to the good performance of Ayala Hotel's three properties despite the sharp decline in revenues experienced by the local hotel industry during the year. In its first full year of operations, Oakwood Premier Ayala Center managed to significantly improve its occupancy rate to 72% in 2001, the highest in Makati, from 45% in 2000. Hotel InterContinental Manila's occupancy rate of 64% in 2001 was above the Makati Central Business District average hotel occupancy rate of 57%. Cebu City Marriott Hotels also performed better than industry as the hotel posted a 62% average occupancy rate versus the 58% average for hotels in Cebu.

Despite job security concerns and buyers' preference to stay liquid as a result of an uncertain economic situation, Laguna Properties increased its revenues by 26% growth year-on-year to ₱ 820 million to contribute 7% to consolidated revenues. Around 806 units were sold, 7% higher than previous year's level. The improved take-up was due to the introduction of in-house financing schemes that offered lower initial payments, longer loan terms and reduced interest rates.

Since the end of 2001, and for the comparable period in the preceding year, there was no material change in the results of operation of Ayala Land.

Financial Position- Year 2001

Ayala Land's sound financial health allowed it to meet commitments and venture into new business areas. Ayala Land's balance sheet remained strong, with total assets of ₱61.9 billion and stockholders' equity of ₱35.2 billion. As a defensive measure against prolonged market weakness, Ayala Land sharpened its focus on cash flow and sought to increase liquidity through the conversion of existing assets into receivables and more liquid assets. As a result, Ayala Land ended the year with cash reserves of ₱6.7 billion, due largely to the favorable results of operations and net additional borrowings in order to enhance liquidity for ongoing projects, for projected new investments in 2002 and partly for refinancing of existing loans. Loans payable consequently increased by ₱527 million given such additional working capital requirements. Long-term debt (current and non-current portion) also increased by ₱ 2.0 billion with the incurrence of new debt.

Other assets likewise increased by ₱163.0 million mainly on account of the full development and implementation of the various SAP modules in 2001 and initial outlays for business development activities. On the other hand, estimated liability for land and property development (current and non-current portion) decreased by ₱117.0 million due to the higher completion rate of projects, which were subsequently sold also within the year. Other current liabilities increased by ₱34.0 million mainly due to the net effect of a new property acquired on installment and payments of other obligations due within the year.

For the year, current ratio stood at 1.49:1 while bank debt-to-equity and net debt-to-equity ratios remained at very comfortable levels of 0.31:1 and 0.12:1, respectively.

Ayala Land's internal sources of liquidity were accounts receivables, subdivision land for sale, condominium and residential units for sale and other investments. Internal cash generated were reflected as net cash from operating activities in Ayala Land's audited Consolidated Statement of Cash Flows. Cash generated from operations amounted to ₱4.38 billion during the year.

Since the end of 2001, and for the comparable period in the preceding year, there was no material change in the financial condition of Ayala Land.

Capital Expenditures- Year 2001

Funds generated from operations sufficiently met capital expenditures, which amounted to ₱2.5 billion for the whole year of 2001. Bulk of this expenditure was used for the development of commercial centers and construction of residential buildings/units.

Results of Operations –Year 2000

Ayala Land posted ₱1.8 billion in consolidated net income for the year 2000 out of consolidated revenues of ₱10.3 billion. This was 29% lower than previous year's level due to the sluggish local property market that continued to persist throughout the year. Additionally, start-up costs on newly launched real estate projects constricted gross profit margins (from 53% in 1999 to 37% in 2000) thereby further affecting net income results.

Rentals emerged as the biggest contributor to revenues during the period, generating ₱2.8 billion or 27% of total revenues. Despite cautious consumer spending and stiff competition in the office market, rentals from Ayala Land's shopping centers and office properties continued to provide stability to Ayala Land's revenue base. In 2000, Ayala Center's same store sales posted a slight growth over the previous year while occupancy rate remained high at about 96%. Alabang Town Center's occupancy rate was posted at 92% while Pavilion Mall showed improved occupancy rate of 90% at the end of the year. In line with Ayala Land's thrust to beef up its rental portfolio, Ayala Land commenced with the re-development of Greenbelt and successfully bid for the 9.8-hectare property along Circumferential Road-5 (C-5).

Ayala Land's office leasing operations posted a 3% increase in revenues. Tower One, Makati Stock Exchange Building and 6750 Ayala Avenue's occupancy rates averaged at 96%, which was well above the average occupancy rate of 87% in the Makati Central Business District. Ayala Life-FGU Center's space for lease registered at 85% occupancy from 24% in the previous year.

Land sales emerged as the second biggest revenue contributor in 2000, accounting for ₱2.7 billion or 27% of Ayala Land's consolidated revenues. Prime residential subdivision projects generated the bulk of the land sale revenues especially with the full-year effect of sales at the Ayala Greenfield Estate.
With regard to Ayala Land's industrial estate development, Laguna Technopark, managed to book the sale of six lots totaling 7.3 hectares despite the dampened interest in the industrial estate sector.

Hotel operations yielded ₱1.2 billion in revenues, representing 11% of total revenues and a growth of 40% over the previous year. This was made possible by the significant contribution of Oakwood Premier Ayala Center whose first tower commenced operations during the year. At the end of 2000, Oakwood's occupancy rate of 65% was higher than expected. With an average occupancy rate of 67%, Hotel Intercontinental Manila also did well relative to the 63% average occupancy rate of other hotels in the Makati Central Business District. Cebu City Marriott Hotel experienced an average occupancy of 58% in 2000.

Revenues from construction projects contributed ₱912 million or 9% to Ayala Land's total revenues. Ayala Land's wholly owned construction arm, MDC, posted about 80% increase in revenues. About half of the revenues were derived from Ayala Land-related projects, while the other half were from construction projects undertaken for third parties.

Residential unit sales contributed 7% or ₱678 million to consolidated revenues. Three residential projects, namely Ferndale Homes, One Roxas Triangle, and The Regency at Salcedo, accounted for bulk of the sales.

Mass housing revenues contributed ₱649 million or 6% of total revenues. Most of Ayala Land's mass housing sales was generated in the first half of 2003 when interest rates on housing loans were stable.

Interest income was slightly lower at ₱1.33 billion compared with ₱1.5 billion previously due to the decline in net cash available for investment during the year.

It should likewise be noted that costs and expenses specifically related to Ayala Land's real estate business grew significantly during the year largely as a function of the change in real estate sales mix and due to additional developmental and marketing costs incurred preparatory to the launch of several new projects and the intensified selling and promotional activities undertaken in the light of the tight economic condition then prevailing. Expenses related to its hotel operations likewise increased due to the start of Oakwood Premier's operations. Interest expenses likewise increased significantly due to higher financing charges incurred by Ayala Land's hotel subsidiaries.

Financial Position- Year 2000

Total assets stood at ₱58.0 billion, slightly higher by 3.4% year-on-year. Cash position was significantly lower at ₱4.1 billion from ₱5.3 billion previously due to huge outlays/disbursements for various new investments during the year. Total assets stood at ₱57.9 billion, slightly higher than previous year's level. Total interest-bearing debt stood at ₱8.31 billion, resulting in a bank debt-equity ratio of 0.25:1 and a net debt-equity ratio of 0.13:1. Foreign currency denominated borrowings obtained by the foreign currency-generating hotel subsidiaries amounted to USD29.17 million comprising 18% of total interest-bearing debt.

Due to the uncertain times, liquidity was a prime concern to Ayala Land. As a result, Ayala Land was very selective in its investment decisions. In response to margin pressures, Ayala Land adopted cost-saving measures such as new construction methods and purchasing techniques. It operated on a cash conservation mode and kept general and administrative expenses at a minimum. Thus, despite the lower net income generated, cash flow generated from operations was kept at almost equal 1999 levels of ₱3.1 billion. This afforded Ayala Land to substantially finance internally most of its capital expenditure requirements and pay out cash dividends of ₱ 534.4 million. Net additional long-term financing of ₱702.8 million provided the balance of the funding required.

Capital Expenditures (Parent Company) – Year 2000

Following a conservative investment posture, Ayala Land spent about ₱3.1 billion in capital expenditures for the year 2000. Consistent with Ayala Land's strategy of strengthening its recurring revenue base, the biggest investment outlay was for commercial center developments, amounting to about ₱1.2 billion or 41% of total Capital expenditures. Ayala Land made an advance payment of about ₱700 million to the Bases Conversion and Development Authority ("BCDA") along C-5 where Ayala Land will develop a new shopping center. Land acquisition and development, as well as residential buildings/units, were the next biggest components of the 2000 capital expenditures, amounting to about ₱1.2 billion. Land development outlays were mostly for Ayala Land's residential subdivision projects, namely Ayala Greenfield Estates, Ayala Westgrove Heights and Ayala Heights Cebu.

Audit Matters

There were no disagreements with any accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, nor was there any resignation or dismissal of any accountant who was previously engaged as the principal accountant to audit Ayala Land's financial statements, or an independent accountant who was previously engaged to audit a significant subsidiary and on whom the principal accountant expressed reliance in its report.

Description of Forex Losses

In respect of foreign exchange losses capitalized in Ayala Land's financial statements in this Offering Memorandum, please be guided by the following breakdown expressed in Pesos:

Period	Amount
2000	₱181,355,467
2001	₱179,770,144
2002	₱178,184,821
2003 June 30	₱177,392,160

The above amounts represent balances as of end of year/semester, as applicable, after reflecting amortization/depreciation (based on depreciation of the building). Capitalized foreign exchange losses relate to US Dollar loans procured for hotel subsidiaries. See-- Description of Other Debt.

BUSINESS

Overview

Ayala Land is the real estate arm of Ayala Corporation. It was spun-off by Ayala Corporation in 1988 to enhance management focus on its existing real estate business and to highlight the value of assets, management and capital structure of the real estate business. The SEC issued Ayala Land its certificate of incorporation on June 30, 1988. The Ayala Land shares were offered to the public in an initial public offering (IPO) of primary and secondary shares in 1991 and subsequently listed on the Makati and Manila Stock Exchanges (predecessors of the Philippine Stock Exchange). The IPO diluted Ayala Corporation's effective interest in Ayala Land to 88.2%. Since then, Ayala Corporation's effective interest has been further reduced to 65% as of end-June 2003 through, among others, the exercise of stock options by the respective employees of Ayala Corporation and Ayala Land, exchanges under Exchangeable Notes due 1996 and Exchangeable Notes due 2001, disposal of Ayala Land shares by Ayala Corporation and Ayala Land's issuance of new shares in relation to its acquisition of interest in companies owning properties in Canlubang, Laguna in 1993. Further reduction of Ayala Corporation's equity in Ayala Land has also been effected by the conversions to Ayala Land common B shares of the entire ₱3 billion convertible Long Term Commercial Paper issued in December 1994.

Ayala Land is listed on the PSE with a market capitalization of ₱68.47 billion as of November 3, 2003 based on Ayala Land's common share closing price as of that date.

Ayala Land's Business

Ayala Land is one of the largest real estate conglomerates in the Philippines engaged principally in the planning, development, subdivision and marketing of large-scale communities having a mix of residential, commercial and other uses. Ayala Land, through various subsidiaries, is also engaged in the development and sale of industrial lots, as well as the development of hotel and serviced apartments. Ayala Land also constructs office and/or residential condominiums and buildings for sale or lease. It has also begun to develop and sell high-end house-and-lots packages in its residential developments and, through its subsidiaries, continues to develop and sell mass housing units and farm/hacienda lots. The company has also begun to tap the middle income urban residential segment of real estate industry through its core-mid residential projects.

Ayala Land is also engaged in the development of commercial centers and leases to third parties retail space and land therein. Through its subsidiaries, it also operates movie theatres in these commercial centers and has recently ventured into the operation of food courts and entertainment facilities to complement its commercial center operations.

Ayala Land, through its subsidiary Makati Development Corporation, which is primarily responsible for horizontal land development of the projects of Ayala Land and its subsidiaries, also provides third party construction services for industrial building and government infrastructure projects.

Ayala Land is also engaged in information technology-related ventures through Ayala Landnet.com, a 50-50 joint venture with Ayala Corporation's iAyala Company, Inc. The joint venture is responsible for the launch in June 2000 of myAyala.com, an online shopping mall.

Land Bank

As of end-June 2003, Ayala Land's land bank comprised a total of 3,744 hectares of fully converted properties in various locations nation-wide. There are currently no major acquisitions contemplated by Ayala Land for the rest of 2003. Following is a breakdown of Ayala Land's land bank as of said period:

Location	Hectares	% of Total
Makati[1]	59	1.58%
Taguig[2]	73	1.95%
Alabang[3]	19	0.51%
Parañaque	2	0.05%
Quezon City[4]	76	2.03%
Antipolo	18	0.48%
Las Piñas	146	3.90%
Metro Manila	**393**	**10.50%**
Laguna[5]	2,387	63.76%
Cavite[6]	317	8.47%
Batangas[7]	82	2.19%
Quezon[8]	68	1.82%
Calabarzon	**2,854**	**76.23%**
Naga	24	0.64%
Cabanatuan/ Baguio[9]	64	1.71%
Other Luzon Area	**88**	**2.35%**
Bacolod[10]	170	4.54%
Cebu[11]	164	4.38%
Davao	59	1.58%
Cagayan De Oro	15	0.40%
Boracay[12]	1	0.03%
Visayas/Mindanao	**409**	**10.92%**
TOTAL	**3,744**	**100.00%**

[1]Includes sites of Mandarin Hotel (1.6 has.) and Peninsula Hotel (2.0 has.) which are 50% owned through Ayala Hotels, Inc.; 0.82 has. of which is mortgaged to Bank of the Philippine Islands in compliance with Bangko Sentral ng Pilipinas ruling on directors, officers, stockholders and related interests (DOSRI); 0.16 has. mortgaged with GSIS to secure surety bonds in favour of Bases Conversion Development Authority; 1.75 has. subject of a leasehold rights to secure Cebu Insular Hotel Company, Inc.'s loan with Deutsche Investitions- Und Entwicklungsgesellschaft MBH

[2]9.8-ha. site of Market! Market! under lease arrangement with Bases Conversion Development Authority; 8.5-ha. "Lot B" under joint venture with Bases Conversion Development Authority; 55 has. in Fort Bonifacio owned through Bonifacio Land/FBDC.

[3]Includes the 17.6-ha. Alabang Town Center which is 50% owned through Alabang Commercial Corp.

[4]About 40 has. under joint venture with Armed Forces of the Philippines – Mutual Benefit Association, Inc.; remaining 13 has. in Ferndale Homes under override arrangement; remaining 18 has. in Ayala Hillside under joint venture with Capitol Hills Golf and Country Club, Inc.

[5]Includes the 1,505-ha. Canlubang property which is 70% owned through Aurora Properties, Inc. and Vesta Holdings, Inc.; also includes remaining 427 has. which are under a 50-50% joint venture with Greenfield Development Corp.; and remaining 6 has. in Laguna Technopark, Inc. which is 61% owned by Ayala Land. 6.61 has. is mortgaged to Land Bank of the Philippines as a security for term loan of Laguna Properties; 8.69 has. is subject of a mortgage trust indenture securing Jexim loans of Laguna Properties with China Banking Corporation and Banco De Oro Universal Bank; 42.3 has. is subject of an mortgage trust indenture securing Ayala Greenfield Development Corporation's International Exchange Bank loan.

[6]Includes the 20-ha. site of Riego de Dios Village which is under joint venture with the Armed Forces of the Philippines.
[7]Includes remaining 33 has. in Sto. Tomas project which is under an override arrangement.
[8]Includes a 5.63 has. of property which is mortgaged with Land Bank of the Philippines as a security for term loan of Laguna Properties.
[9]Includes 41.19 has. of property which is part of a mortgage trust indenture securing Jexim loans of Laguna Properties with China Banking Corporation & Banco De Oro Universal Bank.
[10]Includes remaining 103 has. in Ayala Northpoint which is under an override arrangement.
[11]Includes about 14 has. in Cebu Business Park which is 47% owned through Cebu Holdings, Inc.; 0.6-ha. hotel site owned by Ayala Hotels, Inc. and Cebu Holdings, Inc.; and remaining 20 has. in Cebu Civic and Trade Center which is owned by Cebu Property Ventures and Development Corporation which in turn is 76% owned by Cebu Holdings, Inc.. An 8.84 has. which houses the Ayala Center-Cebu is subject of a mortgage trust indenture securing term loan with Bank of the Philippine Islands; 0.62 has. is subject of a mortgage trust indenture securing Cebu Insular Hotel Company Inc.'s term loan with Deutsche Investitions- und Entwicklungsgesellschaft MBH.
[12]50% owned through Ayala Hotels, Inc.

With 3,744 hectares in its land bank as of end-June 2003, Ayala Land believes that it has sufficient properties for development in the next 10-15 years. Currently, Ayala Land does not have any specific property in mind but it is open to acquiring properties which it deems strategic. Ayala Land's preferred mode of acquisition, going forward, would be through joint ventures with landowners. Meanwhile, Ayala Land continues to assess its landholdings to identify properties which no longer fit its overall business strategy.

Subsidiaries and Affiliates

As of June 30, 2003, there are thirty four companies which are either subsidiaries or affiliates of Ayala Land. Certain details and the percentage of direct and effective ownership held by Ayala Land of each of these companies are described below:

Business Line	Subsidiary or Affiliate	Date of Incorporation	% Direct	% Effective
Hotels	Ayala Hotels, Inc.	4/11/1991	50.0	50.0
Construction	Makati Development Corp.	8/15/1974	100.0	100.0
Property Management	Ayala Property Management Corp.	7/19/1951	100.0	100.0
Mass Housing	Laguna Properties Holdings, Inc.	10/30/1990	100.0	100.0
Industrial Park	Laguna TechnoPark, Inc.	11/15/1990	61.0	61.0
Property Development	Community Innovations, Inc.	09/29/1995	100.0	100.0
	Aurora Properties, Inc.	12/03/1992	70.0	70.0
	Vesta Property Holdings, Inc.	10/22/1993	70.0	70.0
	Ayala Greenfield Development Corp	12/05/1997	-----	50.0
	Cebu Holdings, Inc.	10/09/1998	47.2	47.2
	Cebu Property Ventures & Dev. Corp.	8/02/1990	7.8	43.7
	Roxas Land Corporation	03/18/1996	50.0	50.0
	Bonifacio Land Corp.	10/20/1994	-----	28.1
	Fort Bonifacio Development Corp.	06/11/1996	-----	17.6
Property Sales	Ayala Land Sales, Inc.	03/06/2002	100.0	100.0
Theater Management	Ayala Theaters Management, Inc.	08/10/1984	100.0	100.0
	Five Star Cinema, Inc.	12/18/2000	100.0	100.0
Land Holding	Amorsedia Development Corp.	3/6/1996	100.0	100.0
	First South Properties, Inc.	6/7/1994	100.0	100.0
	Red Creek Properties, Inc.	10/17/1994	100.0	100.0
	Crimson Field enterprises, Inc.	10/26/1995	100.0	100.0

Business Line	Subsidiary or Affiliate	Date of Incorporation	% Direct	% Effective
Food Court Operations	Food Court Co., Inc.	11/14/1997	100.0	100.0
Entertainment Center Operations	Leisure & Allied Industries Phils. Inc.	10/10/1997	50.0	50.0
Infrastructure	Ayala Infrastructure Ventures, Inc.	2/29/1996	100.0	100.0
	MRT Holdings, Inc.	5/17/1995	-----	18.6 [1]
Wholesale Stores	Pilipinas Makro, Inc.	1/6/1995	28.0	28.0
Commercial Center	Alabang Commercial Corp.	12/22/1981	50.0	50.0
	Lagoon Development Corp.	8/30/1996	30.0	30.0
	Ayala Land – CII development Corp.	8/6/1997	50.0	50.0
	Liberty Real Holdings Corp.	3/17/1989	100.0	100.0
	North Triangle Depot Commercial Corp.	12/6/2000	-----	16.0
IT-related Ventures	Ayala Landnet.com, Inc.	5/5/2000	100.0	100.0
	MyAyala.com, Inc.	3/31/2000	-----	50.0
	AyalaPort Makati, Inc.	11/16/2000	-----	31.0

Strategy

Ayala Land's strategy is to maintain and enhance its position as the leading property developer in the Philippines. Ayala Land intends to continue its traditional activity of developing large-scale, mixed-use integrated communities while diversifying its revenue base. Ayala Land hopes to achieve these objectives by increasing its rental activities and expanding its real estate business into different markets and geographic areas in the country where Ayala Land believes there are significant growth opportunities or where its proposed developments complement its existing real estate business.

Land, Condominium and Mass Housing Sales

Ayala Land's residential land and condominium sales business is predominantly, but not exclusively, targeted at the high-end market. Ayala Land believes that there is substantial demand for middle-income and mass housing in the Philippines and a lack of good quality supply at affordable prices. Thus, in addition to its high-end products, Ayala Land, through its subsidiary, Laguna Properties, is developing certain properties that target the mass housing market. Through Community Innovations, Ayala Land is also tapping the middle income urban residential segment.

Ayala Land's principal developments have been located mostly in Metro Manila and the Calabarzon region in the south of Metro Manila. Ayala Land expects that these two areas will continue to be the focus of its development activities, with the Calabarzon region being among the fastest growing regions in the Philippines, in terms of both population and economic growth. Currently, Ayala Land is actively pursuing the development of Ayala South, a large planned community project in the Calabarzon region. Of Ayala Land's land bank of 3,744 hectares of property, 2,854 hectares or 76% are in the Calabarzon region, 393 hectares are in Metro Manila, while 409 hectares are in the Visayas-Mindanao region and 88 hectares are in other Luzon areas.

While some of these properties are being offered for sale in line with Ayala Land's asset rationalization program, Ayala Land continues to identify strategic investments for medium- to long-term growth. An example of which is the acquisition of 55 hectares of saleable land in Fort Bonifacio Global City through Bonifacio Land Corporation/Fort Bonifacio Development Corporation.

Ayala Land expects to continue to form joint ventures as it acquires and develops large tracts of land. It believes that by way of a joint development, in which sellers of land are offered the right to retain an interest in the development of a project, it will increase opportunities for Ayala Land in positioning for large tracts of undeveloped land. Ayala Land's extensive land bank in the Calabarzon region is mostly under joint venture arrangements with different landowners. This arrangement works to both Ayala Land's and joint venture partners' advantage as it allows Ayala Land to add up to its increasing land bank at a minimal initial cash outlay versus an outright cash purchase of the land and at the same time allow the joint venture partner to partake in the increased value of the property upon development and sale of the project and the realization of future earnings. This results in a lower carrying cost to Ayala Land even if the development incurs a loss in the future, while preserving Ayala Land's and joint venture partners' interest therein, as the properties appreciate in value over time.

Retail, Office Space and Land Rental

The leasing of retail and office space located in Ayala Land's commercial properties, and the land leases to retail and hotel operators continue to generate rental revenues for Ayala Land. These revenues are generally less cyclical than revenues from Ayala Land's traditional land and residential unit sales business. Thus, aside from pursuing, by itself or through its subsidiaries or with other partners, the development of new shopping center projects such as the MetroPoint at EDSA-Taft, MRT Ayala Station and Market! Market! along C-5 road, Ayala Land is expanding the amount of retail space in its existing development at Greenbelt Mall. In addition, Ayala Land, together with the consortium members of the Metro Rail Transit Corporation, will soon break ground for the North Triangle Commercial Center in Quezon City. Ayala Land is managing its commercial centers in a manner designed to increase tenants' sales to increase rental income. Ayala Land also offers office space for sale or rent in some of its residential and retail developments and is also engaged in the leasing of residential units in some of its developments as well.

Infrastructure, Construction and Property Development

Ayala Land has participated in infrastructure projects, especially those that complement its real estate projects. It is a member of the consortium, which built and operates the Metrostar Express or MRT-III, a light railway transit system traversing Metro Manila from Quezon City to Pasay City. Metrostar Express was formally inaugurated in August 2000.

Hotel Operations

Ayala Land, through Ayala Hotels, owns the Inter-Continental Manila and the Oakwood Premier Suites, both located within the Makati central business district, and the Cebu City Marriott Hotel. There is currently no plan to invest further in hotel operations.

Sales and Distribution

Prior to the establishment of Ayala Land Sales, Inc. ("Ayala Land Sales"), Ayala Land availed of the services of independent accredited real estate brokers to market and sell its projects. The exclusive and dedicated sales and marketing support by Ayala Land Sales is expected to provide Ayala Land an advantage over its competitors which continue to use independent outside real estate brokers and agents.

Capital Expenditure

Ayala Land's total capital expenditures for 2001 and 2002 amounted to ₱2.5 billion and ₱2.6 billion, respectively. Ayala Land has budgeted ₱7.9 billion for capital expenditures for 2003, ₱4 billion or about 51% of which has been disbursed in the first half of 2003. The following table sets out the distribution of Ayala Land's capital expenditures in 2001 and 2002 as well as the capital expenditures program for 2003:

	2001	**2002**	**2003 Budget**	**the first six months of 2003 Actual**
Commercial center development	45%	33%	18%	12%
Residential buildings/units	34%	40%	23%	13%
Land and community development	14%	12%	10%	5%
Office	-	1%	1%	0%
Visayas-Mindanao projects	5%	5%	2%	1%
Equity investments in key subsidiaries and affiliates	2%	9%	46%	69%*
Total	100%	100%	100%	100%

*Includes the ₱2.6 billion investment in the Fort Bonifacio Global City through Bonifacio Land Corporation.

Ayala Land's Project Divisions

Ayala Land's projects are segregated into various project divisions, based on their operations. These project divisions and certain current undertakings of each of them, are described below.

Land and Condominium Sales

Land Sales

Historically, land sales have been a key revenue contributor. It accounted for 18% in 2001, 21% in 2002 and 17% in the first six months of 2003. The company is engaged in the development and sale of lots for residential as well as business and industrial purposes in various locations, generally in conjunction with its residential developments.

Prime residential subdivision projects generated the bulk of the land sale revenues in 2001, 2002 and the first six months of 2003. Ayala Land continued to roll out succeeding phases at the Ayala Westgrove Heights and Ayala Greenfield Estates which form part of the Ayala South integrated community. As of end-June 2003, 87% of the 1,214 cumulative lot offering at Westgrove has been taken up while 70% of the 458 lots in Greenfield have been taken up. Also contributing to land sales were new subdivision projects such as Ayala Hillside Estates, Plantazionne Verdana Homes, Tamarind Cove at Ayala Alabang Village and Paseo de Magallanes.

Ayala Land's industrial estate development, Laguna Technopark, as well as the Madrigal Business Park, likewise contributed to land sales.

Residential Unit Sales

Sales of residential buildings and high-end house & lot units accounted for 13% of Ayala Land's revenues in 2001 and 2002 and 11% in the first six months of 2003. Residential projects, namely Ferndale Homes, One Roxas Triangle and Montgomery Place and One Legazpi Park, accounted for the bulk of condominium sales.

In June 2003, Ayala Land launched The Residences at Greenbelt-Laguna Tower, the first of three towers that will rise in a prime residential complex within Ayala Center.

Office Condominiums

Ayala Land has completed eight office condominium buildings, five of which are located within the City of Makati, two in Cebu City and one in Alabang. As of end-June 2003, only Ayala Life-FGU Center Makati and Ayala Life-FGU Center Alabang have remaining saleable units.

Mass Housing Sales

Accounting for 7% of Ayala Land's revenues in 2001, 12% in 2002 and 13% in the first six months of 2003, mass housing sales include the development and sale of lots and constructed houses, as well as lots only, in residential subdivisions specifically targeted at the mass housing market. The houses were constructed on-site out of precast concrete sections that may be expanded and upgraded.

Ayala Land, through its mass housing arm Laguna Properties, continued to widen its range of mass housing products as it ventured into the low-cost housing segment in the third quarter of 2000 and farm estate lots in 2002 and mid-rise condominium in 2Q2003.

Currently, Laguna Properties has 18 ongoing residential subdivision projects, including one mid-rise condo project and farm estate lots project, in 11 locations.

Core-Mid Residentials

Revenues from the core middle income residential segment, a new business line, contributed 3% to total revenues in the first six months of 2003. Community Innovations, Inc., Ayala Land's corporate vehicle for this business line, launched Verdana Homes in 2002 as its maiden project. Nearly all of the 556 lots/houses in this project have been taken up by end-June 2003. The company also launched the first of a 3-tower residential complex, The Columns, in November, 2002. With limited remaining inventory at the first tower, the second tower was launched in March 2003. By end-June 2003, the first tower was 90% taken up while the second tower was 30% taken up.

Rental of Retail and Office Space and Land

Rental revenues derived from Ayala Land's commercial centers, hotel land sites and office buildings have been a significant contributor to Ayala Land's total revenues, accounting for 27%

of revenues in 2001 and 2002 and 28% in the first six months of 2003.

Commercial Centers

Ayala Land owns and manages Ayala Center, its biggest commercial center located in Makati. Moreover, it has a 50% interest in the Alabang Town Center, adjacent to the Ayala Alabang Village residential community south of Makati. Through Cebu Holdings, Inc. ("CHI"), Ayala Land has constructed a shopping center in Cebu Business Park known as Ayala Center Cebu, which was formally opened in November 1994. In 1999, 30%-owned Pavilion Mall in Laguna commenced operations. In the second quarter of 2001, the retail section of the Ayala Station of MRT-III commenced operations. In December 2001, Metro Point located at the corner of EDSA and Taft Avenues in Pasay City, was opened to the public while the redeveloped Greenbelt 2 and 3 opened in 2002.

As of end-June 2003, Ayala Land's commercial centers occupy approximately 70 hectares of land and have a gross leasable area of approximately 800,000 sq.m. consisting of offices, retail shops, hotels and theaters. No individual tenant accounts for more than 10% of total commercial rental revenues. Ayala Land's Ayala Center located in Makati City with a total land area of approximately 36 hectares, also houses the 6750 Ayala Avenue office building, four international hotels (Hotel InterContinental Manila, the New World Hotel, the Dusit Hotel Nikko and the Shangri-La Hotel Makati), and Oakwood, a two-tower serviced apartments. Ayala Center alone accounts for the bulk of Ayala Land's gross rental revenues.

Leases for retail space within the commercial centers are generally short-term, ranging from one to five years for the initial lease, and, thereafter, renewable annually. Land leases, on the other hand, have longer terms, usually up to 50 years in the case of hotel tenants. In general, rental rates for retail space equal to the higher of (i) a basic rent plus a percentage of the tenant's gross sales, or (ii) a specified minimum amount. Rental rates for leases on hotel and department store sites are generally based on a percentage of gross sales.

Ayala Land's on-going retail projects include Greenbelt 4 in Ayala Center and Market! Market!, a regional mall being constructed on a 9.8-hectare property along C-5 road, through a wholly-owned subsidiary, Liberty Real Holdings Corp. Plans are being finalized for the development of a shopping center by an affiliate, North Triangle Depot Commercial Center ("NTDCC") in North EDSA, Quezon City.

Office Buildings

In addition to its office condominium projects intended for sale, Ayala Land likewise owns office space for lease to generate rental income. Total gross leaseable area in Ayala Land's four office buildings for lease is approximately 73,000 sq.ms. Ayala Land's office buildings for lease continue to post high occupancy rates. Tower One, Makati Stock Exchange Building, 6750 Ayala Avenue and Ayala-FGU Center's space for lease registered an average occupancy rate of 94% in 2001, 92% in 2002 and 95% in the first six months of 2003.

Theaters

Ayala Land owns movie theater complexes with a total of 31 screens and one live performance theater situated in its commercial centers. The movie theaters are operated primarily as a means of attracting customers to its commercial centers. The theaters are managed by Ayala Theaters Management, Inc. and Five Star Cinema, Inc., wholly-owned subsidiaries of Ayala Land.

Hotel Operations

Hotel operations contributed 11% to Ayala Land's consolidated revenues in 2001 and 2002 and 9% in the first six months of 2003.

Ayala Land owns 50% of Ayala Hotels, Inc. with the balance held by Ayala Corporation. Ayala Hotels owns 100% of the 338-room Hotel InterContinental Manila (the land for which is leased by Ayala Hotels from Ayala Land). Ayala Hotels also has a 63% stake in Cebu City Marriott Hotel and a 60% stake in Oakwood Premier Ayala Center, a 306-unit serviced apartments. The latter soft-opened in November 1999 and commenced commercial operations in February 2000. In addition, Ayala Hotels owns the land on which the Peninsula Manila and Mandarin Oriental hotels are located.

Construction and Property Management

Construction

Ayala Land's construction business accounted for approximately 13% of Ayala Land's revenues in 2001, 8% in 2002 and 5% in the first six months of 2003.

A wholly owned subsidiary of Ayala Land, Makati Development Corporation ("MDC") is engaged in engineering, design and construction of vertical and horizontal land developments, such as roads, bridges and utilities. MDC is responsible for horizontal construction works at Ayala Land's land developments and is likewise engaged in private industrial and government infrastructure projects. Ayala Land generally utilizes other private contractors for its high-rise vertical construction projects, such as office and residential condominium buildings and commercial centers.

Property Management

Ayala Property Management Corporation, a wholly owned subsidiary of Ayala Land, is engaged in property management, principally for Ayala Land and its subsidiaries.

Leisure and Lifestyle Communities

In September 2002, Ayala Land created the Leisure and Lifestyle Communities Group ("LLCG") to develop real estate products with a leisure component. The move recognizes growing niche market for leisure activities amid a generally weak real estate market. It aims to further strengthen Ayala Land's positioning as the most diversified real estate company in the country.

LLCG plans to develop leisure communities in a mountain, lakeside, beach or farm environment, offering a wide array of real estate options such as lots, vacation homes and vacation units for rent. The new strategic business unit will initially target the domestic high-end market and undertake stand-alone leisure projects, as well as integrated leisure communities.

Other Joint Ventures

Ayala Land has entered into certain joint ventures described as follows:

Columbus Holdings, Inc. Ayala Land has a 50% stake in Columbus Holdings, Inc., a joint venture with Greenfield. Through Columbus Holdings, Ayala Land and Greenfield acquired in 2Q2003 a controlling stake in Bonifacio Land Corporation which in turn owns majority stake in Fort Bonifacio Development Corporation, developer of Fort Bonifacio Global City.

Pilipinas Makro, Inc. Ayala Land has a 28% ownership interest in Pilipinas Makro, Inc., a joint venture with SHV Makro N.V., a leading European wholesaler, and SM Investments Corporation. Pilipinas Makro is into the construction and operation of warehouse-type stores engaged in discount wholesaling of food and non-food items primarily to retailers and licensed traders under the “Makro” trademark. Pilipinas Makro has opened nine stores to-date.

MRT Holdings, Inc. / MRT Holdings II, Inc. / North Triangle Depot Commercial Corp. Ayala Land has an 18.6% interest in MRT Holdings, Inc., a Philippine consortium, which acquired an 85% interest in Metro Rail Transit Corporation Limited now known as Metro Rail Transit Holdings II, Inc. (“MRTH II”). MRTH II built a 17.8-kilometer railway system along the main thoroughfare traversing four major Metro Manila cities from Quezon City to Pasay City. Other members of the consortium include several local real estate firms. Construction of the project began in October 1996. A segment of the railway line began operations in December 1999. In 2000, all 13 stations were fully operational. North Triangle Depot Commercial Corp., where Ayala Land has an effective stake of 16%, will undertake the commercial development of the main depot of MRT 3 in a 16-hectare property in Quezon City. Ayala Land will manage this commercial development project.

Roxas Land Corporation. Ayala Land has a 50% interest in Roxas Land Corporation, which developed One Roxas Triangle, a 182-unit high-rise, luxury residential condominium in Makati City. Hong Kong Land (PPI) B.V. and Bank of the Philippine Islands, acting on behalf of certain trust and/or managed accounts, have a 40% and 10% interest in Roxas Land, respectively. Launched for sale to the public in November 1996, construction of One Roxas Triangle was completed in September 2001 while take up rate was posted at 68% as of end-June 2003.

Makati Property Ventures, Inc. Makati Property Ventures, Inc. (“MPVI”) is a 60-40 joint venture company formed with Rodamco Philippines B.V. of the Netherlands. MPVI constructed two towers of serviced apartments now known as the Oakwood Premier Ayala Center in Makati. The project commenced construction in 1996 and was completed in the third quarter of 1999. It soft-opened in November 1999 and started commercial operations in February 2000.

MyAyala.com, Inc. Wholly-owned subsidiary, Ayala Landnet.com, Inc., together with Ayala Corporation's iAyala, Inc., formed a 50-50 joint venture known as MyAyala.com which is an online shopping portal launched in June 2000. The site, through Sureseats.com, also provides for the booking of cinema tickets online.

Ayala Port Makati, Inc. Together with iAyala, Ayala Landnet entered into a joint venture with Internet Initiative Japan to establish Ayalaport Makati, Inc., an internet data center.

Leisure and Allied Industries Philippines, Inc. A joint venture was established between LAI Asia Pte, Ltd. and Ayala Land to engage in the operation and management of family entertainment centers in the Philippines. LAI Asia is an Australian firm engaged in the business of managing family entertainment centers.

Laguna Phenix Structures Corporation. A 50-50 joint venture company was established between Ayala Land's wholly-owned subsidiary, Laguna Properties Holdings, Inc. and Maissons Individuelles, S.A., a French firm, to form Laguna Phenix Structures Corporation ("Laguna Phenix"). Laguna Phenix manufactures and constructs Phenix houses in the Philippines.

Ayala Land's Projects

The following tables set forth the type and location of Ayala Land's ongoing, planned and completed projects as of end-June 2003.

PROJECTS UNDER DEVELOPMENT	TYPE	LOCATION
Ayala South		
Ayala Westgrove Heights	Residential lots	Cavite
Ayala Greenfield Estates	Residential lots	Laguna
Ayala Hillside Estates	Residential lots	Quezon City
Tamarind Cove	Residential lots	Alabang
Ayala Heights Cebu	Residential lots	Cebu
Ayala Northpoint	Residential lots	Bacolod
Plantazionne Verdana Homes	Residential lots	Bacolod
Paseo de Magallanes	Residential & commercial lots	Makati
Ferndale Homes	High-end house & lots	Quezon City
Montgomery Place	Townhomes	Quezon City
One Legazpi Park	Residential condominium	Makati
The Residences at Greenbelt-Laguna Tower	Residential condominium	Makati
The Columns	Residential condominium	Makati
Verdana Homes	Core-mid lots; house & lots	Las Piñas/Cavite
Santarosa Estates	Middle-income house & lots	Laguna
San Antonio Heights	Affordable housing	Batangas
San Rafael Estates	Affordable lots	Batangas
Santa Isabel Village	Affordable housing	Lucena
San Juan Estates	Affordable lots	Lucena
San Francisco Village	Affordable housing	Naga
San Ignacio Estates	Affordable lots	Naga
St. Alexandra Estates	Middle-income house & lots	Antipolo
St. Gabriel Heights	Affordable housing	Antipolo
Sta. Catalina Village	Affordable housing	Cavite
Villa Sta. Monica	Affordable lots	Lipa, Batangas
Hacienda Sta. Monica	Farm/hacienda lots	Lipa, Batangas
One Aeropolis	Mid-rise residential condo	Parañaque
Riego de Dios Village*	Affordable housing	Cavite
Sta. Arcadia Village*	Affordable lots	Cabanatuan
Saint Joseph Homes	Low-cost housing	Cavite
San Alfonso Homes	Low-cost housing	Naga

PROJECTS UNDER DEVELOPMENT	TYPE	LOCATION
Santa Barbara Homes	Low-cost housing	Tayabas
Greenbelt Redevelopment	Rental properties; Commercial Center	Makati
Market! Market!	Rental properties; Commercial Center	Taguig

* launched in September, 2003

PLANNED PROJECTS	TYPE	LOCATION
North Triangle Commercial Center	Commercial Center	Quezon City
Country Estates	Residential lots	Cebu
Gateway Project	Mixed-use; Office & Hotel	Makati
Lake Aurora	Residential lots	Laguna (Ayala South)
Cebu Civic & Trade Center (Phase II)	Business lots	Cebu
Country Estates	Residential lots	Cebu

COMPLETED PROJECTS	TYPE	LOCATION
Makati Subdivisions	Residential subdivision	Makati
Ayala Alabang Village	Residential subdivision	Muntinlupa
Ayala Heights Village	Residential subdivision	Quezon City
The Pineridge	Residential condominium	Baguio City
The Regency at Salcedo	Residential condominium	Makati
One Roxas Triangle	Residential condominium	Makati
One Salcedo Place	Residential condominium	Makati
Two Salcedo Place	Residential condominium	Makati
Three Salcedo Place	Residential condominium	Makati
Asia Tower	Residential condominium	Makati
Park Tower One	Residential condominium	Cebu
Park Tower Two	Residential condominium	Cebu
Ayala Heights Townhomes	Townhouses	Quezon City
Woodside Homes	Townhouses	Quezon City
Citibank Tower	Office Building	Makati
Tower One, Ayala Triangle	Office Building	Makati
Makati Stock Exchange Building	Office Building	Makati
Cebu Holdings Center	Office Building	Cebu
6750 Ayala Avenue	Office Building	Makati
Ayala Life – FGU Center	Office Building	Makati
Ayala Life – FGU Center Cebu	Office Building	Cebu
Ayala Life – FGU Center Alabang	Office Building	Alabang
San Jose Village	Middle-income house & lots	Laguna
Santarosa Village	Middle-income house & lots	Laguna
San Isidro Village	Middle-income house & lots	Batangas
Garden Ridge Village	Middle-income house & lots	Cebu
Rancho Imperial	Socialized housing	Cavite
Sampaguita Village	Socialized housing	Cavite
Makati Central Business District	Business lots	Makati
Madrigal Business Park	Business lots	Muntinlupa

COMPLETED PROJECTS	TYPE	LOCATION
Cebu Business Park	Business lots	Cebu
Cebu Civic & Trade Center (Phase I)	Business lots	Cebu
Laguna Technopark	Industrial lots	Laguna
Ayala Center Makati [1]	Commercial center	Makati
Magallanes Commercial Center [2]	Commercial center	Makati
San Antonio Plaza Arcade	Commercial center	Makati
EDSA-MRT Ayala Station	Commercial center	Makati
Metro Point	Commercial center	Pasay
Alabang Town Center	Commercial center	Muntinlupa
Ayala Center Cebu	Commercial center	Cebu
Pavilion Mall	Commercial center	Laguna
Hotel Inter-Continental Manila	Hotel	Makati
Insular Century Hotel Davao [3]	Hotel	Davao
Cebu City Marriott Hotel	Hotel	Cebu
Oakwood Premier Ayala Center	Hotel-serviced apartments	Makati
New World Hotel	Hotel-Land rent	Makati
Dusit Hotel	Hotel-Land rent	Makati
Shangri-La Hotel Manila	Hotel-Land rent	Makati
Mandarin Oriental Hotel	Hotel-Land rent	Makati
Peninsula Manila Hotel	Hotel-Land rent	Makati
Makati Sports Club	Sports Club	Makati
City Sports Club Cebu	Sports Club	Cebu
Alabang Country Club	Country Club	Alabang
Ayala Southvale	Residential Lots	Las Piñas/Cavite

1-Greenbelt area under redevelopment.
2-Redeveloped as residential/ commercial lots.
3-Sold in 1999.

Take-Up Rates

The take-up rate represents the percentage of units available for sale for which the buyer has paid at least a reservation fee. Revenue from sales of substantially completed projects where collection of sales price is reasonably assured is accounted for using the full accrual method, otherwise the installment method is used.

The following table provides summary information on take-up rates of Ayala Land's land and condominium sales projects under development and for sale as of June 30, 2003.

LAND SALES	TOTAL PROJECT AREA	LAUNCHED/ SALEABLE LOTS	TAKE-UP RATE
Residential Subdivisions			
Ayala South			
Ayala Westgrove Heights (12 phases)	400 hectares	1,214	87%
Ayala Greenfield Estates (2 phases)	500 hectares	458	70%
Ayala Heights Cebu	137 hectares		
Phase 1		61	97%

Phase 2A		148	9%
Ayala Northpoint (2 Phases)	122 hectares	416	56%
Ayala Southvale (Phase 1)	179 hectares	311	100%
Ayala Hillside Estates (Phase 1-Ayala Land share)	54 hectares	55	96%
Tamarind Cove, Ayala Alabang Village (Phase 1-Ayala Land share)	1.7 hectares	9	44%
Paseo de Magallanes (residential) Phase 1	2.3 hectares	48	100%
Paseo de Magallanes (residential) Phase 2	0.9 hectares	17	53%
Ferndale Homes (lots only)	8.5 hectares	142*	82%
Verdana Homes (lots only) Phase 1 & 2	**25 hectares	468	100%
Plantazione Verdana Homes (Phase 1)	21.5 hectares	159	64%
Business and Industrial Lots			
Madrigal Business Park	25 hectares	82 lots	96%
Cebu Business Park	50 hectares	100 lots	94%
Cebu Civic & Trade Center (Phase 1)	24 hectares	45 lots	40%
Laguna Technopark	389 hectares	294 hectares	97%
Paseo de Magallanes (commercial) Phase 1	3.3 hectares	22 lots	100%
Paseo de Magallanes (commercial) Phase 2	0.95 hectares	6 lots	17%

CONDOMINUM SALES	AVAILABLE UNITS	COMPLETION RATE	TAKE-UP RATE
Residential Condominiums & Townhouses			
One Roxas Triangle	182	100%	68%
One Legazpi Park	369	22%	89%
The Columns-Tower 1	284	5%	90%
The Columns-Tower 2	284	0%	30%
The Residences at Greenbelt-Laguna Tower	249	0%	44%
Park Tower Two	81	100%	96%
Ferndale Homes (house and lot)			
Phase 1	43*	100%	100%
Phase 2	52*	100%	100%
Phase 3A	59*	59%	37%
Montgomery Place			
Phase 1	136	100%	98%
Phase 1B	44	70%	43%
Phase 2	90	29%	67%
Verdana Homes (house and lot) Phase 1	50	60%	98%
Verdana Homes (house and lot) Phase 2	38	20%	95%
Office Condominiums			
Ayala Life-FGU Center (Makati)	24,435 sq. m.***	100%	100%
Ayala Life-FGU Center (Cebu)	5,446 sq. m.****	100%	100%

* - Ayala Land owned units only

** - Total project area for lots only and house-and-lots phases.

*** - Leasable area of about 6,800 sqm also being offered for sale.

**** - CHI owned units only

Competition

Ayala Land is subject to significant competition in each of its principal businesses although Ayala Land considers itself the most diverse property development Company in the market without direct equivalent competitors. However, companies including, but not limited to, SM Prime of the Sy family; Robinsons Land of the Gokongwei Family; Filinvest Land of the Gotianun Family; as well as Megaworld and Empire East have each established a presence in certain of Ayala Land's business lines. A description of the competition faced by Ayala Land is discussed in more detail in the section on "Risk Factors".

Employees

Ayala Land's workforce is composed of 384 employees (1,598 if subsidiaries' manpower is included) as of end-June 2003. Ayala Land expects to, more or less, maintain its existing number of employees within the ensuing twelve (12) month period.

Ayala Land and Ayala Land Inc. Employee's Union entered into a Collective Bargaining Agreement ("CBA") on February 23, 2000 for two (2) years. This CBA expired on December 31, 2001 and was renewed in April 2002 for a period of 3 years up to end-2004. Ayala Land management had generally not encountered difficulties with its labor force, and no strikes have been staged in the past three years.

Of the 384 Ayala Land employees, the breakdown of employees according to type is as follows:

Sales & Marketing Services Group	43
Project Development Group	159
Support Group	182
Total	384

Stock Option Plans

Ayala Land has stock option plans for key officers (Executive Stock Option Plan - ESOP) and employees (Employee Stock Ownership Plan - ESOWN) covering 2.5% of Ayala Land's authorized capital stock. The plans provided for an initial subscription price of shares subject to each option granted equivalent to 85% of the initial offer price. Any subsequent subscriptions shall be paid for at a price equivalent to 85% of the average closing price for the month prior to the month of eligibility under ESOP and the average closing price for the month prior to the month of eligibility under ESOWN.

The qualified officers and employees shall pay for the shares subscribed under the plans through installments over a maximum period of 10 years. The shares of stock have a holding period of five years and the employees must remain with Ayala Land or any of its subsidiaries over such period. The plans also restrict the sale or assignment of such shares for five years from dates of subscription.

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

In June 2000, Ayala Land offered all its ESOP subscribers with outstanding subscriptions the option to cancel their subscriptions, convert their payments on outstanding subscriptions to fully paid shares or maintain their existing subscriptions. The availments of the cancellation or conversion options have resulted in the reduction in the subscribed capital stock, additional paid-in capital and subscriptions receivable of Ayala Land.

In 2001, Ayala Land offered new ESOP to the executives and key officers of Ayala Land. The ESOP is a ten-year option plan. The grantee is selected based on certain criteria like outstanding performance over a three-year period. The executive or officer may subscribe to the number of shares allocated for him in accordance with the vesting percentage and vesting schedule stated in the Plan.

In November 2001, Ayala Land offered all its ESOWN subscribers with outstanding subscriptions the option to cancel the subscriptions within the 5-year holding period. The availments of the cancellation have resulted in the reduction of subscribed capital stock, additional paid-in capital and subscriptions receivable of Ayala Land. In December 2001, the program for ESOWN was indefinitely suspended.

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

	ESOP		ESOWN	
	2002	2001	**2002**	2001
At January 1	**71,433,929**	576,000	**2,141,100**	6,668,550
Granted	**37,341,481**	70,857,929	**–**	–
Exercised	**(2,857,448)**	–	**–**	–
Cancelled	**–**	–	**–**	(4,527,450)
At December 31	**105,917,962**	71,433,929	**2,141,100**	2,141,100

The options that have been exercised during the year had a weighted average exercise price of ₱4.03 or about ₱32.6 million. The fair value of the shares as of exercise date was ₱5.69 or about ₱46.06 million.

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

Exercise Dates	Number of Options
2002 to 2011	26,061,724
2003 to 2012	36,193,971
2004 to 2013	32,459,823
2005 to 2014	11,202,444
	105,917,962

OVERVIEW OF THE PHILIPPINE PROPERTY DEVELOPMENT INDUSTRY

The following summary does not purport to be a complete description of all the factors, laws and regulations which may affect Ayala Land, its business, shares and stockholders.

Regulation

Presidential Decree No. 957 as amended, is the principal statute which regulates the development and sale of real property as part of a condominium project or subdivision. Presidential Decree No. 957 covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes, and condominium projects for residential or commercial purposes. The Housing and Land Use Regulatory Board ("HLURB") is the administrative agency of the Government which, together with local government units, enforces this decree and has jurisdiction to regulate the real estate trade and business.

All subdivision plans and condominium project plans are required to be filed with and approved by the HLURB. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant local government unit. Owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of lots or real estate projects. Dealers, brokers and salesmen are also required to register with the HLURB. Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB by itself or upon complaint from an interested party.

Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which include roads and recreational facilities. A developer of a commercial subdivision is required to reserve at least 3.5% of the gross project area for parking and pedestrian malls.

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the Department of Agrarian Reform (DAR), land classified for agricultural purposes as of or after 15 June 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

There is generally no prohibition against foreigners owning building and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

Republic Act 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB.

Construction

The construction industry in the Philippines is subject to regulation by the Government as described below.

Licenses. A regular contractor's license is required to be obtained from the PCAB. In applying for and granting such license, the PCAB takes into consideration the applicant-contractor's qualifications and compliance with certain minimum requirements in the following criteria: (i) financial capacity, (ii) equipment capacity, (iii) experience of firm and (iv) experience of technical personnel. Contractor's licenses are classified into several categories. An AAA categorization, which is MDC's categorization, authorizes the contractor to undertake large scale private construction projects costing in excess of ₱3 million. Philippine laws also require a contractor to secure construction permits and environmental clearances from appropriate Government agencies prior to actually undertaking each project.

Minimum Philippine Ownership Requirement. Under Philippine law, in order to bid on publicly funded Government contracts, a contractor must be at least 75% owned by Philippine nationals. For purposes of this determination, so long as Ayala Land is owned at least 60% by Philippine nationals, Ayala Land will be considered owned by a Philippine National for purposes of the foregoing determination. Ayala Land does not expect the Offer to cause a breach of these ownership limitations.

Property Laws

Land Registration

The Philippines has adopted a system of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land can no longer be challenged except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription.

Unregistered land may be brought under the system if, after proper surveying, application, publication, service of notice and hearing, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment within 15 days to the Court of Appeals or the Supreme Court. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration.

Any subsequent transfer or encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

Zoning

Land use may be limited by zoning ordinances enacted by provinces, cities or municipalities ("local government units"). Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant local government unit. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

Subdivisions and Condominiums

All subdivision and condominium plans for residential, commercial, industrial and other development projects are subject to approval by the local Government unit in which the project is situated. The development of subdivision and condominium projects can commence only after the local Government unit has issued the development permit.

The issuance of a development permit is dependent on compliance with required project standards and technical requirements which may differ depending on the nature of the project. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the Housing and Land Use Regulatory Board. The license to sell may be issued only against a performance bond posted to guarantee the completion of the construction of the subdivision or condominium project and compliance with applicable laws and regulations. All documents evidencing conveyances of subdivision and condominium units should be registered with the Register of Deeds.

Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing thereon must be released within six months from the delivery of title.

Property Taxation

Real property taxes are payable annually based on the property's assessed value. The assessed value of property and improvements vary depending on the location, use and the nature of the property. Land is ordinarily assessed at 20% to 50% of its fair market value; buildings may be assessed at up to 80% of their fair market value; and machinery may be assessed at 40% to 80% of its fair market value. Real property taxes may not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas. An additional special education fund tax of 1% of the assessed value of the property is also levied annually.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate ("ECC") prior to commencement. As a requisite for the issuance of an ECC, an environmentally critical project must prepare an Environmental Impact Statement ("EIS") while a project in an environmentally critical area must prepare an Initial Environmental Examination ("IEE"), without prejudice to the power of the DENR to require a more detailed EIS. In case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandated.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the projects environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF is intended to answer for damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

The costs of compliance with such environmental laws and regulations varies on a case to case basis depending on the location of the project, the type of project and the extent of environmental impact as determined in the EIS.

CERTAIN LEGAL PROCEEDINGS

Ayala Land is not involved in any litigation it deems material. However, certain individuals and entities have claimed an interest in Ayala Land's properties located in Las Piñas, Metro Manila, which are adjacent to its development in Ayala Southvale. The controversy involves approximately 146 hectares owned by Ayala Land in Las Piñas. Prior to purchasing these 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, the largest of which involves 101 hectares, and believes that its titles are in general superior to the purported titles or other evidence of alleged ownership of these claimants. On this basis, beginning in October 1993, Ayala Land filed petitions in local regional trial courts of Makati and Las Piñas for quieting of title to nullify the purported titles or claims of these adverse claimants. Certain proceedings affecting the Las Piñas property are also pending resolution at the Commission on the Settlement of Land Problems. As of September 25 2003, these proceedings are in the process of consolidation for trial and at various stages of trial and appeal.

Ayala Land does not intend to develop its Las Piñas property for sale until the litigation is resolved. The proceeding is still currently being heard in the regional trial court level.

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

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

MANAGEMENT

Directors and Executive Officers

The table below shows the name and position of each person who serves as a director, executive officer or key management personnel of Ayala Land:

BOARD OF DIRECTORS	POSITION
Fernando Zobel de Ayala	Chairman
Jaime Augusto Zobel de Ayala II	Vice Chairman
Francisco H. Licuanan III(1)	President
Mercedita S. Nolledo	Director, Corporate Secretary & Treasurer
Nieves R. Confesor(2)	Director
Ramon R. del Rosario, Jr.(2)	Director
Aurelio R. Montinola III	Director
Delfin L. Lazaro	Director
Leandro Y. Locsin, Jr.(2)	Director

(1) In September 2003, Francisco H. Licuanan III announced the appointment of Mr. Jaime I. Ayala as Executive Vice President, effective January 12, 2004. He is intended to succeed Mr. Licuanan as President in mid 2004. Mr. Jaime I. Ayala is not related to any of Ayala Land's directors. He is currently the President of McKinsey & Company's, Manila Office. Mr. Jaime I. Ayala earned his Masters Degree in Business Administration from the Harvard Business School graduating with honors in 1988. He finished his bachelor's degree in Economics with minor in Engineering at the Princeton University, where he graduated magna cum laude in 1984.
(2)Independent directors appointed to the Board of Ayala Land pursuant to the requirements of the Securities Regulation Code.

The directors of Ayala Land are elected during its Regular General Meeting and are mandated to hold office for a term of one (1) year or until their successors are elected and qualified.

MANAGEMENT COMMITTEE	POSITION
Francisco H. Licuanan III	President
Mercedita S. Nolledo	Executive Vice President, Corporate Secretary, & Treasurer
Vincent Y. Tan	Executive Vice President
Manuel J. Colayco, Jr.	Senior Vice President
Miriam O. Katigbak	Senior Vice President
Tristan B. de la Rosa	Senior Vice President
Angela V. Lacson	Senior Vice President
Jaime E. Ysmael	Senior Vice President & Chief Finance Officer
Ma. Victoria E. Añonuevo	Vice President
Rene D. Almendras	Vice President
Emilio J. Tumbocon	Vice President

Fernando Zobel de Ayala, 43, has served as Chairman of the Board of Directors of Ayala Land since 1999. He is Executive Managing Director for International Operations, Vice Chairman of the Board of Directors, and Member of the Executive Committee of Ayala Corporation. His other significant positions include: Chairman of the Board of Directors of Roxas Land Corporation, Ayala Automotive Holdings, Inc., Ayala Aviation Corporation, AC International Finance Limited, Enjay Hotels; Chairman of the Board of Directors and Executive Committee of Alabang Commercial Corporation; Director of Globe Telecom, Inc.

Jaime Augusto Zobel de Ayala II, 44, has served as Director and member of the Executive Committee of Ayala Land since 1988. He also serves as the Vice-Chairman of the Board of

Directors, Member of the Executive Committee and Management Committee and President of Ayala Corporation; Chairman of the Board of Directors of Globe Telecom, Inc.; Vice-Chairman of the Board of Directors and Chairman of the Executive Committee of the Bank of the Philippine Islands. His other significant positions include: Co-Vice-Chairman and Trustee of Ayala Foundation, Inc.; Chairman of the Board of Directors of Ayala International Pte., Ltd., Ayala Hotels, Inc., Integrated Microelectronics, Inc., Electronic Assemblies, Inc., Ayala Systems Technology, Inc., iAyala Company, Inc., Ayala Internet Venture Partners, Inc., and Ayala Port Makati, Inc.; Member of the Board of Directors of Roxas Land Corporation, Laguna Properties Holdings, Inc., and Alabang Commercial Corporation.

Francisco H. Licuanan III, 59, has served as Director and President of Ayala Land since 1988. His concurrent positions are: Senior Managing Director and member of the Management Committee of the Ayala Corporation; Director and President of Ayala Hotels, Inc., Enjay, Inc., Aurora Properties Holdings, Inc., Vesta Properties Holdings, Inc., Laguna Technopark, Inc., Makati Development Corporation, Gammon Philippines, Inc., Makati Property Ventures, Inc., Cebu Property Ventures and Development Corporation, Alabang Commercial Corporation, Laguna Properties Holdings, Inc. (Vice-Chairman), Manila Water Company, Philippine Hoteliers, Inc., Metro Rail Transit Corporation and Ayala International properties Pte. Ltd. He also serves as Member of the Board of Trustees of Ayala Foundation, Inc.

Mercedita S. Nolledo, 62, has served as Director, Treasurer and Corporate Secretary of Ayala Land since 1994. She also serves as Senior Managing Director and Corporate Secretary of Ayala Corporation, and General Counsel of the Ayala Group of Companies. Her other significant positions include: Chairman of the Board of Directors of Ayala Property Management Corporation; Director of Cebu Holdings, Inc., Ayala Hotels, Inc., Enjay Hotels, Inc., Alabang Commercial Corporation, and Laguna Technopark, Inc.; Corporate Secretary and Member of the Board of trustees of Ayala Foundation, Inc.; Director and Treasurer of Ayala Infrastructure Ventures, Inc., Makati Property Ventures, Inc., Aurora Properties, Inc., Vesta Property Holdings, Inc, and Laguna Properties Holdings, Inc.; and Director of Cebu Insular Hotel Co., Inc., Cebu Leisure co., Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, inc., and the Bank of the Philippine Islands. She also serves as Treasurer of Makati Development Corporation, and Roxas Land Corporation.

Nieves R. Confesor, 52, is the Dean of Asian Institute of Management since June 2002. She serves as an adviser, external collaborator to the World Bank, the Asian Development Bank, the International Labor Organization, and the ASEAN secretariat. She is also a member of the Board of Directors of Metropolitan Bank and Trust Corporation, Philippine National Oil Company, Philippine National Coal Corporation and Philippine Agency for the Improvement of Community and Family, Inc. (PACAF), and of the Operating Council of the Global Alliance for Workers based in Washington D.C., USA. 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 Plenpotentiary. She also served as the Philippines' first woman Secretary of Labor and Employment during the Corazon C. Aquino and Fidel V. Ramos presidencies. 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 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.

Leandro Y. Locsin, Jr., 41, has served as an Independent Director of Ayala Land 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, Yntalco Realty Investment, 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.

Ramon R. del Rosario, Jr., 58, has served as an Independent Director of Ayala Land since 1994. He also serves as Chairman and CEO of AB Capital and Investment Corporation; Director of Roxas Holdings, Inc., PSi Technologies, Inc., Bacnotan Consolidated Industries, Inc., Union Cement Corp., and United Pulp and Paper Co.; and President of Philippine Investment Management (PHINMA), Inc. He graduated with BSC-Accounting and AB-Social Sciences (Magna Cum Laude) at De La Salle College, Manila in 1967 and had his Masters in Business Administration at Harvard Business School in 1969.

Delfin L. Lazaro, 57, has served as member of the Board of Directors of Ayala Land since 1996. He is also a Consultant and a member of the Management Committee of the Ayala Corporation; Director and Chairman of the Executive Committee of Globe Telecom, Inc.; President of Ayala Infrastructure Ventures. 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.

Aurelio R. Montinola, III, 51, is the Senior Executive Vice President of Bank of the Philippine Islands and Head of the Consumer Banking and President of BPI Family Bank. His other affiliations include: Chairman of the Board of Directors of Amon Trading Corporation; Vice Chairman of the Board of Directors of Republic Cement Corporation; Vice Chairman of the Board of Trustees of Far Eastern University; President and Trustee of Alliance Francaise de Manille; Regional Director of MasterCard International; Member of the Board of Directors of Manila Water Company; Member of the Board of Trustees of BPI Foundation, Inc.; and Director and past President of the Chamber of Thrift Banks. He graduated with BS Management Engineering at Ateneo de Manila University in 1973 and had his MBA at Harvard Business School in 1976.

Vincent Y. Tan, 53, is Executive Vice-President, member of the Management Committee and Head of the Planning Group of Ayala Land. His other positions include: Director and President of Laguna Technopark, Inc.; Director of Metro Rail Transit Corporation, Aurora Properties, Inc., Vesta Property Holdings, Inc., Ayala Port Makati, Inc., MyAyala.Com, Inc., CMPI Holdings, Inc., and CMPI Land, Inc.

Manuel J. Colayco, 65, is Senior Vice-President and member of the Management Committee of Ayala Land. He is also Director and President of Laguna Properties Holdings, Inc., Buklod Bahayan Realty & Development Corporation, Laguna Phenix Structures Corporation and Director of First Communities Finance Corporation.

Miriam O. Katigbak, 49, is Senior Vice-President, member of the Management Committee and Head of the Commercial Centers Group of Ayala Land. Her other significant positions include: Director of Cebu Holdings, Inc. and Alabang Commercial Corporation; President of Ayala Theaters Management, Inc., Food Court Company, Inc., and Ayala Land-Concepcion Industries, Inc.; Vice-President and Director of Leisure Allied Industries (Phils.); Board member of Lagoon Development Corporation and Governor of Ayala Center Association.

Tristan B. de la Rosa, 51, joined Ayala Land in September 2002 as Senior Vice-President and Head of the Sales and Marketing Services Group. A Member of the Management Committee of Ayala Land, he is also the Head of the Land and Community Development Division. Prior to joining Ayala Land, he was the Managing Director for WM. Wrigley Jr. Company.

Angela V. Lacson, 57, is Senior Vice-President and Head of the Residential Buildings Group. A member of the Management Committee of Ayala Land, she is also presently General Manager of Roxas Land Corporation. Prior to joining Ayala Land, she was VP and Marketing Director of San Miguel Brewing Philippines (1998-1999), Marketing Director of the San Miguel Food Group (1996-1997), VP and Division Head of J. Walter Thompson (1995).

Jaime E. Ysmael, 43, is Senior Vice-President, Chief Finance Officer and member of the Management Committee of Ayala Land. Concurrently, he is a Managing Director of Ayala Corporation. His other significant positions include: Director of Alabang Theaters Management Corporation, Ayala Theaters Management, Inc., Makati Property Ventures, Inc., Greenbelt Theaters Management, Inc., Makati Theaters, Inc., Tower One Condo Corporation; Director and Treasurer of Cebu Insular Hotel Co., Inc.; and CFO of Roxas Land Corporation.

Ma. Victoria E. Añonuevo, 53, is Vice-President and Member of the Management Committee of Ayala Land. She also serves as Head of the Sales & Marketing Services Group of Ayala Land. Since she joined Ayala Land in 1983, she held key positions in various departments/groups of Ayala Land including Market Research Department and Advertising and Promotions Department.

Rene D. Almendras, 43, is Vice-President assigned to the Vis-Min group and a member of the Management Committee of Ayala Land, Inc. His other significant positions included: President of Cebu Holdings, Inc. and Cebu Property Ventures and Development Corporation; and Director of Cebu Holdings, Inc., Cebu Property Ventures and Development Corporation, City Sports Club-Cebu (Chairman of the Board) and Cebu Insular Hotel.

Emilio J. Tumbocon, 46, is Vice-President, member of the Management Committee and Head of the Construction Group of Ayala Land. His other significant positions include: President of Makati Development Corporation; Director of Lagoon Development Corporation; and member of the Management Committee of Roxas Land Corporation and Makati Property Ventures, Inc.

Involvement in Legal Proceedings

To the best of the knowledge of Ayala Land, none of its directors or executive officers are or were involved in any material legal proceedings nor are or were involved in any bankruptcy in any business in which such director or executive officer was a general partner or executive officer, is or has been convicted by final judgment in a criminal proceeding, is subject to an order or judgment limiting their involved in any type of business, securities, commodities or banking activities, and was found by a competent body to have violated a securities law.

Executive Compensation

Directors

Article IV Section 10 of Ayala Land's By-Laws provides: "The Chairman of the Board shall receive such remuneration as may be fixed by the Board of Directors each year, aside from that which each one as Director may be entitled to receive."

Officers

Ayala Land adopts a performance-based compensation scheme as incentive. Total compensation paid to all senior personnel from Manager and up amounted to ₱239.4 million in 2001 and ₱279.4 million in 2002. The projected total annual compensation for 2003 is ₱307.3 million. The total annual compensation of the top 10 officers of Ayala Land amounted to ₱73.9 million in 2001 and ₱75.7 million for 2002. This is projected to be ₱86.8 million in 2003.

The total annual compensation paid to all senior personnel, with a rank of Manager and higher, was all paid in cash. The total annual compensation shown in the table below includes basic salary as well as mid-year and 13th month bonuses.

	Principal Position	**2003***	**2002**	**2001**
Francisco H. Licuanan III	President			
Mercedita S. Nolledo	Executive Vice President			
Vincent Y. Tan	Executive Vice President			
tristan b. dela rosa	Senior Vice President			
Manuel J. Colayco, Jr.	Senior Vice President			
Miriam O. Katigbak	Senior Vice President			
Ma. Victoria E. Añonuevo	Vice President			
Rene D. Almendras	Vice President			
Angela V. Lacson	Vice President			
Emilio J. Tumbocon	Vice President			
Jaime E. Ysmael	Vice President			
All above-named Officers as a group		₱86,771252	₱75,738,920	₱73,949,865

	Compensation		
	2003*	**2002**	**2001**
All Officers** and Directors as a Group	₱307,302,523	₱279,365,930	₱239,351,799

* Projected Annual Compensation
** Managers and up

Ayala Land does not currently contemplate implementing standard compensation arrangement for the ensuing year.

Family Relationships

The Chairman of Ayala Land's Board of Directors, Fernando Zobel de Ayala, and its Vice Chairman, Jaime Augusto Zobel de Ayala II, are brothers.

Security Ownership of Certain Record and Beneficial Owners

As of September 30, 2003, Ayala Land knows of no stockholder that beneficially owns in excess of 5% of its common stock except the following:

Name/ Address	No. of Shares	Record/ Beneficial	% Owned
Ayala Corporation, 32/F Tower One, Ayala Avenue, Makati City	6,667,727,563*	(R)	62.32%
PCD Nominee Corporation (Non-Filipino)	2,431,990,443**	(R)	22.73%
PCD Nominee Corporation (Filipino)	920,982,353	(R)	8.61%

* Ayala Corporation directly holds a 62.32% interest. In turn, Mermac, Inc. and the Mitsubishi Group own an aggregate of 73.5% of the outstanding shares of Ayala Corporation. The Board of Directors of Ayala Corporation has the power to decide how Ayala Corporation's shares in Ayala Land are voted.

** PCD Nominee – PCD Nominee is the registered owner of shares beneficially owned by the Custodian Banks and Brokers, who are participants of the Philippine Central Depository, Inc. ("PCD"). The PCD is prohibited from voting these shares; instead, the participants have the power to decide how the PCD shares in Ayala Land are voted. The following percentages greater than 5% are held through accounts with the PCD System: HSBC-Clients' Acct - 13.9996% and Standard Chartered Bank - 5.8688%. Voting arrangements in respect of the PCD participants cannot be ascertained as such information is protected by confidentiality arrangements between the institutions and their clients.

Security Ownership of Management

As of September 30, 2003, common shares in the capital stock of Ayala Land owned by all of its directors and executive officers are set out below:

Name	Position	No. of Shares	Record/ Beneficial	Percentage
Fernando Zobel de Ayala	Chairman-Board of Directors & ExCom	10,000	(R)	0.00009347%
Jaime August Zobel de Ayala	Vice Chairman-Board of Directors & ExCom	10,000	(R)	0.00009347%
Francisco H. Licuanan III	Member–Board of Directors, ExCom; President	1	(R)	0.00000001%
Mercedita S. Nolledo	Member-Board of Directors, Treasurer & Corporate Secretary	51,858	(R)	0.00048470%

Name	Position	No. of Shares	Record/ Beneficial	Percentage
Aurelio R. Montinola III	Member-Board of Directors	2,982	(R)	0.00002787%
Nieves R. Confesor	Member-Board of Directors	1	(R)	0.00000001%
Leandro Y. Locsin, Jr.	Member-Board of Directors	4,498,675	(R)	0.04204759%
Ramon R. Del Rosario, Jr.	Member-Board of Directors	1	(R)	0.00000001%
Delfin L. Lazaro	Member-Board of Directors	1	(R)	0.00000001%
Vincent Y. Tan	Executive Vice President	843,950	(R)	0.00788812%
Tristan B. dela Rosa	Senior Vice President	-	(R)	-
Miriam O.Katigbak	Senior Vice President	153,672	(R)	0.00143632%
Angela V. Lacson	Senior Vice President	-	(R)	-
Jaime E. Ysmael	Senior Vice President/ CFO	171,973	(R)	0.00160737%
Ma. Victoria E. Añonuevo	Vice President	411,152	(R)	0.00384290%
Jose Rene D. Almendras	Vice President	-	(R)	-
Emilio J. Tumbocon	Vice President	219,799	(R)	0.00205439%
Total		**6,374,065**		**0.05957624%**

Voting Trust Holders of 5% or More

Ayala Land knows of no persons holding more than 5% of its common shares under a voting trust or similar agreement.

SHAREHOLDERS

Relationship with Ayala Corporation

Ayala Land's principal shareholder is Ayala Corporation. Ayala Corporation is one of the Philippines' oldest conglomerates, with diversified operations in the real estate, financial services, electronics, information technology and trade and distribution businesses. Ayala Land has had business transactions with Ayala Corporation and the other members of the Ayala group. See "Related Party Transactions."

Ayala Corporation was incorporated with limited liability for a term of 50 years on 23 January 1968. It traces its origins to a partnership formed in 1834 between Don Domingo Roxas and Don Antonio de Ayala, making it one of the oldest business houses in the Philippines. The predecessor of Ayala Corporation began the development after 1948 of a planned mixed-use community on 930 hectares of swamp and grassland in the Makati district of Metro Manila. Over the course of the following 25 years, Ayala Corporation transformed Makati into a premier central business district with some of Metro Manila's most prestigious residential communities. In 1988, Ayala Corporation's real estate business was spun off into Ayala Land as a wholly owned subsidiary to enhance management focus on its existing real estate business and to highlight the value of its assets, management and capital structure.

Presently, Ayala Corporation is the holding company of the Ayala Group, the largest conglomerate in the Philippines. Ayala Corporation's business activities are divided into seven sectors: real estate and hotels; financial services; telecommunications; utilities; electronics and information technology; automotive; and international operations. Its operating companies are leaders in their respective industry sectors. Ayala Corporation's shares are listed on the Philippine Stock Exchange and as of November 3, 2003 had market capitalization of approximately ₱74.30 billion.

Group Strategy

Ayala Corporation's strategy is to maintain its commitment to its business activities in the Philippines and extend its leadership in its principal business lines. Working within a difficult environment, and with competition becoming more intense, Ayala redefined its core business to be real estate, financial services, telecommunications and international operations. The scarcity of capital and a deep stretch in both the financial and managerial resources shifted the focus on these four sectors which are believed to represent strong and stable foundations for the Ayala Group's continued and substantial growth. On the other hand, Ayala's non-core operating subsidiaries continue to move forward with initiatives aimed at fostering their long-term growth.

The following table shows Ayala Corporation's direct and effective ownership in its principal subsidiaries and affiliates within business sectors as of end-June 2003:

	Direct ownership	Effective ownership
Real estate and hotels		
Ayala Land, Inc.	*63.42%	64.98%
Ayala Hotels, Inc.	50.00%	82.49%
Financial Services		
Bank of the Philippine Islands	23.28%	35.09%
Ayala Aon Risk Services, Inc.	33.33%	33.33%
Telecommunications		
Globe Telecom, Inc.	31.13%	32.75%
Electronics and information technology		
Integrated Microelectronics, Inc.	78.00%	78.00%
iAyala Company, Inc.	100.0%	100.0%
Utilities		
Manila Water Company, Inc.	35.53%	45.96%
Automotive		
Ayala Automotive Holdings Corp.	100.0%	100.0%
Honda Cars Philippines, Inc.	12.90%	12.90%
Isuzu Philippines Corp.	15.00%	15.00%
International and others		
Ayala International Pte Ltd	100.0%	100.0%
Ayala Aviation Corp.	100.0%	100.0%

*See “Management-- Security Ownership of Certain Record and Beneficial Owners”.

Intra-Group Transactions

Ayala Land, its subsidiaries and certain of its affiliates have a substantial number of contractual arrangements with each other. Ayala Land considers each of its subsidiaries and affiliates to be responsible for its own profits or losses, and accordingly believes that contractual arrangements made between such corporations should be entered into on arm’s-length terms. However, there can be no assurance that any such contract is on terms as favorable as could be obtained in a transaction with non-associated third parties. In addition, there can be no assurance that future arrangements between related parties will not involve conflicts of interest. See “Related Party Transactions.”

RELATED PARTY TRANSACTIONS

Ayala Land has entered into a number of transactions with its main shareholder, Ayala Corporation and the latter's subsidiary bank, Bank of the Philippine Islands ("BPI"). Ayala Land and its subsidiaries, in their regular conduct of business, have also entered into transactions with each other and with unconsolidated affiliates principally consisting of advances and reimbursement of expenses, purchase and sale of real properties, construction contracts, and management, marketing, and administrative service agreements. In the ordinary course of business, Ayala Land also purchases from and sells real properties to related interests.

Ayala Land believes that such related party transactions have generally been as favorable to Ayala Land as similar transactions with third parties would have been.

In September 2003, the Board of Directors of Ayala Land approved the issuance of 63.375 million new Ayala Land common shares to Ayala Corporation in exchange for Ayala Corporation's conveyance to Ayala Land of a 2,340 square meter lot located at Greenbelt, along Makati Avenue, Makati City. The property was the former site of the Ayala Museum. The exchange will enable Ayala Land to consolidate its ownership of the 11 hectare Greenbelt property, currently undergoing the initial phase of a major redevelopment.

Furthermore, Ayala Land obtains borrowings from one of its affiliates, BPI. As of June 30, 2003, Ayala Land's consolidated borrowings with BPI amounted to ₱1,871 million. Of this amount, ₱ 1,148 million is secured by mortgages over various properties. See "Business- Landbank." These mortgages were effected in compliance with the applicable requirements of the Bangko Sentral ng Pilipinas on loans and financial accommodations extended by BPI to directors, officers, stockholders and related interests (DOSRI).

To date, no transaction was undertaken or to be undertaken by Ayala Land in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or to be involved had or will have a direct or indirect material interest. No single Director or Executive Officer, nominee for election as Director, or any member of their immediate family owns or holds more than 10% of Ayala Land's voting shares.

Ayala Land may enter into additional transactions with its main shareholders, subsidiaries, affiliates, directors and officers in the future. No assurance can be given as to the terms of any such transaction.

DESCRIPTION OF CERTAIN OTHER DEBT

₱1.0 billion of short term commercial paper and a ₱3.0 billion bond were registered with the SEC and issued by Ayala Land in 2003 and 2002, respectively. As of June 30, 2003 Ayala Land had the equivalent of ₱12.34 billion of outstanding debt, of which ₱4.0 billion is secured. Of Ayala Land's outstanding unsecured debt, ₱6.69 billion is evidenced by a debt instrument that was acknowledged by both the creditor and Ayala Land before a notary public. In the event that a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a debt instrument that has been acknowledged by the creditor and the borrower before a notary public enjoys a preference over unsecured debt that has not been so notarized.

For purposes of determining total debt amounts, Ayala Land has converted US$ denominated debt into Pesos using the Exchange Rate on June 30, 2003 which was US$1.00 = ₱53.522. See "Risk Factors -- Debt notarized under Philippine law could have effective priority over the Bonds." The following table sets forth the outstanding long and short term debt of Ayala Land and its subsidiaries as of June 30, 2003:

Short Term Indebtedness in millions of Pesos:

Borrower	Amount
Ayala Land	1,740.9
Aurora Properties, Inc.	44.0
Ayala Greenfield Development Corp.	143.0
Cebu Insular Hotel Company, Inc.	30.0
Leisure and Allied Industries, Phils., Inc.	20.0
Laguna Properties Holdings Inc.	200.0
Roxas Land Corp.	125.0
Totals	**₱2,302.9**

Long Term Indebtedness in millions:

	Current		Non-Current		Total	
Borrower	**Peso (*)**	**US $**	**Peso (*)**	**US $**	**Peso (*)**	**US Dollar**
Ayala Land	250.0		6,830.0		7,080.0	
Ayala Greenfield Development Corp.	-		85.0		85.0	
Cebu Insular Hotel Company, Inc.	7.3		96.3		103.6	
	61.0	$ 1.1	91.5	$ 1.7	152.5	$ 2.9
Laguna Properties Holdings, Inc.	91.0		744.1		835.2	
Liberty Real Holdings Corp.	-		940.0		940.0	
Makati Property Ventures, Inc.	153.1	$ 2.9	687.8	$ 12.9	840.8	$ 15.7
Totals	**₱562.4**	**$ 4.0**	**₱ 9,474.7**	**$ 14.6**	**₱ 10,037.1**	**$ 18.6**

* Peso Equivalent of U.S. dollar loans, when applicable, using average exchange rate at the Philippine Dealing System of ₱53.522 to US$1.00 on June 30, 2003.

DESCRIPTION OF THE BONDS

The following is a description of certain terms and conditions of the Bonds. This description of the Bonds set forth herein do not purport to be complete and are qualified in their entirety by reference to the agreements relating to the Bonds, copies of which are available for inspection at the offices of the Trustee. The information set out in this section will, subject to amendment, be endorsed on each Bond in definitive form.

General

The issue of the ₱2,000,000,000 principal amount of bonds consisting of ₱1,000,000,000 of 10.75 percent fixed rate bonds due 2008 (the "Fixed Rate Bonds") and of ₱1,000,000,000 floating rate bonds due 2008 (the "Floating Rate Bonds") was authorized by a resolution of the Board of Directors of Ayala Land, Inc. (the "Issuer") passed on September 19, 2003. The Fixed Rate Bonds and the Floating Rate Bonds are hereinafter collectively referred to as the "Bonds." The Bonds are constituted by a trust agreement (the "Trust Agreement") dated November 17, 2003 made between the Issuer and Rizal Commercial Banking Corporation (the "Trustee" which expression shall wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement). The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A paying agency and registry agreement dated November 17, 2003 (the "Paying Agency and Registry Agreement") has been entered into in relation to the Bonds between the Issuer and Equitable PCI Bank- Trust Banking Group as paying agent (the "Paying Agent"), registrar (the "Registrar") and transfer agent (the "Transfer Agent"). The Bonds will be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of One Hundred Thousand Pesos (₱100,000.00) and integral multiples thereof. The Bonds will be issued as Fixed Rate and Floating Rate Bonds and will mature on November 28, 2008, unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

Copies of the Trust Agreement and the Paying Agency and Registry Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Paying Agency and Registry Agreement applicable to them.

1. Form, Denomination and Title

(a) Form and Denomination

The Bonds are in registered form, serially numbered, in the denomination of ₱100,000 each or integral multiples thereof. A bond certificate (each a "Certificate") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register of Bondholders (as defined in Condition 2(a)).

(b) Title

Legal title to the Bonds will be shown in the register of Bondholders (the "Register of Bondholders") maintained by the Registrar. Upon any assignment, title to the Bonds will pass by endorsement and delivery to the transferee and registration in the Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the Bondholder.

2. Transfer of Bonds

(a) *Register of Bondholders*

The Issuer will cause the Register of Bondholders to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Register of Bondholders.

(b) *Legal Title and Transfers*

Legal title to the Bonds shall be shown in the Register of Bondholders maintained by the Registrar. Upon any assignment, title to the Bonds shall pass by endorsement and delivery to the transferee and registration in the Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any costs arising from subsequent transfers, shall be for the account of the relevant Bondholder.

(c) *Transfers; Tax Status*

Bondholders may transfer their Bonds at anytime to transferees of similar tax status (i.e. tax exempt transferor to tax exempt transferee), otherwise such transferor may sell only on an Interest Determination Date in respect of Floating Rate Bonds; or on an Interest Payment Date, in respect of the Fixed Rate Bonds. In the event of a transfer to a transferee of different tax status on a date other than an Interest Determination Date or Interest Payment Date, as applicable, the relevant tax on the interest income accruing to such relevant Bondholder shall be withheld. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under Condition 7(a), below, with a copy to the Paying Agent, within three days from the settlement date for such transfer.

3. Ranking

The Bonds constitute direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Issuer and will rank pari passu and rateably without any preference or priority amongst themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, other than obligations preferred by the law.

4. Interest

(a) Fixed Rate Bonds

(i) Interest Payment Dates

Each Fixed Rate Bond bears interest on its principal amount from and including November 27, 2003 at the rate of 10.75% per annum, payable semi-annually in arrears on May 27 and November 27 in each year (each of which, for purposes of this Condition 4(a) is an "Interest Payment Date") commencing on May 27, 2004.

(ii) Interest Accrual

Each Fixed Rate Bond will cease to bear interest from and including the Fixed Rate Bonds Maturity Date, as defined in Condition 5(a)(i), below, unless, upon due presentation, payment of the principal in respect of the Fixed Rate Bond then outstanding is not made, is improperly withheld or refused, in which case Condition 12, below, will apply.

(iii) Determination of Rate of Interest

If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

(b) Floating Rate Bonds

(i) Interest Payment Dates

The Floating Rate Bonds bear interest from and including November 27, 2003 (the "Issue Date"), and interest will be payable quarterly in arrears on 27th day of February, May, August and November in each year commencing on February 27, 2004 (each of which, for purposes of this Condition 4(b) is an "Interest Payment Date"). If any Interest Payment Date would otherwise fall on a day which is not a Business Day it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. The period from and including the Issue Date to but excluding the first Interest Payment Date and each successive period from and including an Interest Payment Date to but excluding the next succeeding Interest Payment Date is called an "Interest Period". For this purpose "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are not required or authorized to close in Makati City and the City of Manila, Philippines.

(ii) Interest Accrual

Each Floating Rate Bond will cease to bear interest from and including the Floating Rate Bonds Maturity Date, as defined in Condition 5(a)(ii), below, unless, upon due presentation, payment of the principal in respect of the Floating Rate Bond is not made, is improperly withheld or refused, in which case Condition 12, below, will apply.

(iii) Rate of Interest

The rate of interest payable from time to time in respect of the Floating Rate Bonds (the "Rate of Interest") will be determined on the basis of the following provisions:

(aa) On each "Interest Determination Date", which is initially the Issue Date and subsequently, the first Business Day of the Interest Period for which the rate will apply, the Trustee or its duly appointed successor will determine the Benchmark Rate (as defined below) at approximately 11:30 a.m. on the Interest Determination Date in question.

(bb) The Rate of Interest for the relevant Interest Period shall be the Benchmark Rate plus a margin of 1.25 percent per annum which rate shall be rounded off to four (4) decimal places.

(cc) In this Condition, "Benchmark Rate" means the 91-day Treasury Bill benchmark yield as displayed on the "MART 1" page of Bloomberg at approximately 11:30 am on the relevant Interest Determination Date. In the event that such rate or screen page is not available on the relevant Interest

Determination Date or such Interest Determination Date is not a Business Day, the applicable Benchmark Rate shall be the most recent 91-day Treasury Bill benchmark yield as displayed on the "MART 1" page of Bloomberg as of a Business Day prior to the relevant Interest Determination Date, which Business Day shall in no case be a date which is more than fourteen (14) days prior to the Interest Determination Date. Provided further that in the event the Benchmark Rate cannot be determined from the "MART 1" page of Bloomberg as aforesaid, the Benchmark Rate shall be the simple average of the bids for the 91 day Treasury Bills from the top five (5) universal banks in the Philippines as determined by the Trustee. Provided, finally, that in the event that MART 1 ceases to be an acceptable mark to market benchmark yield for the 91-day Treasury Bills that members of the Bankers' Association of the Philippines can utilize, then the Benchmark Rate shall be replaced by such acceptable substitute mark-to-market benchmark yield that members of the Bankers' Association have agreed to utilize.

(iv) Determination of Rate of Interest and Interest Amount

The Trustee shall, in coordination with the Issuer, on each Interest Determination Date, determine the Rate of Interest amount for the relevant Interest Period. The amount of interest payable in respect of interest on each Floating Rate Bond shall be determined by the Paying Agent by applying the Rate of Interest to the principal amount of the Floating Rate Bonds, multiplying the product by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest centavo (half a centavo being rounded upwards).

(v) Publication of Rate of Interest

The Trustee shall cause the Rate of Interest for each Interest Period and the relative Interest Payment Date to be published in a newspaper of general circulation in Metro Manila as soon as possible but in no event later than seven (7) Business Days after the relevant Interest Determination Date. The amount of interest payable and the Interest Payment Date may subsequently be amended (or appropriate alternative arrangement made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

5. Redemption and Purchase

(a) *Final redemption*

(i) Fixed Rate Bonds

Unless previously purchased and cancelled, the Fixed Rate Bonds will be redeemed at their principal amount on November 28, 2008 (the "Fixed Rate Bonds Maturity Date"). However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the Fixed Rate Bonds Maturity Date is not a Business Day.

(ii) Floating Rate Bonds

Unless previously purchased and cancelled, the Floating Rate Bonds will be redeemed at their principal amount on November 28, 2008 (the "Floating Rate Bonds Maturity Date"). However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Business Day if the Floating Rate Bonds Maturity Date is not a Business Day.

The Floating Bonds Maturity Date, and the Fixed Rate Bonds Maturity Date, are each referred to as a "Maturity Date", as applicable.

(b) *Redemption for Taxation Reasons*

If payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days' notice to the Trustee) at par plus accrued interest.

(c) *Purchase and Cancellation*

The Issuer may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

(d) *Change in Law or Circumstance*

The following events shall be considered as changes in law or circumstances ("Change of Law") as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds:

(i) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Bonds shall be modified in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld;

(ii) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents; and

(iii) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer.

6. Payments

The principal of, interest on, and all other amounts payable on the Bonds will be payable to the Bondholders through (a) direct credit to a designated account of a Bondholder with Equitable PCI

Bank; or (b) checks issued by the Paying Agent and made available for such Bondholder at the office of the Paying Agent at the 16th Floor, Equitable PCI Bank Tower 1, Makati Avenue, Makati City. Unless Bondholders advise the Paying Agent otherwise, the Paying Agent shall make all payments through checks as provided above. The principal of, and interest on, the Bonds will be payable in Philippine Pesos.

In the event that any check covering amounts payable on the Bonds remain unclaimed by the relevant Bondholder from the office of the Paying Agent for a period exceeding 60 days from the relevant payment date, the Paying Agent shall send written notice of such fact to the relevant Bondholder at the recorded address of such Bondholder appearing on the Register of Bondholders. In the event that such checks remain unclaimed for a period exceeding 30 days from date that notice of such fact had been sent by the Paying Agent, such checks shall be mailed by the Paying Agent to the relevant Bondholder, at the risk of such Bondholder, at the last recorded address of such Bondholder appearing on the Register of Bondholders.

The Issuer will ensure that so long as any of the Bonds remains outstanding there shall at all times be a Paying Agent for the purposes of the Bonds and the Issuer may terminate the appointment of the Paying Agent, subject as provided in the Paying Agency and Registry Agreement. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint the Makati City office of such other leading bank in the Philippines to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

7. Payment of Additional Amounts; Taxation

Except as otherwise provided, all payments of principal and interest to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Issuer. *Provided, however*, that the Issuer shall not be liable for:

(a) the twenty percent (20%) applicable final withholding tax applicable on interest earned on the Bonds prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations, (the "Tax Code"). A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit the following requirements to the Registrar: (i) certified true copy of the tax exemption certificate issued by the Bureau of Internal Revenue; (ii) a duly notarized undertaking, in the prescribed from, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer of any suspension or revocation of the tax exemption certificates and agreeing to indemnify and hold the Issuer free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities, provided further, that all sums payable by the Issuer to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

(b) gross receipts tax under Section 121 of the Tax Code, and

(c) taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding.

(d) value added tax ("VAT") of any persons or entities other than: banks, non-bank financial intermediaries, quasi-banks and finance companies and other financial intermediaries not performing quasi-banking functions (excluding insurance companies) that are VAT registered, liable for VAT under the Tax Code and are able to present the following documents to the satisfaction of the Registrar: (i) a certified true copy of their VAT certificate of registration; and (ii) in respect of interest payments the relevant VAT official receipts issued by the Bondholder or an undertaking to provide such receipts within three (3) Business Days from the relevant Interest Payment Date.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

8. Negative Pledge

For as long as any of the Bonds remain outstanding, the Issuer covenants that the Issuer shall not, without the prior written consent of the holders of at least fifty percent in principal amount of the Bonds then outstanding (the "Majority Bondholders"), permit any indebtedness for borrowed money to be secured by or to benefit from Security in favor of any creditor or class of creditors without providing the Bondholders with Security, the benefit of which is extended equally and ratably among them to secure the Bonds; provided however that, this restriction shall not prohibit:

(a) Any Security over any asset purchased, leased or developed in the ordinary course of business of such asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

(b) Any Security constituted for any obligation or credit facility incurred for the purpose of pursuing any infrastructure project or investment therein, whether such infrastructure project is undertaken by the Issuer itself, by its Affiliates, and/or by the Issuer or its Affiliates with third parties, and whether the same is carried on separately from or integrated with any of the Issuer's real estate development, or any Security constituted by the Issuer on its right to receive income or revenues (whether in the form of dividends or otherwise) from infrastructure projects or related investments therein;

(c) Any Security created for the purpose of paying current taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty; or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof and adequate reserves having been provided for the payment thereof;

(d) Any Security to secure, in the normal course of the business of the Issuer or its Affiliates: (i) statutory obligations; (ii) surety or appeal bonds; (iii) bonds for release of attachment, stay of execution or injunction; or (iv) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;

(e) Any Security: (i) imposed by law, such as carrier's warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business and not material in amount; (ii) arising out of pledge or deposits under the workmen's compensation laws, unemployment insurance, old age pensions or other social security or retirement benefits or similar legislation; and (iii) arising out of set-off provisions in other agreements of the Issuer relating to its indebtedness; provided that the Bondholders hereunder shall also have to the extent permitted by applicable Law, and upon notice to the Issuer, a similar right of set-off;

(f) Any Security in favor of banks, insurance companies, other financial institutions and

Philippine government agencies, departments, authorities, corporations or other juridical entities, which secure a preferential financing obtained by the Issuer under a governmental program, and which cover assets of the Issuer which have an aggregate appraised value, determined in accordance with generally accepted appraisal principles and practices consistently applied not exceeding five billion Pesos (P5,000,000,000.00);

(g) Any Security existing on the date of the Trust Agreement which is disclosed in writing by the Issuer to Trustee prior to the execution of the Trust Agreement;

(h) Any Security established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets or the requirements of the Bangko Sentral ng Pilipinas on loans and financial accommodations extended to directors, officers, stockholders and related interest (DOSRI);

(i) Any Security constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement that has been assigned to such Affiliate by the Issuer;

(j) The assignment, transfer or conveyance of the Issuer's right to receive any of its income or revenues from Project Receivables;

(k) The assignment, transfer or conveyance of the Issuer's right to receive any income or revenues other than from Project Receivables provided that the constitution by the Issuer of such lien shall not cause the Issuer to exceed the ratio of the amount of indebtedness of the Issuer secured by any lien constituted pursuant to this subparagraph (xi) to the Issuer's non-current assets (as computed in accordance with generally accepted accounting principles in the Philippines and based on the most recent audited financial statements of the Issuer) which ratio shall not be more than 0.5:1;

(l) Any Security to be constituted on the assets of the Issuer after the date of the Trust Agreement which is disclosed in writing by the Issuer to the Trustee prior to the execution of the Trust Agreement or any Security for an aggregate loan accommodation not exceeding the equivalent of ten percent (10%) of the market value of the consolidated assets of the Issuer as reflected in the latest appraisal report submitted by an independent and reputable appraiser;

(m) Any Security constituted over the investment of the Issuer in any of its Affiliates, whether such investment is in the form of shares, deposits or advances, to guarantee or secure the obligations of said Affiliates; or

(n) Any Security constituted for the purpose of guaranteeing an Affiliate's obligation in connection with any contract or agreement (other than for borrowed money).

9. Events of Default

The Issuer shall be considered in default under the Bonds and the Trust Agreement in case any of the following events (each an "Event of Default") shall occur and is continuing:

(a) *Payment Default*

The Issuer fails to pay when due and payable any amount which the Issuer is obliged to pay to the Bondholders under the Trust Agreement and the Bonds.

(b) *Representation/Warranty Default*

Any representation and warranty of the Issuer hereof or any certificate or opinion submitted pursuant hereto proves to have been untrue, incorrect or misleading in any material respect as and when made.

(c) *Other Default*

The Issuer fails to perform or violates any other provisions of the Trust Agreement and the Bonds, and such failure or violation is not remediable or, if remediable, continues to be unremedied within the applicable grace period, or in the absence of such grace period, within thirty (30) days from the date of occurrence of the said violation with respect to the covenant to maintain the prescribed financial ratios, and with respect to the certain events constituting a change in law or circumstance, within ten (10) Business Days from the date of occurrence of the said violation with respect to any other covenant or obligation; provided that the Events of Default constituting a breach of a representation or warranty, a payment default, expropriation, insolvency or closure default, or a violation of a negative covenant shall not be remediable.

(d) *Cross Default*

The Issuer violates any term or condition of any contract executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within ten (10) Business Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation will, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under the Trust Agreement and the Bonds.

(e) *Expropriation Default*

The Republic of the Philippines or any competent authority thereof takes any action to suspend the whole or the substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets.

(f) *Insolvency Default*

The Issuer becomes insolvent or unable to pay its debts when due or commits or permits any act of bankruptcy, which term shall include, but shall not be limited to: (a) filing of a petition in any bankruptcy, reorganization (other than a labor or management reorganization), winding-up, suspension of payment or liquidation proceeding, or any other proceeding analogous in purpose and effect; (b) appointment of a trustee or receiver of all or a substantial portion of its properties; (c) making of an assignment for the benefit of its creditors; (d) the admission in writing by the Issuer of its inability to pay its debts or (e) the entry of any order or judgment of any court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization (other than a labor or management reorganization), winding-up, liquidation or appointment of trustee or receiver of the Issuer or a substantial portion of its property or assets.

(g) *Judgment Default*

Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of Five Hundred million Pesos (P500,000,000.00) or its equivalent in any other currency is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged or duly bonded within thirty (30) days after the date when payment of such judgment, decree or award is due under the applicable law or agreement.

(h) *Writ and Similar Process Default*

Any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against any material part of the Issuer's assets and such judgment, writ, warrant or similar process shall not be released, vacated or fully bonded within thirty (30) days after its issue or levy.

(i) *Closure Default*

The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) Business Days except in the case of strikes or lockouts or when necessary to prevent business losses or when due to fortuitous events or force majeure.

10. Consequences of Default

(a) If any one or more of the Events of Default shall have occurred and be continuing, either the Trustee or the Majority Bondholders, by notice in writing delivered to the Issuer (or if by the Majority Bondholders by notice in writing delivered to the Issuer and the Trustee), may declare the principal of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding.

(b) This provision, however, is subject to the condition that except in the case of an Event of Default specified as a writ or similar process default, the Majority Bondholders, by written notice to the Issuer and the Trustee may, during the prescribed curing period, if any, rescind and annul such declaration and its consequences, upon such terms, conditions and agreement, if any, as they may determine; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

(c) At any time after any Event of Default shall have occurred, the Trustee may:

(i) by notice in writing to the Issuer, the Paying Agent and the Registrar, require the Paying Agent and the Registrar to:

(aa) act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Paying Agency and Registry Agreement (with consequential amendments as necessary and save that the Trustee's liability under any provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of this Agreement in relation to the Bonds and available to the Trustee for such purpose) and thereafter to hold all Bond Certificates all sums, documents and records held by them in respect of the Bonds on behalf of the Trustee; and/or

(bb) to deliver up all Bond Certificates and all sums, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any law or regulation; and

(ii) by notice in writing to the Issuer require the Issuer to make all subsequent payments in respect of the Bonds to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn, proviso (aa) above and the Issuer's positive covenant to pay principal and interest on the Bonds, more particularly set forth in Section 4.1(a) of the Trust Agreement, shall cease to have effect.

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay Penalty Interest on the defaulted amount(s) from the time the amount falls due until it is fully paid.

(d) If any one or more of the events enumerated as a Change of Law in Condition 5, above, shall occur and be continuing for a period of thirty (30) days with respect to the events contemplated in (i) or (ii) of Condition 5, above and for a period of fifteen (15) Business Days with respect to the events contemplated in (iii) of Condition 5, above, the Majority Bondholders, by notice in writing delivered to the Issuer through the Trustee, after the lapse of the said thirty (30)-or fifteen (15)-Banking Day period, may declare the principal of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, anything in the Trust Agreement or in the Bonds contained to the contrary notwithstanding, subject to the procedural requirements discussed under Condition 11, below.

11. Notice of Default

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that in the case of payment default, as described in Condition 9(a), above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may pick up an important notice regarding the Bonds at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

12. Penalty Interest

In case any amount payable by the Issuer under the Bonds, whether for principal, interest or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of twelve percent (12.0%) per annum (the “Penalty Interest”) from the time the amount falls due until it is fully paid.

13. Payment in the Event of Default

The Issuer covenants that upon the occurrence of any Event of Default shall occur, then, in any such case, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Issuer will pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

14. Application of Payments

Any money collected or delivered to the Paying Agent and any other funds held by it, subject to any other provision of the Trust Agreement and the Paying Agency and Registry Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: first, to the payment to the Trustee, the Paying Agent and Transfer Agent, the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; second, to the payment of the interest in default, in the order of the maturity of such interest with Penalty Interest; third, to the payment of the whole amount then due and unpaid upon the Bonds for principal and interest, with Penalty Interest; and fourth, the remainder, if any shall be paid to the Issuer, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

15. Prescription

Claims in respect of principal and interest or other sums payable hereunder will be prescribed unless made within 10 years (in the case of principal or other sums) or five years (in the case of interest) from the date on which payment becomes due.

16. Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below, Condition 21 on “Ability to File Suit”.

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

17. Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

18. Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may on behalf of the Bondholders waive any past default except the events of default defined as a payment default, breach of representation or warranty default, expropriation default, insolvency default, or closure default, and its consequences.

In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority of the Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

19. Trustee; Notices

(a) *To the Trustee*

All documents required to be submitted to the Trustee pursuant to the Trust Agreement and the Offering Memorandum and all correspondence addressed to the Trustee shall be delivered to:

The Rizal Commercial and Banking Corporation, 9th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

(b) To the Bondholders

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Register of Bondholders. The Trustee shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication or (iv) on date of delivery, for personal delivery.

(c) *Binding and Conclusive Nature*

Except as provided in the Trust Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, will (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence as referred to above) no liability to the Issuer, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement.

20. Duties and Responsibilities of the Trustee

The Trustee is appointed as trustee for and in behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the Issuer's observance of all its covenants and performance of all its obligations, under and pursuant to said Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement.

The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances.

21. Resignation and Change of Trustee

(a) The Trustee may at any time resign by giving thirty (30) days prior written notice to the Issuer and to the Bondholders of such resignation.

(b) Upon receiving such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a bona fide holder for at least six (6) months (the "Bona Fide Bondholder") may, on behalf of himself and all other Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.

(c) A successor trustee should possess all the qualifications required under pertinent laws, otherwise the incumbent trustee shall continue to act as such.

(d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee, or of its property shall be appointed, or any public officer shall take charge or control of the Trustee, or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Issuer may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any Bona Fide Bondholder shall petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.

(e) The Majority Bondholders may at any time remove for cause, the Trustee and appoint a successor trustee by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders.

(f) Any resignation or removal of the Trustee and the appointment of a successor trustee shall become effective upon acceptance of appointment by the successor trustee; provided, however, until such successor trustee is qualified and appointed, the resigning Trustee shall continue to discharge their duties and responsibilities as herein provided; provided, finally, that such successor trustee possesses all the qualifications as required by pertinent laws.

22. Successor Trustee

Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor Trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement; but, nevertheless, on the written request of the Issuer or of the successor trustee, the Trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, all the rights, powers and duties of the Trustee so ceasing to act. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship herein provided. If the Issuer fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

23. Reports to the Bondholders

(a) The Trustee shall submit to the Bondholders on or before January 31 of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

(i) The property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and

(ii) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

(b) The Trustee shall likewise submit to the Bondholders a brief report with respect to the character, amount and the circumstances surrounding the making thereof, of any advance made by the Trustee as such for the reimbursement of which it claim or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent, and which it has not previously reported pursuant to this paragraph, if such advance remaining unpaid ten percent (10.0%) of the aggregate outstanding principal amount of the Bonds at such time, such report to be submitted within ninety (90) days from the making of such advance.

24. Meetings of the Bondholders

A meeting of the Bondholders may be called at any time and from time to time for the purpose of taking any actions authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of twenty-five percent (25.0%) of the aggregate outstanding principal amount of Bonds may direct the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders not earlier than fifteen (15) days nor later than forty five (45) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time the Issuer, pursuant to a resolution of its board of directors or executive committee, or the holders of twenty-five percent (25.0%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting within twenty (20) days after receipt of such request, then the Issuer or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) Quorum

The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

(i) The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(ii) Any meeting of the Bondholders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

(f) Voting Requirement

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Issuer as if the votes were unanimous. Provided that:

(a) in respect of any matter presented for resolution at any meeting of Bondholders that affect the rights and interests of only the holders of the Fixed Rate Bonds, a quorum and the affirmative vote of the Majority Fixed Rate Bondholders, exclusively, will be required to decide or approve such resolution; and

(b) in respect of any matter presented for resolution at any meeting of Bondholders that affect the rights and interests of only the holders of the Floating Rate Bonds, a quorum and the affirmative vote of the Floating Rate Bondholders, exclusively, will be required to decide or approve such resolution.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

25. Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests, the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

26. Governing Law

The Bond Agreements are governed by and are construed in accordance with Philippine law.

27. Certain Defined Terms

The following sets forth the respective definitions of certain terms used in this Description of the Bonds as such terms are defined in the Bond Agreements. Except as otherwise provided and where context indicates otherwise, defined terms in this Description of the Bonds have the meanings ascribed to them in the Trust Agreement.

(a) Affiliate means any corporation, directly or indirectly controlled by the Issuer, whether by way of ownership of at least twenty percent of the total issued and outstanding capital stock of such corporation, or the right to elect at least twenty percent of the number of directors in such corporation, or the right to control the operation and management of such corporation by reason of contract or authority granted by said corporation to the Issuer.

(b) Majority Bondholders means the holders of at least fifty percent (50%) plus one, in principal amount, of the Bonds then outstanding.

(c) Majority Fixed Rate Bondholders means the holders of at least fifty percent (50%) plus one, in principal amount, of only the Fixed Rate Bonds then outstanding.

(d) Majority Floating Rate Bondholders means the holders of at least fifty percent (50%) plus one, in principal amount, of only the Floating Rate Bonds then outstanding.

(e) Project Receivables means the receivables arising out of the sale of property held for sale by the Issuer in the ordinary course of business.

(f) Security means any mortgage, pledge, lien or encumbrance constituted on any of the Issuer's properties for the purpose of securing its or its Affiliate's obligation.

TAXATION

The following is a discussion of the material Philippine tax consequences of beneficial ownership of the Bonds to a holder who purchases Bonds in the initial offering. Statements regarding Philippine tax law, subject to the qualifications and limitations set forth herein, represent the opinion of Romulo Mabanta Buenaventura Sayoc & de los Angeles, in its capacity as counsel to the Joint Lead Managers. This discussion is based upon laws, regulations, rulings, income tax conventions (treaties), administrative practices and judicial decisions in effect at the date of this Offering Memorandum. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to holders.

The tax treatment of a holder of Bonds may vary depending upon such holders' particular situation, and certain holders may be subject to special rules not discussed below. United States Federal, State, and other foreign (other than Philippine) tax consequences of the ownership and disposition of the Bonds are not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of Bonds.

HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A NOTE, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

Taxation

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. Each prospective holder of the Bonds should consult its own tax adviser as to the particular tax consequences of the acquisition, ownership and disposition of the Bonds, including the applicability and effect of any state, local and national tax laws.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof, a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.

Taxation of Interest

The Philippine National Internal Revenue Code of 1997 provides that interest on the Bonds or other interest bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Generally, interest on foreign loans received by non-resident foreign individuals engaged in a trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by resident foreign corporations is taxed at the rate of 32%. Interest income received by non-resident foreign corporations is subject to a 20% withholding tax. The foregoing rates are subject to further reduction by any applicable tax treaty. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The withholding tax rate may be reduced in accordance with applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party, including the Philippine-United States Tax Treaty (the "Treaty"), generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. In addition, under the Treaty, the withholding tax rate may be reduced to 10% in cases where the interest arises in respect of a public issue of bonded indebtedness and such interest is paid by a Philippine resident to a resident of the United States. However, most tax treaties, including the Treaty, also provide that reduced withholding tax rates will not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the Bonds is effectively connected with such permanent establishment.

Documentary Stamp Taxes

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱0.30 on each ₱200, or fractional part thereof, of the face value of such debt instruments.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources or the property is situated in the Philippines. Any applicable Philippine documentary stamp taxes will be paid by Ayala Land for its own account.

No stamp tax is imposed on the subsequent sale or disposition of the Bonds.

Taxation on a Sale or Other Disposition of the Bonds

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such holder's base cost in the Bonds. Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) will not be subject to income tax. Since the Bonds have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the Bonds will not be subject to Philippine income tax.

Estate and Donor's Tax

The transfer by a deceased alien to his heirs of the Bonds, whether or not such alien was a resident in the Philippines, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over P200,000. A holder of such Bonds will be subject to donor's tax on the transfer of the Bonds by gift at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000. The estate tax, as well as the donor's tax in respect of the Bonds, shall not be collected (a) if the deceased at the time of death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

Value-Added Tax

The gross income arising from the sale of the Notes in the Philippines by Philippine registered dealers in securities will be subject to a 10% VAT. Following the implementation of the Regulations Implementing the Imposition of Value Added Tax ("VAT") on Financial Institutions which took effect on 1 January 2003, a 10% VAT is likewise imposed on services rendered in the Philippines by banks, non-bank financial intermediaries, quasi-banks and finance companies and other financial intermediaries not performing quasi-banking functions (excluding insurance companies). Under the VAT Regulations, VAT is imposed on the gross receipts derived by such financial institutions for all financial or non-financial services, or combinations thereof performed by financial institutions within the Philippines, including the net trading gains derived from the trading of securities (including the Bonds), commercial papers, and other financial instruments.

PLAN OF DISTRIBUTION

The Joint Lead Managers, as underwriters, have, pursuant to an Underwriting Agreement dated November 17, 2003 (the "Underwriting Agreement"), agreed with Ayala Land, subject to the satisfaction of certain conditions, to distribute, sell and underwrite the entire Issue of the Bonds on a firm basis, at the Issue Price in consideration for the fees and expenses described below. BDO Capital & Investment Corporation and First Metro Investment Corporation, (the "Selling Agents") have executed a Selling Agency Agreement with the Joint Lead Managers dated November 17, 2003 (the "Selling Agreement") pursuant to which the Selling Agents have agreed to participate in the Offering. Ayala Land has agreed to reimburse each of the Joint Lead Managers and the Selling Agents for certain of its expenses in connection with the Offering. The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to Ayala Land of the net proceeds of the issuance of the Bonds.

The Joint Lead Managers have performed certain investment banking and advisory services for Ayala Land from time to time for which they have received customary fees and expenses. The Joint Lead Managers may, from time to time, engage in transactions with and perform services for Ayala Land or other members of the Ayala Group in the ordinary course of their businesses.

Distribution, Market Sponsorship and Sale. The distribution and market sponsorship of the Bonds shall be undertaken by the Joint Lead Managers and the Selling Agents. The Bonds will be sold down to institutional investors and retail accounts. Only a small portion of the Bonds, if any, are expected to remain in the books of the Joint Lead Managers and the Selling Agents. Sales to end investors will be made through confirmations of sale.

Form and Denomination of the Bonds. The Bonds will be in registered form, serially numbered, and issued in certificated format in minimum denominations of ₱100,000 and in integral multiples thereof.

Pricing. The Bonds will be priced and allocated initially to financial institutions pursuant to a Dutch auction. The Dutch auction is a bidding process among a number of invited financial institutions, pursuant to which the Bonds are priced at the lowest level, consistent with the competitive bids submitted by the auction participants and allocation of all the Bonds to such financial institutions.

Secondary Market. In the future, the Bonds may be listed in the Fixed Income Exchange currently being set up by the Bankers Association of the Philippines, aimed at developing the secondary market for corporate bonds. However, none of the Issuer, the Joint Lead Managers, the Bookrunner and the Selling Agents have any undertakings to develop a market for the Bonds or to cause the listing of the Bonds in the Fixed Income Exchange or any other market. Ayala Land may purchase the Bonds at any time in the open market or by tender or by contract at any price without any obligation to make pro-rata purchases of Bonds from all Bondholders.

Manner of Purchase. The Bonds will be available for sale through the Joint Lead Managers and Selling Agents subject to the minimum purchase amount, with interest rates and terms as agreed upon between the Issuer and the Joint Lead Managers and Selling Agents prior to the Auction Date.

Oversubscription. In the event of over-subscription, the Issuer reserves the right, following consultation with the Joint Lead Managers, to decrease the number of Bonds allocated to prospective investors on a pro-rata basis.

Fees and Commissions to the Joint Lead Managers. The Joint Lead Managers will receive 0.50% flat on the final issue amount of the Fixed Rate Bonds and 0.625% flat on the final issue amount of the Floating Rate Bonds. Such amount shall be inclusive of underwriting and participation fees. The commission shall be deductible from the net proceeds of the Offering on Issue Date.

Expenses. All out-of-pocket expenses, including but not limited to, registration with the Securities and Exchange Commission, credit rating, legal, printing, publicity, communication and signing expenses incurred by the Joint Lead Managers in the negotiation and execution of the transaction will be for the Issuer's account irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account.

The amount of such fees and expenses of the Offering are estimated as follows:

	Total
Price to investors	₱2,000 million
Fees and Expenses..	₱ 30 million
Net Proceeds to Ayala Land, Inc.	₱1,970 million

All other expenses incurred in connection with the issuance of the Bonds, including the fees of the Registrar and Transfer Agent, Paying Agent and the Issuer's own legal and auditing charges, will be for the account of the Issuer.

NAMED EXPERTS AND COUNSEL

Romulo Mabanta Buenaventura Sayoc & de Los Angeles, of Manila, the Philippines passed upon certain Philippine legal matters in respect of the Offering for the Joint Lead Managers.

The auditors of Ayala Land are SyCip Gorres Velayo & Co., independent public accountants, and a member practice of Ernst & Young Global. SyCip Gorres Velayo & Co. have audited Ayala Land's consolidated accounts financial statements, subject to the qualifications noted in their report, in accordance with Philippine GAAP for the financial period ended December 31, 2002. Ayala Land has relied on SyCip Gorres Velayo & Co. as experts in accounting and auditing in giving the report. SyCip Gorres Velayo & Co. gave its consent to Ayala Land's including their report in this Offering Memorandum.

GLOSSARY OF TERMS

BIR	The Bureau of Internal Revenue of the Philippines
Bondholders	Investors and/or buyers of the Bonds
Bonds or Offered Bonds	Fixed Rate Bonds and Floating Rate Bonds issued by Ayala Land due five (5) years and one (1) day from the set Issue Date.
BSP	Bangko Sentral ng Pilipinas
Business Day	A day on which commercial banks are not required or authorized to close in Makati City and the City of Manila, Philippines
Direct Ownership	With respect to presentations in the Offering Memorandum relating to the list of subsidiaries and affiliates of Ayala Corporation, the latter's ownership in the authorized capital stock of a company as such appears in the names of Ayala Corporation in the corporate registry of stockholders of such company.
DST	Documentary Stamp Tax
Dutch Auction	An offering process under which Bonds are to be issued whereby Bonds are awarded to bidders on the basis of the lowest bid for the largest number of Bonds.
Effective Ownership	With respect to presentations in the Offering Memorandum relating to the list of subsidiaries and affiliates of Ayala Corporation, the latter's ownership, whether direct or indirect, in the authorized capital stock of a company, as such appears in the name of Ayala Corporation, its subsidiaries and affiliates in the corporate registry of stockholders of such company.
FXTN	Fixed Rate Treasury Note
GAAP	Generally Accepted Accounting Principles in the Philippines
Issuer or Ayala Land	Ayala Land, Inc.
MART 1	MART 1 page of Bloomberg
Offer Period	The period during which the Bonds shall be offered to the public
Offering	The issuance of Ayala Land Bonds
Payment Date	Business Day on which interest and/or principal payments shall be made to the beneficial owners of the Bonds

Pesos or ₱	Philippine Pesos, being the lawful currency of the Republic of the Philippines
PSE	The Philippine Stock Exchange, Inc
Record Date	Three (3) business days prior to Payment Date
SEC	The Securities and Exchange Commission of the Philippines
STCP	Short-Term Commercial Paper
T-Bill	A Treasury bill being auctioned for sale and issued by the Bureau of Treasury of the Republic of the Philippines which instrument represents a credit obligation of the Republic of the Philippines

FINANCIAL STATEMENTS

The following pages set forth Ayala Land's audited consolidated financial statements for the years ended December 31, 2002, 2001 and 2000; followed by Ayala Land's unaudited financial statements for the period ended June 30, 2003.

AYALA LAND, INC. AND SUBSIDIARIES

Consolidated Financial Statements
December 31, 2002 and 2001
and Years Ended December 31, 2002, 2001 and 2000

and

Report of Independent Auditors

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Ayala Land, Inc. and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.

PTR No. 7612545
January 2, 2003
Makati City

January 28, 2003

SGV & Co

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6760 Ayala Avenue
1226 Makati City
Philippines

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BOA/PRC Reg. No. 0001

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, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the Philippines.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
Tax Identification No. 102-082-365
PTR No. 7612545
January 2, 2003
Makati City

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Report of Independent Auditors
On Supplementary Schedules

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of Ayala Land, Inc. and Subsidiaries included in this Form 17-A and have issued our report thereon dated January 28, 2003. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management and are presented for purposes of complying with the Securities Regulation Code Rules 68 and 68.1 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

J. D. CABALUNA
Partner
CPA Certificate No. 36317
Tax Identification No. 102-082-365
PTR No. 7612545
January 2, 2003
Makati City

January 28, 2003

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	**₱5,713,495**	₱6,737,331
Accounts and notes receivable - net (Notes 4 and 13)	**3,942,943**	4,228,444
Subdivision land for sale	**4,441,539**	4,591,768
Condominium and residential units for sale	**2,829,936**	4,164,684
Other current assets (Note 12)	**780,253**	828,067
Total Current Assets	**17,708,166**	20,550,294
Noncurrent Accounts and Notes Receivable (Note 4)	**4,045,752**	2,088,302
Land and Improvements (Note 8)	**19,261,894**	19,888,310
Investments - net (Notes 5 and 8)	**18,903,013**	17,278,933
Property and Equipment - net (Notes 6 and 8)	**1,150,700**	1,011,518
Other Assets (Note 12)	**788,151**	890,283
	₱61,857,676	₱61,707,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 7)	**₱3,792,662**	₱4,818,735
Bank loans (Note 8)	**1,942,000**	760,000
Income tax payable	**538,681**	315,555
Current portion of:		
Long-term debt (Note 8)	**309,884**	6,418,957
Estimated liability for land and property development	**1,427,642**	859,291
Other current liabilities (Note 12)	**431,703**	496,002
Total Current Liabilities	**8,442,572**	13,668,540
Long-term Debt - net of current portion (Note 8)	**8,622,614**	3,741,071
Noncurrent Liabilities and Deposits (Notes 9 and 12)	**2,886,994**	2,660,252
Estimated Liability for Land and Property Development -		
net of current portion	**731,546**	643,559
Minority Interest in Consolidated Subsidiaries	**5,698,130**	5,803,955
Stockholders' Equity (Note 10)	**35,475,820**	35,190,263
	₱61,857,676	₱61,707,640

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		
	2002	2001	2000
REVENUES			
Real estate (Note 13)	**₱9,860,057**	₱9,104,315	₱7,793,667
Hotel operations	**1,308,957**	1,320,417	1,185,091
Equity in net earnings of associates, interest, fees, investment and other income (Notes 5 and 13)	**1,058,015**	1,267,894	1,326,857
	12,227,029	11,692,626	24,454,058
COSTS AND EXPENSES			
Real estate (Notes 11 and 13)	**5,458,797**	5,616,815	4,903,218
Hotel operations (Note 11)	**1,080,195**	1,055,530	945,521
General and administrative expenses (Notes 11 and 14)	**1,332,985**	1,064,646	1,029,905
Interest and other charges (Note 8)	**695,130**	783,524	799,656
Provision for income tax (Note 12)	**1,123,414**	918,847	631,849
	9,690,521	9,439,362	8,310,149
INCOME BEFORE NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST	**2,536,508**	2,253,264	1,995,466
NET EARNINGS (LOSS) APPLICABLE TO MINORITY INTEREST	**16,979**	(34,019)	151,261
NET INCOME	**₱2,519,529**	₱2,287,283	₱1,844,205
Earnings Per Share (Note 15)	**₱0.24**	₱0.21	₱0.17

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

	Years Ended December 31		
	2002	2001	2000
CAPITAL STOCK - ₱1 par value (Note 10)			
Issued			
Balance at beginning of year	**₱10,684,310**	₱10,684,075	₱8,893,551
Issuance of shares	**50**	235	7,326
Stock options exercised	**–**	–	4,477
Stock dividends	**–**	–	1,778,721
Balance at end of year	**10,684,360**	10,684,310	10,684,075
Subscribed (Notes 10 and 16)			
Balance at beginning of year	**9,022**	9,046	14,066
Issuance of shares	**(50)**	(235)	(7,326)
Stock options exercised (cancelled)	**389**	211	(492)
Stock dividends	–	–	2,798
Balance at end of year	**9,361**	9,022	9,046
ADDITIONAL PAID-IN CAPITAL (Note 16)			
Balance at beginning of year	**3,013,769**	3,063,340	3,181,759
Stock options exercised (cancelled)	**5,221**	(49,571)	(118,419)
Balance at end of year	**3,018,990**	3,013,769	3,063,340
SUBSCRIPTIONS RECEIVABLE (Note 16)			
Balance at beginning of year	**(22,266)**	(56,494)	(176,532)
Stock options exercised - net	**5,679**	34,228	120,038
Balance at end of year	**(16,587)**	(22,266)	(56,494)
	13,696,124	13,684,835	13,699,967
RETAINED EARNINGS (Note 10)			
Appropriated for future expansion	**6,000,000**	6,000,000	6,000,000
Unappropriated:			
Balance at beginning of year	**15,505,985**	13,860,295	14,385,631
Cash dividends - ₱0.21 per share in 2002 and ₱0.06 per share in 2001 and 2000	**(2,245,261)**	(641,593)	(588,022)
Stock dividends - 20%	**–**	–	(1,781,519)
Net income	**2,519,529**	2,287,283	1,844,205
Balance at end of year	**15,780,253**	15,505,985	13,860,295
	21,780,253	21,505,985	19,860,295
TREASURY STOCK (Note 10)			
Balance at beginning of year	**(557)**	(557)	(533)
Shares repurchased	–	–	(24)
Balance at end of year	**(557)**	(557)	(557)
	₱35,475,820	₱35,190,263	₱33,559,705

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax and net earnings (loss) applicable to minority interest	**₱3,659,922**	₱3,172,111	₱2,627,315
Adjustments to reconcile income before income tax and net earnings (loss) applicable to minority interest to operating income before changes in working capital:			
Depreciation and amortization	**829,748**	752,546	699,894
Interest expense - net of amount capitalized	**685,085**	542,465	454,385
Provision for doubtful accounts	**37,003**	23,543	6,054
Dividends received from associates	**10,500**	14,000	29,750
Interest income	**(696,926)**	(626,618)	(479,191)
Equity in net earnings of associates	**(50,091)**	(66,824)	(102,453)
Operating income before changes in working capital	**4,475,241**	3,811,223	3,235,754
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts and notes receivable - trade	**(1,788,714)**	(333,343)	245,352
Subdivision land for sale	**406,244**	118,447	(278,586)
Condominium and residential units for sale	**1,728,329**	652,954	(130,048)
Other current assets	**73,903**	181,353	(155,500)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(1,067,411)**	340,666	(113,326)
Other current liabilities	**5**	(175,036)	132,358
Estimated liability for land and property development	**656,338**	(116,982)	136,825
Cash generated from operations	**4,483,935**	4,479,282	3,072,829
Interest received	**390,461**	489,788	372,611
Income tax paid	**(911,576)**	(851,879)	(1,043,180)
Interest paid - net of amount capitalized	**(643,763)**	(575,196)	(408,174)
Net cash provided by operating activities	**3,319,057**	3,541,995	1,994,086
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to:			
Land and improvements	**(23,179)**	(301,666)	(1,221,224)
Investments	**(2,121,065)**	(1,743,552)	(1,084,884)
Property and equipment	**(376,602)**	(232,538)	(196,338)
Decrease (increase) in:			
Accounts and notes receivable - nontrade	**386,227**	266,160	(755,158)
Other assets	**107,859**	(206,415)	139,379
Net cash used in investing activities	**(2,026,760)**	(2,218,011)	(3,118,225)

(Forward)

	Years Ended December 31		
	2002	2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payments of):			
Bank loans	**₱1,182,000**	₱527,000	(₱261,000)
Long-term debt	**(1,227,530)**	2,080,390	702,775
Increase (decrease) in:			
Noncurrent liabilities and deposits	**86,158**	(251,179)	198,134
Minority interest in consolidated subsidiaries	**(122,804)**	(395,072)	(194,097)
Proceeds from issuance of capital stock (cancellation of subscriptions)	**11,289**	(15,131)	5,604
Dividends paid	**(2,245,246)**	(641,590)	(534,456)
Purchase of treasury shares	–	–	(24)
Net cash provided by (used in) financing activities	**(2,316,133)**	1,304,418	(83,064)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,023,836)**	2,628,402	(1,207,203)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**6,737,331**	4,108,929	5,316,132
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱5,713,495**	₱6,737,331	₱4,108,929

See accompanying Notes to Consolidated Financial Statements.

AYALA LAND, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

The number of employees of the Company and its subsidiaries averaged 1,678 in 2002 and 1,657 in 2001.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the consolidated financial statements of the Company and its subsidiaries are as follows:

Basis of Preparation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the Philippines and under the historical cost convention.

Adoption of New Standards

The Company and its subsidiaries adopted Statement of Financial Accounting Standards (SFAS)16/International Accounting Standard (IAS) 16, "Property, Plant and Equipment," SFAS 24/IAS 24, "Related Party Disclosures," SFAS 27/IAS 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries," SFAS 28/IAS 28, "Accounting for Investments in Associates," SFAS 31/IAS 31, "Financial Reporting of Interests in Joint Ventures," and SFAS 36/IAS 36, "Impairment of Assets" effective January 1, 2002.

Adoption of the above standards in 2002 did not result in restatements of prior year consolidated financial statements. Additional disclosures required by the new standards, however, were included in prior year consolidated financial statements, where applicable.

Basis of Consolidation

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
Real Estate:	
Amorsedia Development Corporation and subsidiaries	100%
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc. (formerly Five Corners Ventures Corp.)	100
Crimson Field Enterprises, Inc.	100
First South Properties, Inc.	100
Food Court Company, Inc.	100
Laguna Properties Holdings, Inc. and subsidiaries	100
Las Lucas Development Corporation	100
Liberty Real Holdings Corporation (LRHC)	100
Red Creek Properties, Inc.	100
Aurora Properties Incorporated	70
Vesta Property Holdings, Inc.	70
Laguna Technopark, Inc.	61
CMPI Holdings, Inc.	60
ALI-CII Development Corporation (ALI-CII)	50
Roxas Land Corporation (RLC)	50
Construction:	
Makati Development Corporation	100
Hotels:	
Ayala Hotels, Inc. (AHI) and subsidiaries	50
Property Management:	
Ayala Property Management Corporation	100
Ayala Theatres Management, Inc. and subsidiaries	100
Entertainment:	
Five Star Cinema, Inc.	100
Leisure and Allied Industries Philippines, Inc. (LAI)	50
Others:	
ALInet.com, Inc.	100
Ayala Infrastructure Ventures, Inc.	100

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

Except as stated otherwise, consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances are eliminated in consolidation. The excess or deficiency of the Company's and certain subsidiaries' cost of such investments over their proportionate share in the underlying net assets at dates of acquisition which is not identifiable to specific assets is amortized on a straight-line basis over a period of 10 years.

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 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.

Revenues 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 revenues. 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.

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

Revenues from rent as well as management fees from administrative and property management are recognized when earned.

Interest is recognized as it accrues.

Cash and Cash Equivalents

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

Trade Receivables

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

Subdivision Land for Sale and Condominium and Residential Units for Sale

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

Land and Improvements

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

Investments

Investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

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

The Company's investments in associates include goodwill on acquisition (net of accumulated amortization and any impairment in value). Goodwill represents the excess of the cost of acquisition over the fair value of identifiable net assets of the associate at the date of acquisition which is not identifiable to specific assets. Goodwill is amortized on a straight-line basis over a ten-year period.

Investments in shares of stock of companies in which the Company and certain subsidiaries do not exercise significant influence and investments in land are carried at cost less any substantial and presumably permanent decline in aggregate carrying value of these investments. Land improvements, buildings and hotel property and equipment are carried at cost less accumulated amortization and depreciation and any impairment in value. All costs that are directly attributable to the construction of the building and hotel property and equipment are capitalized, including interest during construction period. Amortization and depreciation are computed on a straight-line method over the estimated useful lives of the assets.

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

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

Investment in government bond is carried at cost.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

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

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

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

Impairment of Assets

An assessment is made at each balance sheet date to determine whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is computed as the higher of the asset's value in use or its net selling price.

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

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

A reversal of an impairment loss is credited to current operations.

Stock Option Plans

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

Retirement Costs

The Company's and most of its subsidiaries' retirement costs are determined using the entry age normal method. Under the entry age normal method, each employee is assumed to have entered the plan when first employed or as soon as he or she became eligible. Under this method, the current service cost is a level annual amount or a fixed percentage of salary which, when invested at the rate of interest assumed in the actuarial valuation, is sufficient to provide the required retirement benefit at the employee's retirement.

Certain subsidiaries and associates continue to determine their retirement costs using the projected unit credit method. The projected unit credit method sees each year of service as giving rise to an additional unit of pension entitlement and values each unit separately to build up a total retirement benefit obligation. Under this method, the annual normal cost for an equal unit of benefit increases each year because the period to the employee's retirement continually shortens, and the probability of reaching retirement increases. It is not practical for these companies to shift to the entry age normal method in 2002. Had these companies used the entry age normal method, the effect in net income would not be material.

Income Taxes
Deferred income tax is provided using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to (a) differences between the financial reporting bases of assets and liabilities and their related tax bases and (b) carryforward benefit of minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled and the NOLCO is expected to be applied.

A valuation allowance is provided for deferred tax assets which are not reasonably expected to be realized in the future. Any change in the valuation allowance on deferred tax assets is included in the computation of the provision for deferred income tax for the period.

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

Foreign Currency Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transactions. Foreign currency assets and liabilities are stated at the exchange rates prevailing at balance sheet dates. Exchange gains or losses arising from foreign exchange transactions are credited or charged to operations for the year, except as stated otherwise.

Exchange gains or losses of AHI and subsidiaries relating to the restatement of its long-term dollar loans obtained to construct the hotel property are capitalized to hotel property and equipment.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year attributable to common stockholders by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income plus interest expense (net of income tax) on convertible long-term commercial papers by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversions and the retroactive effect of stock dividends declared.

New Accounting Standards Effective Subsequent to 2002

The Accounting Standards Council has approved the following accounting standards which will be effective subsequent to 2002:

- SFAS 10/IAS 10, "Events After the Balance Sheet Date," which prescribes the accounting and disclosure related to adjusting and non-adjusting subsequent events. The Company and its subsidiaries will adopt SFAS 10/IAS 10 in 2003 and, based on current circumstances, does not believe the effect of adoption will be material.

- SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Assets," which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items. The Company and its subsidiaries will adopt SFAS 37/IAS 37 in 2003 and, based on current circumstances, does not believe the effect of adoption will be material.

- SFAS 38/IAS 38, "Intangible Assets," which establishes the criteria for the recognition and measurement of intangible assets. Intangible assets that are recognized should be amortized generally over 20 years. The new standard also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred. The Company and certain subsidiaries will adopt SFAS 38/IAS 38 in 2003. This will result in a retroactive adjustment to beginning retained earnings in 2003 of ₱82.5 million relating to the write-off of start-up costs. Comparative prior period financial statements presented will be restated accordingly.

3. Cash and Cash Equivalents

This account consists of:

	2002	2001
	(In Thousands)	
Cash on hand and in bank	₱801,693	₱722,350
Short-term investments	**4,911,802**	6,014,981
	₱5,713,495	**₱6,737,331**

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

4. Accounts and Notes Receivable

Accounts and notes receivable are summarized as follows:

	2002	2001
	(In Thousands)	
Trade - net of unrealized gain of ₱1,228,524 in 2002 and ₱421,526 in 2001 (see Note 8)	₱6,241,292	₱4,489,581
Related parties (see Note 13)	**235,233**	419,359
Advances to contractors	**134,699**	119,395
Accrued receivables	**2,315**	35,913
Advances and others	**1,500,547**	1,341,178
	8,114,086	6,405,426
Less allowance for doubtful accounts	**125,391**	88,680
	7,988,695	6,316,746
Less noncurrent portion	**4,045,752**	2,088,302
	₱3,942,943	₱4,228,444

5. Investments

This account consists of investments in:

	2002	2001
	(In Thousands)	
Shares of stock:		
At equity:		
Acquisition cost	₱2,617,182	₱2,652,508
Accumulated equity in net earnings:		
Balance at beginning of year	**605,860**	553,036
Equity in net earnings for the year	**50,091**	66,824
Dividends received during the year	**(10,500)**	(14,000)
Balance at end of year	**645,451**	605,860
	3,262,633	3,258,368
At cost:		
MRT Holdings, Inc.	**1,132,986**	1,132,986
Others	**970,663**	1,020,188
	2,103,649	2,153,174
	5,366,282	5,411,542
Government bond	**114,322**	–
Land and improvements - net of amortization	**1,780,561**	1,783,863
Buildings - net of accumulated depreciation of ₱2,423,131 in 2002 and ₱2,115,330 in 2001	**7,848,187**	6,155,956
Hotel property and equipment - net of accumulated depreciation of ₱1,186,069 in 2002 and ₱978,960 in 2001	**3,793,661**	3,927,572
	₱18,903,013	₱17,278,933

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

	2002 Percentage of Ownership	Equity in Net Assets 2002	2001
		(In Thousands)	
Cebu Holdings, Inc. (CHI) and subsidiaries	47	₱1,593,998	**₱1,594,218**
Pilipinas Makro, Inc. (PMI)	28	**1,078,834**	1,037,111
Alabang Commercial Corporation (ACC)	50	**440,337**	437,861
Ayala Port, Inc.	50	**50,013**	71,234
Lagoon Development Corporation	30	**84,401**	98,986
MyAyala.com, Inc.	50	**15,050**	18,958
		₱3,262,633	**₱3,258,368**

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

Consolidated depreciation on buildings and hotel property and equipment amounted to ₱536.6 million in 2002, ₱550.7 million in 2001 and ₱489.3 million in 2000. Consolidated amortization of land improvements amounted to ₱16.2 million in 2002, ₱14.5 million in 2001 and ₱18.4 million in 2000.

6. Property and Equipment

This account consists of:

	Land, Buildings and Improvements	Machinery and Construction Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	2002 Total	2001
			(In Thousands)			
Cost						
January 1	**₱579,054**	**₱738,330**	**₱307,427**	**₱193,765**	**₱1,818,576**	₱1,706,666
Additions	**33,311**	**123,258**	**211,792**	**44,782**	**413,143**	267,753
Disposals	**(29,844)**	**(18,410)**	**(1,256)**	**(30,321)**	**(79,831)**	(155,843)
December 31	**582,521**	**843,178**	**517,963**	**208,226**	**2,151,888**	1,818,576
Accumulated Depreciation						
January 1	**120,022**	**339,962**	**228,056**	**119,018**	**807,058**	758,635
Depreciation	**33,824**	**71,681**	**95,157**	**39,972**	**240,634**	183,117
Disposals	**(2,829)**	**(18,410)**	**(859)**	**(24,406)**	**(46,504)**	(134,694)
December 31	**151,017**	**393,233**	**322,354**	**134,584**	**1,001,188**	807,058
Net Book Value	**₱431,504**	**₱449,945**	**₱195,609**	**₱73,642**	**₱1,150,700**	₱1,011,518

Consolidated depreciation and amortization of property and equipment (charged to various expense and development cost accounts) amounted to ₱240.6 million in 2002, ₱183.1 million in 2001 and ₱163.1 million in 2000.

7. Accounts Payable and Accrued Expenses

This account consists of:

	2002	2001
	(In Thousands)	
Accounts payable	**₱1,464,199**	₱1,387,223
Taxes payable	**434,342**	279,845
Dividends payable	**328,297**	485,859
Retentions payable	**43,479**	55,877
Accrued expenses and others	**1,522,345**	2,609,931
	₱3,792,662	₱4,818,735

8. Bank Loans and Long-term Debt

Bank loans of ₱1,942.0 million in 2002 and ₱760.0 million in 2001 represent peso-denominated short-term borrowings by the Company and its subsidiaries with interest rates ranging from 5.75% to 9.25% per annum. These borrowings are unsecured except for the ₱400.0 million short-term loan drawn by the Company in 2002 which is secured by a mortgage on certain parcels of land with a carrying value of ₱79.4 million.

Long-term debt consists of:

	2002	2001
	(In Thousands)	
Parent Company:		
Bonds, due 2007	**₱3,000,000**	₱–
Bank loans - with interest rates ranging from 6.72% to 7.29% per annum	**2,170,000**	2,170,000
Fixed rate corporate notes (FXCNs)	**1,060,000**	–
Long-term commercial papers (LTCPs):		
6% Convertible, due 2002	–	3,998,200
91-day treasury bill rate + 7/8% due 2002	–	2,000,000
	6,230,000	5,998,200

(Forward)

	2002	2001
	(In Thousands)	
Subsidiaries:		
Bank loans - with interest rates ranging from 6.79% to 14.88% per annum		
Philippine peso	**1,607,596**	722,322
Foreign currency	**1,094,902**	1,269,506
	2,702,498	1,991,828
	8,932,498	10,160,028
Less current portion	**309,884**	6,418,957
	₱8,622,614	₱3,741,071

In 2002, the Company issued ₱3.0 billion bonds at par, with interest at a certain spread over the 91-day Treasury Bill Rate.

The Company's long-term bank loans are unsecured and will mature on various dates up to 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.

In 1997, the Company issued LTCPs totaling ₱6.0 billion, of which ₱4.0 billion are convertible at the option of the holders into shares of stock of the Company based on a predetermined formula. As of December 31, 2001, total conversions of LTCPs into shares of stock of the Company amounted to ₱1.8 million. The remaining LTCPs were fully paid in April 2002.

The subsidiaries' loans will mature on various dates up to 2009.

In 2002, the Company pledged its investment in shares of stock of LRHC with a carrying value of ₱806.5 million as collateral to secure the latter's bank loans.

Certain subsidiaries' loans are collateralized by trade receivables amounting to ₱65.6 million and mortgages on real estate properties, hotel property and equipment and leasehold rights with a total carrying value of ₱3.56 billion.

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

Interest capitalized amounted to ₱288.4 million in 2002, ₱337.0 million in 2001 and ₱311.1 million in 2000.

In 2002, the Philippine Rating Service Corporation (PhilRatings) assigned a PRS Aa rating on the Company's ₱3.0 billion bond issue indicating its strong capacity to meet its financial commitment on the bond issue.

In November 2002, the Board of Directors approved the issuance of short-term commercial papers, through general public offering, with an aggregate face value of up to ₱1.0 billion to be issued at par subject to the registration requirements of the Securities and Exchange Commission. PhilRatings assigned a PRS 1 rating, likewise indicating the Company's strong capacity to meet its financial commitment on this issue.

9. Noncurrent Liabilities and Deposits

Noncurrent liabilities and deposits consist of:

	2002	2001
	(In Thousands)	
Deposits	**₱782,745**	₱848,523
Retentions payable	**502,585**	521,934
Deferred tax (see Note 12)	**535,042**	394,458
Deferred credits	**508,345**	355,027
Installment payable - net of current portion of ₱147,222	**147,222**	294,445
Other liabilities	**411,055**	245,865
	₱2,886,994	₱2,660,252

10. Stockholders' Equity

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

	2002	2001	2000
Authorized	**12,000,000**	12,000,000	12,000,000
Issued	**10,684,360**	10,684,310	10,684,075
Subscribed	**9,361**	9,022	9,046
Treasury	**(24)**	(24)	(24)
	10,693,697	10,693,308	10,693,097

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 2002, the Board of Directors approved the declaration and payment from unappropriated retained earnings of the following cash dividends:

a) a regular cash dividend of ₱0.06 per share

b) a special cash dividend of ₱0.15 per share.

Retained earnings include undistributed net earnings amounting to ₱3,406.3 million, ₱3,438.4 million and ₱3,888.9 million as of December 31, 2002, 2001 and 2000, respectively, representing accumulated equity in the net earnings of subsidiaries and associates, which are not available for dividend declaration until received in the form of dividends from the subsidiaries and associates.

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

11. Costs and Expenses

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

	2002	2001	2000
		(In Thousands)	
Included in:			
Cost of:			
Real estate	**₱430,801**	₱415,694	₱371,454
Hotel operations	**206,648**	215,835	190,903
General and administrative expenses	**192,299**	121,017	137,537
	₱829,748	₱752,546	₱699,894

General and administrative expenses consists of:

	2002	2001	2000
		(In Thousands)	
Manpower cost (see Note 14)	**₱733,985**	₱644,018	₱607,025
Depreciation and amortization	**192,299**	121,017	137,537
Utilities	**58,031**	73,371	44,324
Others	**348,670**	226,240	241,019
	₱1,332,985	₱1,064,646	₱1,029,905

12. **Income Taxes**

Components of the deferred tax assets and liabilities as of December 31, 2002 and 2001 are as follows:

	2002	2001
	(In Thousands)	
Deferred tax assets on:		
NOLCO	**₱221,759**	₱277,156
Unrealized gain, deposits and provisions for various expenses on real estate transactions and MCIT	**173,459**	114,488
Allowance for doubtful accounts	**40,125**	28,378
Unrealized foreign exchange loss	**22,098**	5,897
	457,441	425,919
Less valuation allowance	**125,930**	202,573
	331,511	223,346
Deferred tax liabilities on capitalized customs duties, interest and other expenses	**(554,373)**	(457,496)
	(₱222,862)	(₱234,150)

The net current and noncurrent components of deferred tax assets and liabilities are included in the following accounts in the consolidated balance sheets:

	2002	2001
	(In Thousands)	
Other current assets	**₱264,017**	₱237,928
Other assets	**255,605**	194,126
Other current liabilities	**(207,442)**	(271,746)
Noncurrent liabilities and deposits (see Note 9)	**(535,042)**	(394,458)
	(₱222,862)	(₱234,150)

Provision for income tax consists of:

	2002	2001	2000
		(In Thousands)	
Current	**₱1,134,702**	₱875,194	₱1,014,210
Deferred	**(11,288)**	43,653	(382,361)
	₱1,123,414	₱918,847	₱631,849

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

	2002	2001	2000
Statutory income tax rate	**32.00%**	32.00%	32.00%
Tax effect of:			
Equity in net earnings of associates	**(0.44)**	(0.67)	(1.25)
Income subjected to lower income tax rates (see Note 19)	**(0.60)**	(1.79)	(1.13)
Interest income and capital gains taxed at lower rates	**(1.58)**	(4.62)	(3.47)
Others - net	**1.32**	4.05	(2.10)
Effective income tax rate	**30.70%**	28.97%	24.05%

13. Related Party Transactions

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

Revenues from transactions with associates amounted to ₱230.4 million in 2002, ₱567.9 million in 2001 and ₱220.1 million in 2000.

The following are the outstanding balances due from related parties as of December 31, 2002 and 2001 (see Note 4).

	2002	2001
	(In Thousands)	
CHI and subsidiaries	**₱103,993**	₱218,039
Ayalaport Makati, Inc.	**50,290**	27,669
Globe Telecom, Inc.	**21,431**	82,957
AC	**18,682**	22,129
ACC	**9,209**	13,941
PMI	**9,002**	8,268
MyAyala.com, Inc.	**8,817**	6,544
Manila Water Company, Inc.	**7,034**	261
Bank of the Philippine Islands	**5,641**	38,530
Integrated Microelectronics, Inc.	**1,134**	1,021
	₱235,233	₱419,359

14. **Retirement Plan**

The Company and its subsidiaries have funded, noncontributory tax-qualified defined contribution type of retirement plans covering substantially all of their employees. The benefits are based on defined contribution formula with minimum lump-sum guarantee of 1.5 months' basic salary per year of service. The consolidated retirement costs charged to operations amounted to ₱76.8 million in 2002, ₱68.2 million in 2001 and ₱61.6 million in 2000.

Based on the latest actuarial valuations of the Company and its subsidiaries, the aggregate actuarial present value of pension benefits amounted to ₱496.0 million. The aggregate fair value of their respective plan assets amounted to ₱357.2 million. The principal actuarial assumptions used to determine the cost of pension benefits with respect to the discount rate, salary increases and return on plan assets were based on historical and projected normal rates. Actuarial valuations are made at least every one to three years. The Company's and its subsidiaries' annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

15. **Earnings Per Share**

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

		2002	2001	2000
a.	Net income	**₱2,519,529**	₱2,287,283	₱1,844,205
b.	Weighted average number of common shares	**10,693,608**	10,693,190	10,690,113
c.	EPS (a/b)	**₱0.24**	₱0.21	₱0.17

The assumed conversion of the Company's LTCPs into common shares (see Note 8) has no dilutive effect. Accordingly, no diluted EPS is presented in the accompanying consolidated statements of income for such years.

16. **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 plans provided for an initial subscription price of shares subject to each option granted equivalent to 85% of the initial offer price. Any subsequent subscriptions shall be paid for at a price equivalent to 85% of the average closing price for the month prior to the month of eligibility under ESOP and the average closing price for the month prior to the month of eligibility under ESOWN.

The qualified officers and employees shall pay for the shares subscribed under the plans through installments over a maximum period of 10 years. The shares of stock have a holding period of five years and the employees must remain with the Company or any of its subsidiaries over such period. The plans also restrict the sale or assignment of such shares for five years from dates of subscription.

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

In June 2000, the Company offered all its ESOP subscribers with outstanding subscriptions the option to either cancel their subscriptions, convert their payments on outstanding subscriptions to fully paid shares or maintain their existing subscriptions. The availments of the cancellation or conversion options have resulted in the reduction in the subscribed capital stock, additional paid-in capital and subscriptions receivable of the Company.

In 2001, the Company offered new ESOP to the executives and key officers of the Company. The ESOP is a ten-year option plan. The grantee is selected based on certain criteria like outstanding performance over a three-year period. The executive or officer may subscribe to the number of shares allocated for him in accordance with the vesting percentage and vesting schedule stated in the Plan.

In November 2001, the Company offered all its ESOWN subscribers with outstanding subscriptions the option to cancel the subscriptions within the 5-year holding period. The availments of the cancellation have resulted in the reduction of subscribed capital stock, additional paid-in capital and subscriptions receivable of the Company. In December 2001, the program for ESOWN was indefinitely suspended.

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

	ESOP		ESOWN	
	2002	2001	**2002**	2001
At January 1	**71,433,929**	576,000	**2,141,100**	6,668,550
Granted	**37,341,481**	70,857,929	**–**	–
Exercised	**(2,857,448)**	–	**–**	–
Cancelled	**–**	–	**–**	(4,527,450)
At December 31	**105,917,962**	71,433,929	**2,141,100**	2,141,100

The options that have been exercised during the year had a weighted average exercise price of ₱4.03 or about ₱32.6 million. The fair value of the shares as at exercise date was ₱5.69 or about ₱46.06 million.

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

Exercise Dates	Number of Options
2002 to 2011	26,061,724
2003 to 2012	36,193,971
2004 to 2013	32,459,823
2005 to 2014	11,202,444
	105,917,962

17. **Segment Information**

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

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

Business segments

The following tables regarding business segments present assets and liabilities as of December 31, 2002 and 2001 and revenues and income information for each of the three years in the period ended December 31, 2002 (in thousands).

2002

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenues	₱5,608,105	₱3,329,626	₱1,308,957	₱922,326	₱1,058,015	₱12,227,029
Operating expenses	4,149,660	823,869	904,557	715,318	448,825	7,042,229
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,458,445	2,505,757	404,400	207,008	609,190	5,184,800
Depreciation and amortization	59,495	434,050	227,380	56,213	52,610	829,748
EBIT	₱1,398,950	₱2,071,707	₱177,020	₱150,795	₱556,580	₱4,355,052
Segment assets	₱29,193,671	₱13,469,247	₱4,798,684	₱1,256,697	₱13,139,377	₱61,857,676
Segment liabilities	₱7,949,470	₱1,735,041	₱3,514,721	₱950,113	₱12,232,511	₱26,381,856

2001

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenues	₱4,433,442	₱3,107,298	₱1,320,417	₱1,563,575	₱1,267,894	₱11,692,626
Operating expenses	3,576,932	822,043	871,220	1,291,957	422,293	6,984,445
Earnings before interest, taxes, depreciation and amortization (EBITDA)	856,510	2,285,255	449,197	271,618	845,601	4,708,181
Depreciation and amortization	27,613	395,641	229,527	56,222	43,543	752,546
EBIT	₱828,897	₱1,889,614	₱219,670	₱215,396	₱802,058	₱3,955,635
Segment assets	₱29,757,755	₱13,493,302	₱4,990,724	₱1,518,277	₱11,947,582	₱61,707,640
Segment liabilities	₱7,835,455	₱1,901,239	₱3,694,873	₱1,210,619	₱11,875,191	₱26,517,377

2000

	Land, Condominium and Residential Units	Rentals	Hotel Operations	Construction	Others	Total
Revenues	₱4,067,607	₱2,814,275	₱1,185,091	₱911,784	₱1,326,858	₱10,305,615
Operating expenses	3,398,495	739,234	863,728	754,371	422,922	6,178,750
Earnings before interest taxes, depreciation and amortization (EBITDA)	669,112	2,075,041	321,363	157,413	903,936	4,126,865
Depreciation and amortization	50,646	377,541	196,143	21,086	54,478	699,894
EBIT	₱618,466	₱1,697,500	₱125,220	₱136,327	₱849,458	₱3,426,971

18. Note to Consolidated Statements of Cash Flows

The principal noncash transaction of the Company relates to land purchased on installment amounting to ₱442 million in 2001.

19. Registration with Philippine Economic Zone Authority (PEZA) and Board of Investments (BOI)

A certain subsidiary is registered with PEZA on October 27, 1999. The PEZA registration entitles the subsidiary to certain incentives under Republic Act No. 7916 as amended, which includes the 5% gross income tax in lieu of all national and local taxes except for real property tax. Prior to said date, the subsidiary was registered with the BOI as an expanding operator of an industrial estate on a preferred nonpioneer status under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987. In accordance with the registration, the subsidiary is entitled to certain tax and nontax incentives which include, among others, a three-year income tax holiday for its expansion projects through July 11, 2000.

20. Long-term Commitments and Contingencies

In July 2000, the Company was awarded by the Bases Conversion Development Authority (BCDA) the contract to develop, under a lease agreement, a 9.8 hectare lot inside Fort Bonifacio. The Company offered to develop a mall on the lot with an estimated gross leasable area of 152,000 square meters. 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 ₱113 million while the variable rent ranges from 5% to 20% of gross revenues. Subsequently, the Company entered into a tripartite agreement with BCDA and LRHC, a subsidiary, whereby the Company transferred its rights and obligations granted to or imposed under the lease agreement to the subsidiary in exchange for equity.

In October 2002, the Company was awarded by the BCDA the contract to develop an 8.5 hectare lot adjacent to the above-mentioned lot which is intended for residential development. The Company's bid was made on the basis of a joint development structure, and subject to the terms and conditions stated in its bid, includes an upfront cash payment of ₱700 million and a guaranteed annual revenue stream totaling ₱1.1 billion over an 8-year period. The execution of the joint development agreement between the Company and BCDA remains subject to both parties agreeing on certain issues.

In November 2002, the Company and Greenfield Development Corporation (Greenfield) signed an agreement with Metro Pacific Corporation (MPC) to acquire a controlling interest in Bonifacio Land Corporation (BLC) constituting 50.38% of its outstanding capital stock. This acquisition will be effected in relation to the acquisition by the Company and Greenfield of the rights of Larouge B.V. (Larouge) in the loan which Larouge extended to MPC in the principal amount of US$90 million and in the security used for such loan in the form of a pledge over the BLC shares the Company and Greenfield have agreed to acquire. As part of these transactions, the Company and Greenfield will also be acquiring payables of BLC in the principal amount of ₱655 million secured by a pledge over shares of stock of Fort Bonifacio Development Corporation representing 5.55% of its outstanding capital stock. The total consideration due from the Company and Greenfield in respect of these transactions will be approximately US$90 million, adjusted in part for foreign exchange fluctuations. The agreement also provides for the constitution of a pledge over 5% of BLC's unencumbered shares as security for contingent liabilities and breach of representations and warranties. As part of the agreement, the Company and Greenfield will advance ₱280 million to finance the costs to be incurred in BLC's restructuring program. The closing of these transactions is subject to certain conditions precedent, including obtaining necessary corporate approvals and the completion of BLC's debt restructuring.

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 2005 in exchange for a 5% underwriting fee (net of a 1.5% rebate to existing shareholders who subscribed).

MRT Development Co. assigned development rights to NTDCC in 2002. NTDCC will construct and operate the commercial center under certain terms and conditions until the end of a 50-year lease term renewable for another 25 years.

The Company and its subsidiaries are contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or under negotiation, the outcomes 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 effect on the consolidated financial statements.

21. Reclassification of Accounts

Certain accounts in the 2001 and 2000 consolidated financial statements were reclassified to conform with the 2002 presentation of accounts.

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Item 1. Financial Statements

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 31, 2003 and December 31, 2002

(in million pesos)	Unaudited MAR 2003	Audited DEC 2002
ASSETS		
Current Assets		
Cash and cash equivalents	5,940	5,713
Accounts and notes receivables - net	4,092	3,943
Subdivision land for sale	4,298	4,442
Condominium and residential units for sale	3,177	2,830
Deferred tax and other current assets	1,003	780
Total Current Assets	18,511	17,708
Noncurrent Accounts and Notes Receivable	5,070	4,046
Land and Improvements	19,463	19,262
Investments	18,817	18,903
Property and Equipment	1,189	1,151
Other Assets	775	788
	63,824	**61,858**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	3,619	3,793
Loans payable	1,637	1,942
Income tax payable	595	539
Current portion of:		
Long-term debt	305	310
Estimated liability for land and property development	1,690	1,428
Other current liabilities	476	432
Total Current Liabilities	8,323	8,443
Long-term Debt - net of current portion	9,359	8,623
Noncurrent Liabilities and Deposits	3,173	2,887
Estimated Liability for Land and Property Development	1,402	732
Minority Interest	5,662	5,698
Stockholders' Equity	35,906	35,476
	63,824	**61,858**

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND UNAPPROPRIATED RETAINED EARNINGS
For the Three Months Ended March 31, 2003 and 2002

	UNAUDITED January 1 to March 31	
	2003	**2002**
(in million pesos)		
REVENUES		
Real estate	2,607	1,776
Hotel operations	316	319
Interest and other income	182	250
	3,105	2,345
COSTS AND EXPENSES		
Real estate	1,615	964
Hotel operations	278	256
General and administrative expenses	290	239
Interest and other charges	188	191
Provision for income tax	202	180
	2,573	1,829
INCOME BEFORE NET EARNINGS APPLICABLE TO MINORITY INTEREST	532	515
NET EARNINGS APPLICABLE TO MINORITY INTEREST	(22)	(16)
NET INCOME	510	500
UNAPPROPRIATED RETAINED EARNINGS, BEGINNING	15,780	15,506
Prior period adjustments - Per SFAS38/IAS38 Intangible Assets (Write-off of Pre-operating Expenses)	(82)	
Cash dividends		
UNAPPROPRIATED RETAINED EARNINGS, ENDING	16,208	16,006
EARNINGS PER SHARE*	0.05	0.05

* *Based on 10,693,720,800 and 10,693,308,000 weighted average number of shares as of March 31, 2003 and 2002, respectively.*

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three Months Ended March 31, 2003 and 2002

	UNAUDITED January 1 to March 31	
	2003	**2002**
(in million pesos)		
CAPITAL STOCK - P1 par value		
Issued		
Balance at beginning of year	10,684	10,684
Issuance of shares		
Stock options exercised		
Stock dividends		
Balance at end of the year	10,684	10,684
Subscribed		
Balance at beginning of year	9	9
Issuance of shares		
Stock options exercised (cancelled)		
Stock dividends		
Balance at end of the year	9	9
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	3,019	3,014
Stock options exercised -net		
Balance at end of year	3,019	3,014
SUBSCRIPTIONS RECEIVABLE		
Balance at beginning of year	(17)	(22)
Stock options exercised - net	3	(1)
Balance at end of year	(14)	(23)
	13,698	**13,684**
RETAINED EARNINGS		
Appropriated for future expansion	6,000	6,000
Unappropriated:		
Balance at beginning of year	15,780	15,506
Prior period adjustments	(82)	
Net income	510	500
Balance at end of year	16,208	16,006
	22,208	22,006
TREASURY STOCK		
Balance at beginning of year	(1)	(1)
Shares repurchased		
Balance at end of year	(1)	(1)
	35,906	**35,689**

AYALA LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2003 and 2002

	UNAUDITED January 1 to March 31	
	2003	2002
(in million pesos)		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	510	500
Adj. to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	195	192
Provision for doubtful accounts	5	0
Net earnings applicable to minority interest	22	16
Equity in net earnings of affiliates	(29)	(20)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts and notes receivable - trade	(602)	(221)
Subdivision land for sale	143	(16)
Condominium and residential units for sale	(347)	(1,546)
Deferred tax and other current assets	(223)	(7)
Increase (decrease) in:		
Accounts payable and accrued expenses	152	(423)
Income tax payable	56	43
Other current liabilities	44	(31)
Estimated liability for land and property development	933	1,624
Net cash provided by operating activities	860	110
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of (addition to):		
Land and improvements	(201)	(64)
Investments	(33)	(218)
Property and equipment	(103)	(263)
Decrease (increase) in:		
Accounts and notes receivable - non trade	(576)	20
Other assets	(74)	(35)
Net cash used by investing activities	(987)	(561)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payment of) short-term loans	(305)	(3,110)
Proceeds from (payment of) long-term debt	731	991
Dividends paid	(325)	(383)
Increase (decrease) in:		
Noncurrent liabilities and deposits	286	133
Minority interest	(36)	79
Additional issuance of capital stock	3	(1)
Net cash provided by financing activities	354	(2,291)
NET INC. (DEC.) IN CASH AND CASH EQUIVALENTS	227	(2,742)
CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD	5,713	6,737
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,940	3,996

Notes to Consolidated Financial Statements

1. The consolidated financial statements are prepared in accordance with generally accepted accounting principles and under the historical cost convention. Accounting principles/policies and methods of computation applied for the six months ended June 30, 2003 are the same as those applied in the preceding calendar year, except for the adoption of SFAS 38/IAS 38 (Intangible Assets) beginning 2003. Under this new SFAS/IAS, pre-operating expenses as of December 31, 2002 applicable to group companies, amounting to a total of P82 million, have been charged against unappropriated retained earnings at the beginning of 2003.

2. Principles of Consolidation

   The consolidated financial statements represent the consolidation of the financial statements of Ayala Land, Inc. (ALI) and the following wholly and majority owned subsidiaries:

	Effective Ownership (%)
Real Estate:	
Amorsedia Development Corporation and subsidiaries	100
OLC Development Corporation	100
Ayala Greenfield Development Corporation (AGDC)	50
Ayala Land Sales, Inc.	100
Buendia Landholdings, Inc.	100
Community Innovations, Inc.	100
Crimson Field Enterprises, Inc.	100
First South Properties, Inc.	100
Food Court Company, Inc.	100
Laguna Properties Holdings, Inc. (LPHI) and subsidiaries	100
Liberty Real Holdings Corp. (LRHC)	100
Red Creek Properties, Inc.	100
Aurora Properties, Inc. (API)	70
Vesta Property Holdings, Inc.	70
Laguna Technopark , Inc.	61
CMPI Holdings, Inc.	60
ALI-CII Development Corporation	50
Roxas Land Corporation (RLC)	50
Construction:	
Makati Development Corporation	100
Hotels:	
Ayala Hotels, Inc. and subsidiaries	50
Property Management:	
Ayala Property Management Corporation	100
Ayala Theatres Management, Inc. and subsidiaries	100

Entertainment:

Five Star Cinema, Inc.	100
Leisure and Allied Industries Phils., Inc (LAIPI)	50
Others:	
ALInet.com, Inc.	100
Ayala Infrastructure Ventures, Inc	100

3. Receivables

Aging of Receivables (as of June 30, 2003; in Million Pesos)

	Up to 6 mos.	Over 6 mos. to One Year	Over One Year	Past Due	Total
Trade Receivables	1,601	1,212	4,077	431	7,321
Non-Trade Receivables	543	643	1,143	2	2,331
Total	2,144	1,855	5,220	433	9,652

4. Loans Payable and Long-Term Debt

Loans Payable (as of June 30, 2003; in Million Pesos)

Borrower	Amount
ALI	1,741
API	44
AGDC	143
CIHCI	30
LAIPI	20
LPHI	200
RLC	125
Total	2,303

Long-Term Debt (as of June 30, 2003; in Million Pesos / US$)

	Current		Non-Current		Total	
Borrower	Peso *	US$	Peso *	US$	Peso *	US$
AGDC			85		85	
ALI (incl. Bonds)	250		6,830		7,080	
CIHCI	61	1.14	92	1.71	153	2.85
	7		96		103	
LPHI	91		744		835	
LRHC			940		940	
MPVI	153	2.86	688	12.85	841	15.71
Total	562		9,475		10,037	

* *Peso equivalent of US$ loans (when applicable);*
Exchange rate of P53.522/US$ (PDS average for June 30, 2003)

Issuances, Repurchases and Repayments of Debt and Equity Securities

Issuances of Debt and Equity Securities / New Financing through Loans – January – June 2003 (in Million Pesos)

Borrower	Amount	Nature
ALI	2,090.9	bank loans
CIHCI	30.0	bank loan
LPHI	5.4	bank loan
LRHC	500.0	bank loans
RLC	75.0	bank loan
Total	2,701.3	

Repayments of Debt and Equity Securities – January – June 2003 (in Million Pesos)

Borrower	Amount	Nature
ALI	800.0	payment of loan
AGDC	97.5	amortization/payment on bank loan
CIHCI	30.5	amortization on US$ loan *
LAIPI	10.0	payment of loan
LPHI	51.8	amortization on bank loan
MPVI	76.5	amortization on US$ loan *
RLC	150.0	payment of bank loan
Total	1,216.3	

** Amounts converted into Pesos at P53.522/US$1 (PDS average for June 30, 2003)*

Accounts Payable and Accrued Expenses

The accounts payable and accrued expenses pertain to the accrual of various expenses incurred on all projects, taxes payable, and payable to contractors, retention payables and trade payables, while the other current liabilities/non-current liabilities refer to the deposits from commercial centers and from the sale of condominium units and subdivision lots, and long-term retentions.

The breakdown of accounts payable and accrued expenses, and other current liabilities/non-current liabilities are not available at this time. The said accounts are presented in the format provided to Ayala Land by the external auditors, Sycip, Gorres, Velayo & Company (SGV & Co.), and are consolidated with Ayala Land's various subsidiaries and affiliates.

6. Causes for any material changes *(+/- 10% or more)* in the financial statements

Income Statement items – 1H 2003 versus 1H 2002

21% increase in real estate revenues
Principally due to sales of new projects such as Ayala Hillside Estates, Plantanzionne Verdana Homes, One Legazpi Park, The Columns, new mass housing projects; lot sales at Madrigal Business Park and Laguna Technopark in 1H2003; and higher rental revenues from shopping centers given new spaces at Greenbelt 2 & 3 as well as escalation on basic rent.

86% increase in interest and other income
Mainly due to gain on sale of shares of a landholding company and higher interest income from installment sales of mass housing and core-mid residential projects.

29% increase in real estate cost and expenses
Mainly due to higher real estate revenues and change in revenue/product mix.

35% increase in general and administrative expenses
Primarily due to professional fees, higher payroll costs and ad & promo expenses; and additional expenses from new subsidiaries such as Ayala Land Sales, Inc. and Community Innovations, Inc.

153% increase in interest and other charges
Principally due to payment of unpaid balances in real estate property taxes (RPT) and higher consolidated debt.

47% increase in provision for income tax
Basically due to lower taxable income as a result of the RPT payment.

Balance Sheet items – June 30, 2003 versus End-2002

32% decline in cash and cash equivalents
Principally due to payment of ALI's share in the settlement of the Larouge loan in exchange for its stake in Bonifacio Land Corp.

12% increase in current portion of accounts and notes receivables
Primarily due to the increase in real estate sales.

22% increase in condominium and residential units for sale
Largely due to partial completion of new residential building projects such as One Legazpi Park, The Residences at Greenbelt and The Columns.

15% increase in deferred income tax and other current assets
Mainly due to higher input VAT and creditable withholding taxes of some subsidiaries.

29% increase in non-current accounts and notes receivables
Largely due to increase in installment sales.

14% increase in investments
Primarily due to the investment in Bonifacio Land Corp. and additional construction costs for Market! Market! and Greenbelt redevelopment.

11% decline in accounts payable and accrued expenses
Mainly due to the payment of taxes for FY2002 and 1Q2003 and lower income tax accrual for 2Q2003 due to decline in taxable net income following the payment of unpaid balances in RPT.

19% increase in loans payable
Principally due to new loan availments.

79% increase in current portion of long-term debt
Largely due to reclass of maturing principal amortization of long-term debt.

56% increase in current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

33% increase in other current liabilities
Mainly due to additional buyers' deposits for new projects.

10% increase in long-term debt (net of current portion)
Principally due to new loan availments.

110% increase in non-current portion of estimated liability for land and property development
Primarily due to new sales at existing and new projects.

<u>Cash Flow items</u> – 1H 2003 versus 1H 2002

Higher outflow for investments
Primarily due to the investment in Bonifacio Land Corp. and additional construction costs for Market! Market! and Greenbelt redevelopment.

7. Segment information

(in million Pesos)	Land, Condo-minium and Resd'l Units	Rentals	Hotel Operations	Construction	Others	Total
YTD-JUNE 2003						
Revenues	2,862.1	1,793.2	595.8	291.4	910.2	6,452.7
Operating expenses	2,392.0	502.9	479.3	213.0	283.1	3,870.3
Earnings before interest, taxes, depreciation and amort (EBITDA)	470.1	1,290.3	116.6	78.3	627.1	2,582.4
Depreciation and amortization	23.2	205.6	96.2	38.8	34.4	398.3
EBIT	446.9	1,084.7	20.4	39.5	592.7	2,184.1
Segment assets	32,314.6	14,060.0	4,600.8	1,249.0	13,053.1	65,277.6
Segment liabilities	10,408.7	1,997.2	3,354.3	978.9	12,351.1	29,090.2
YTD-JUNE 2002						
Revenues	2,012.5	1,530.1	648.5	544.6	489.6	5,225.3
Operating expenses	1,596.7	326.7	455.1	476.3	172.0	3,026.9
Earnings before interest, taxes, depreciation and amort (EBITDA)	415.8	1,203.4	193.4	68.3	317.6	2,198.4
Depreciation and amortization	18.8	191.0	114.9	26.3	26.3	377.2
EBIT	396.9	1,012.4	78.5	42.0	291.4	1,821.2
Segment assets	30,105.8	13,651.1	5,049.1	1,536.0	12,087.3	62,429.3
Segment liabilities	7,733.5	1,876.5	3,646.8	1,194.9	11,720.7	26,172.4

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

Results of Operations for the Six Months Ended June 30, 2003

Against a backdrop of continued decline in local interest rates, Ayala Land posted modest growth in the first half. Consolidated revenues totaled P6.45 billion, up by 23% year-on-year. Net income grew by 3% to P1.10 billion.

Leasing operations continued to drive revenues, contributing P1.79 billion or 28% of total. Rental revenues grew by 17% year-on-year, with much of this growth coming from Greenbelt 2 & 3 as well as the 5-12% increase in Ayala Center's basic rental rates. The mall maintained a high occupancy rate of 96% even with its continuing expansion. Additional leasable area will come on stream when Greenbelt 4 opens in the fourth quarter of this year. Residential units for lease at One Roxas Triangle and at the 28-unit The Residences at Greenbelt also contributed to rental revenues. Meanwhile, office leasing contribution was fairly steady as the Company's office buildings maintained high occupancy rates which averaged at 95%.

Land sales generated P1.11 billion in revenues, accounting for 17% of consolidated revenues. This represents a 57% year-on-year increase, primarily from sales of new projects launched in the second half last year, namely Ayala Hillside Estates and Plantazionne Verdana Homes, boosted by higher sales bookings at Ayala Westgrove Heights. Tamarind Cove, a joint venture pocket residential development in Alabang, was launched in May and offered 20 prime lots, 9 of which represent ALI's share. At the end of June, 45% of the 20 lots have been taken up. In June, ALI launched the second phase of Paseo de Magallanes, offering 17 residential lots and 6 commercial lots which at the end of the same month were 53% and 17% taken up, respectively. The sale of two business lots at the Madrigal Business Park and two industrial lots at the Laguna Technopark also contributed to higher land sale revenues.

New mass housing projects of Laguna Properties Holdings, Inc (LPHI) in Dasmarinas, Cavite, Lipa, Batangas and Naga City enabled the Company to book 557 units in the first half, 67% higher than the same period last year. This translated to an 81% increase in mass housing revenues to P817 million, representing 13% of consolidated revenues. In June, LPHI further widened its product offerings and launched its first medium-rise residential building project in Parañaque, One Aeropolis, with the project's first of twelve towers offering 236 units for sale. In July, the Company inaugurated Riego de Dios Village, an affordable housing project in Tanza, Cavite to cater to the housing needs of the AFP soldiers. The project will be offered for sale within the third quarter. Both One Aeropolis and Riego de Dios Village will start to contribute to revenues in the second half of the year.

Revenues from high-end residential unit sales contributed 11% to total revenues and grew by 37% to P736 million, primarily due to more unit bookings at One Roxas Triangle, as well as additional sales and recognition of completion on prior year's sales of One Legazpi Park, Ferndale Homes and Montgomery Place. In June, the Company successfully launched the 249-unit The Residences at Greenbelt - Laguna Tower, the first of three towers that will rise in a prime residential condominium complex within Ayala Center. The project was well-received, with take up rate posted at 44% at the end of June, less than three weeks from launch.

The negative effect of SARS in the hotel sector was evident in generally lower occupancy rates which brought hotel revenues down by 8% to P596 million, which accounted for 9% of consolidated revenues. The Company's hotel occupancy rates, however, continued to stay above industry averages. Hotel Intercontinental and Oakwood Premier were 59% and 70% occupied, respectively, higher than MCBD's average of 58%. Meanwhile, Cebu City Marriott Hotel was 71% occupied, compared to Cebu hotels' average of 56%.

Given limited opportunities in the construction sector, revenues from construction projects of wholly owned subsidiary Makati Development Corporation declined by 46% to P291 million, and accounted for 5% of total revenues.

The Company's newest business line which caters to the core-middle income residential segment performed well and contributed P200 million in revenues, representing 3% of total. With limited remaining inventory at the first tower of The Columns launched last November, Community Innovations, Inc. (CII) offered for sale another 284 units in the second tower in March. At the end of June, the first tower was 90% taken up while the second tower posted a 30% take-up rate. Meanwhile, CII's maiden project, Verdana Homes, had full take-up on its 468 lots, and a 97% take-up on its 88 house-and-lots.

Financial Condition

During the first half, the Company continued to allocate resources for strategic investments and further leveraged on its balance sheet with the expanded coverage of its in-house financing schemes.

Total disbursements for projects and capital expenditures amounted to P4.0 billion, about 51% of the P7.9B budget for the whole year. This included the P2.8 billion investment in Bonifacio Land Corporation.

Although new loans brought total borrowings up to P12.34 billion, bank debt-to-equity and net debt-to-equity remained at comfortable levels of 0.34:1 and 0.23:1, respectively. Liquidity was high with current ratio at 1.81:1. Cashflow is expected to improve with possible additional sales to be generated by the ongoing asset rationalization program.

Given favorable market response to new projects, the Company will continue to launch the projects it had lined up for the rest of the year.

THE ISSUER

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